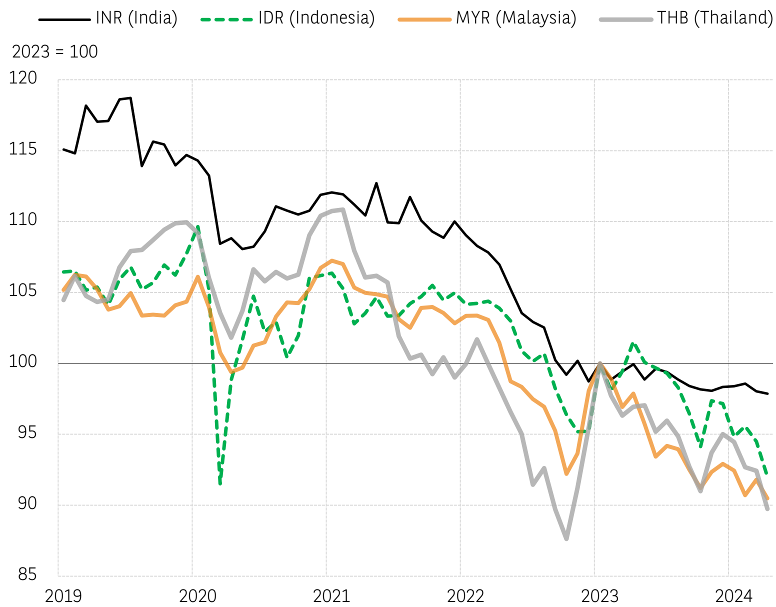
CHART OF THE WEEK

24 April 2024

THE INDIAN RUPEE REMAINS STABLE AT THE START OF THE ELECTION PERIOD

Johanna Melka

Asian currencies against the USD: the Indian rupee more resilient since 2023



Source: CEIC, BNP Paribas

Downward pressure on Asian currencies increased slightly last week, with the geopolitical and monetary climate becoming less favourable. This recent pressure has been fuelled by fears of rising international oil prices as a result of the conflict in the Middle East, on the one hand, and the shifting stance of the US Federal Reserve on the other. However, the Indian rupee has held up better than other Asian currencies so far. Since the start of April, it has only depreciated by 0.6% against the dollar, while the Indonesian rupiah, Malaysian ringgit and Thai baht have lost between 1.5% and 2.7% of their value over the same period. The Indian rupee's strong position is thanks to interventions by the Reserve Bank of India, which has enough foreign exchange reserves to defend its currency. In mid-April, these reserves stood at USD 564.5 billion (+48 billion over a year), equating to more than 7.6 months of goods and services imports.

The relative stability of the rupee is also a reflection of the strong growth of the Indian economy (expected to stand at 7.6% over the 2023-2024 fiscal year, according to the most recent government forecasts) and its balance of payments surplus. The general election, which started on 19 April and will run until 1 June, is not a cause for concern for foreign investors. Narendra Modi's party, the Bharatiya Janata Party (BJP), is expected to win a large majority in the lower house of Parliament and, as a result, continue the reform efforts over the last ten years to boost growth and develop the manufacturing industry by attempting to create a more favourable environment for foreign direct investment (FDI), as FDI inflows are still low. This is holding back the development of the economy. In addition, even though the current account deficit is small (0.9% of GDP in 2023), it was not covered by FDI inflows last year. These inflows were only 0.8% of GDP in 2023 (compared to 1.5% in 2022). India's low integration into global trade and structural constraints (governance and infrastructure quality, and skill and qualification levels among workers) are continuing to influence investment decisions. It will be up to the newly elected government to accelerate the pace of the reforms and implement them.

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