Rupee appreciation and export performance

6.76 The gradual improvements in overall productivity, resulting after a variable lag, from the wide and deep reforms of the 1990s have contributed to the growth of exports. The favourable international environment in recent years has also been a factor. In the current year, however, there was concern about the impact of dollar depreciation/ rupee appreciation on exports. There is no one to one correspondence between appreciation of rupee and overall export performance, because of the effect of other factors, including the slowdown of world imports (Table 6.22).

6.77 In April-December 2007 exports grew by 21.6 per cent in dollar terms. In rupee terms the growth of exports was 7.7 per cent during the same period, which is a reflection of the exchange rate changes.

6.78 With almost 70 per cent of India's external trade invoiced in dollars, any change in the dollar's rupee value has a disproportionate effect on the various stakeholders in the rupee's external value such as importers, exporters, borrowers, lenders and consumers of imported goods in the short run. However, after an adjustment period, India's exports to countries other than the United States, such as the European Union, the United Kingdom, Japan, etc. (even if invoiced in US$), will be affected by the exchange rate of the currencies of these countries vis-à-vis the rupee and the currencies of India's competitors in these markets.

Table 6.22 Appreciation and export growth

Year	Apprn (+) / Deprn(-)	Exports in US$ billion	Growth rate (per cent dollar terms)	Growth rate (per cent) rupee terms
2001-02	-4.2	43.8	-1.6	2.7
2002-03	-1.5	52.7	20.3	22.1
2003-04	5.3	63.8	21.1	15.0
2004-05	2.3	83.5	30.8	27.9
2005-06	1.5	103.0	23.4	21.6
2006-07	-2.2	126.4	22.6	25.3
2007(April-Dec.)	12.3[a]	111.0	21.6	7.7

[a] April-January 2007-08.

6.79 Some of the major factors that affect India's exports are:

(i) The rate of growth of economy and of imports of our important export markets.

(ii) The relative price of India's exports which in turn is affected by the nominal exchange rate and inflation rates in India and the countries that are our important export markets.

(iii) The relative prices of competing countries which depend on the same factors as in (ii) for market economies.

(iv) However for a non-market economy it can depend critically on hidden subsidies such as those through a nationalized or the Government-controlled banking system and subsidies provided through lower prices of intermediate goods (produced by the public sector) and public services (provided by municipalities).

On an industry level a greater (lower) impact of appreciation is to be expected for:

(i) Industrial products with high (low) domestic value added,

(ii) Export markets whose national exchange rate has shown greater (lower) depreciation against the rupee,

(iii) Industries/products in which our major competitors are countries whose currencies have depreciated or appreciated less than the rupee, and

(iv) Productivity levels, which are influenced by fiscal policies and regulations affecting product and labour markets.

6.80 Sectors such as textiles and handicrafts, which have low import intensity, have experienced lower export growth, while sectors with high import intensity, like POL, have witnessed higher export growth. Since appreciation has a stronger effect on export sectors with low import intensity, the Government announced various relief measures, to mitigate the effect of appreciation of the rupee on select sectors (Box 6.4).

Box 6.4 Relief measures for exporters

As there was concern on possible adverse impact of rupee appreciation on labour-intensive exports, the Government announced several relief measures among which were the following:

- Enhancement by 3 per cent of the Duty Entitlement Pass Book (DEPB) rates for nine sectors i.e., textiles (including handloom), ready-made garments, leather products, handicrafts, engineering products, processed agricultural products, marine products, sports goods and toys; and by 2 per cent for others.
- Reduction in Export Credit Guarantee Corporation (ECGC) premium by 10 per cent.
- Release of around Rs. 600 crore to clear all arrears of terminal excise duties and Central Sales Tax (CST) reimbursement.
- Enhancement of the rates of duty drawback by around 10 per cent to 40 per cent. The drawback was increased in most of the cases which have been made effective retrospectively from April 1, 2007. In few cases, such as primary steel, dyes and chemicals where the drawback rates have been reduced, this has been done prospectively from July 18, 2007.
- Interest subvention of 2 per cent for pre-shipment and post-shipment credit for the nine sectors and all exporters from the SME sector which was further extended from December 31, 2007, to March 31, 2008. Additional subvention of 2 per cent from November 1, 2007, to March 31, 2008, for pre-shipment and post-shipment credit for leather and leather manufacturers, marine products, handicrafts and all categories of textiles under existing scheme including ready-made garments and carpets but excluding man-made fibre.
- Refund of service tax to exporters for use of services not in the nature of “input services”.
- Provision to pay interest on Exchange Earner’s Foreign Currency (EEFC) balances for outstanding balances.
- Widening the list of interest subvention of 2 per cent for pre-shipment and post-shipment credit to include jute textiles and carpets; processed cashew, coffee and tea; solvent extracted de-oiled cake; and plastics and linoleum.
- Raising the revenue ceiling for Vishesh Krishi and Gram Udyog Yojana by Rs. 300 crore (from Rs. 200 crore to Rs. 500 crore).
- Reduction in customs duty on some items relating to textiles sector.