Surge in import cost may negate positive impact of ₹ fall: Experts

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The rupee dropping to a record low against the dollar may be a mixed bag as far as exports are considered because the gains from the fall of the domestic currency are expected to be limited, experts and industry officials said.

If rupee's depreciation continues, Indian exporters stand to gain. However, the gain would have been much more if the Indian economy was less import-dependent, experts said. This means that exporters of products that are not dependent on imported raw material can gain if the domestic currency continues to fall versus the dollar.

On the other hand, higher input costs can make India's exports less competitive in the global market. As a result, products across segments such as petroleum, gems and jewellery, and electronics may not gain much as they are import-dependent. Besides, there is always a risk of imported inflation, if the rupee falls too much. Imported inflation refers to the rise in price of products due to costlier imports.

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"It is a challenging situation and will have a mixed effect on India's exports. Most importantly, exporters prefer a stable currency. Therefore, if the RBI keeps the rupee in this band of 79-81 (rupee per dollar) for some time, there will be certainty for at least some time. A stable currency is very important as the exporter will not know at what price to give his order," an industry official said, citing anonymity.

Pradeep Multani, president of the industry lobby group PHD Chamber of Commerce and Industry said that extreme volatility in rupee is not in favour of either exporters or importers. "So, the rupee must be at a stable level to get benefits from the trade," he said.

The rupee closed at a record low of 80.86 to the dollar, as compared to 79.975 in the previous session, after the US Federal Reserve hiked interest rates by 75 basis points for the third straight meeting as a measure to tackle high inflation. It was the biggest single-day fall in the value of rupee since February 24, according to *Reuters*.

"Following the tightening of monetary policy by the Federal Reserve, a strong dollar overseas, growing trade deficit and foreign capital outflows, the rupee is registering a significant plunge. With this, the risk of imported inflation has gone up. At this juncture, RBI's intervention remains important, however, taking into consideration the crucial balance of net liquidity in the system," Multani said.

According to an analysis done by Federation of Indian Export Organisations (FIEO), the rupee has depreciated by 8.1 per cent till September 7, 2022 since the same point last year.

"Today, the rupee is one of the best-performing currencies in Asia. The competitiveness provided by the exchange rate is no longer with us. Therefore, there is a need to provide some other fiscal or non-fiscal support to help exports in this scenario," FIEO said.