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Exporters expect marginal hike in earnings

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The US Federal Reserve's announcement of an interest rate increase is expected to slightly improve Indian export earnings but a stronger dollar might also push up import costs.

Export earnings are set to go up slightly as the dollar strengthens, leading to a weaker rupee. However, global demand conditions are still low and only traditional export sectors with low competition, such as handicrafts, carpets and certain textile categories, are expected to see a discernible rise.

Also, with US government bonds providing a better return on investment, experts predict the pace of incoming investment might get slower. Dollar outflow could weaken the rupee, thereby holding back the Reserve Bank from cutting its rates, which could lead to further outflow.

"However, the exodus of capital which was feared might not happen in India, owing to renewed interest in the country's manufacturing sector. The same capital flight might affect other competing nations, giving India a benefit," said Sachin Chaturvedi, director-general of think tank RIS.

"Dollar outflow could weaken the rupee. The increase in crude oil prices has already led to increase in dollar demand," said S C Ralhan, president, Federation of Indian Export Organisations. This might, he added, have led to a further rise in exports but there had been depreciation in the currency of competitor nations, too.

Export growth dipped significantly in November, owing to demonetisation, only managing a 2.3 per cent rise after one of 9.6 per cent in October. On the import side, a weaker rupee will inflate the bill. The oil exporters cartel, Opec, has already said it would significantly cut output for the first time in the two years since prices crashed. Crude oil prices have risen as a result. The cost of imported raw materials like aluminium, copper and sophisticated machine products might also turn more expensive.