

## Rising export might handle strengthening rupee, say observers

Rupee is 3rd-best performing currency in Asia against dollar behind South Korea's won, Taiwan Dollar

New Delhi March 17, 2017 Last Updated at 01:07 IST



A strengthening rupee might not hit exports, which grew 17 per cent in February, in the near term, traders and economists believe.

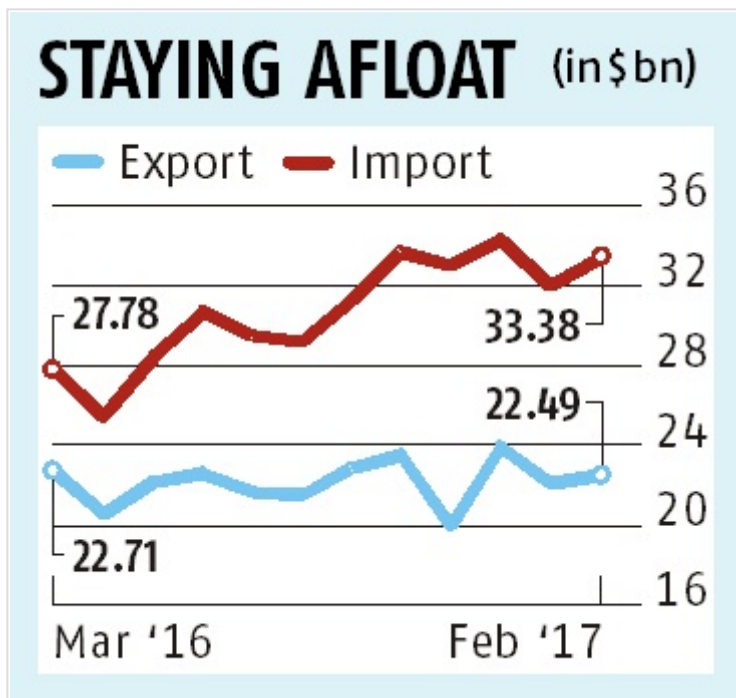
The rupee on Thursday was at a 17-month high against the dollar, despite the US Federal Reserve

announcement on hiking interest rates. Maintaining a strong position over recent months, the rupee has risen by 3.4 per cent till date this calendar year.

On the other hand, rising for a sixth straight month, exports posted the highest rate of rise in a little more than five years. Outbound trade touched \$24.5 billion in February; it was \$20.8 bn in the same month last year, according to data issued by the commerce and industry ministry on Wednesday.

"The rise in exports happened in spite of no support from the currency side," said Ajay Sahai, director-general of the Federation of Indian Export Organisations. He believed exports would continue to improve, although a major rise in the rupee could upset this.

The rupee is the third best performing currency in Asia against the dollar, behind South Korea's won and the Taiwan Dollar, that have risen 5.4 per cent and nearly five per cent, respectively.



The strong performance of the Modi government in successive key elections is counted as an important reason, among others, for sustaining the faith of foreign investors in the rupee.

“From a trade perspective, that is a difficult position for India, as it is only the emerging market economy which has seen its currency appreciate,” said Madan Sabnavis, chief economist at CARE Ratings.

However, on Wednesday, the US Federal Reserve increased its policy rate by 25 basis points, to a range of 0.75 per cent to one per cent. Economists suggest the rally in the rupee could slow down over the coming months.

The sudden rise in exports in February has been attributed to a low base effect, as well as increasing crude oil prices, which boosted the export of engineering goods and petroleum products, two of

India’s major foreign exchange earners.

"Global commerce is more dependent on demand than the valuation of currencies," said Devendra Pant, chief economist, India Ratings. Overall, global demand conditions are slowly improving, he added.

On the other hand, the strengthening dollar is also a sign of the US economy getting stronger, which will also raise its capacity for import. This is expected to augur well for India, since that country is our second largest trading partner and largest export destination. Total bilateral trade was \$109 billion in 2015-16, with a commitment by both nations to raise it to \$500 bn. Of this, merchandise trade was \$62 bn, with exports from India a little more than \$40 bn.