FALLING VALUES OF INDIAN RUPEE VS **US $**

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ABSTRACT

The falling in the value of Indian rupee has several consequences which could have mixed effects on Indian economy. But, mainly, there are four expected implications of falling rupee. First, it should boost exports; second, it will lead to higher cost of imported goods and make some of the capital intensive projects more expensive to execute; third, it will increase the cost of dollar loans taken by companies and increase the foreign debt and fourth, it will slow-down the overall economic growth by increasing the interest rate and dissuade flow of FIIs. This paper studies the real implications of the depreciation of the rupee on the Indian economy and shows that in the long run, the Indian economy has more to lose and less to gain with weaker rupee.

Keyword: - Falling Value of Indian Currency, Rupee-Dollar, devaluation, & FII.

INTRODUCTION

A falling currency may be normal and acceptable when the economy is slowing, but the rupee's apparent free fall over the last few months — more than 15 per cent since August — is a serious blow to the Indian economy. Though a depreciating rupee is not surprising given India's international investment position, with its higher rate of liabilities than assets, such a sudden fall is worrisome. There has been no spectacular or abrupt change in the Indian economy's macro fundamentals over the last couple of months that could have possibly triggered the rupee's fall, making it Asia's worst performing currency. But there are multiple factors, both domestic & international, which are responsible for the current scenario. 'Policy paralyses; tight monetary policy; high inflation; and a gradual, overall weakening of macro fundamentals have slowed India's growth. The rupee's rapid fall reflects investors' lack of confidence in the Indian economy, which is expected to grow at around 7 per cent this year, lower than the previous target of 8.5 per cent. Slowing growth can also be attributed to the looming European debt crisis, as most of the European banks and financial institutions have significant exposure in developing countries. The outflow of capital (as investors pull out of India) and slow capital inflows over the last few months have both contributed to the problem. Though the Reserve Bank of India (RBI) could intervene in the market to reduce volatility and mitigate panic, it is yet to take any action and for the time being is leaving the markets to determine the rupee's value. The finance minister's view is that intervening in the foreign exchange market may not work given the global uncertainty caused by the European crisis and the withdrawal of funds from India by foreign institutional investors. But the central bank's governor has hinted that market intervention may be used if necessary. Perhaps the RBI should have intervened last year when the rupee was appreciating, instead of leaving it entirely to the market.

OBJECTIVES OFTHE STUDY

1) To know about the trend of Indian Rupee and it exchange rate against us $ historically.
2) To understand the concept of
3) To understand the causes of falling value of Indian rupee and its effects on Indian economy.
4) To study the real implications of govt. policy for control excessive fluctuation of rupee in Indian economy.

HISTORY OF INDIAN RUPEE VS US $

From 1950 to 1973 Indian rupee was linked to British pound. In 1966 and 1973 devaluation happened. On 24th September 1975, the connection between Indian rupee and pound was broken in 1975; the rupee ties to the pound sterling were disengaged. India established a float exchange regime with the rupee's effective rate placed on a controlled, floating basis and linked to a basket of currencies" of India's major trading partners. In 1993 Liberalized exchange rate system (LERMS) was replaced by the unified exchange rate System and hence the system of market determined exchange rate was adopted. However, the Indian rupee and its exchange rate historically.

TABLE-1

VALUES OF INDIAN RUPEE AGAINST US DOLLAR SINCE 1950-2013

[Approximate. Avg. for the year]

HISTORICAL INDIAN RUPEE RATE (INR)									
YEAR	INR/USD	YEAR	INR/USD	YEAR	INR/USD	YEAR	INR/USD	YEAR	INR/USD
1950	4.79	1963	7.55	1976	8.97	1989	30.21	2002	48.62
1951	4.55	1964	8.02	1977	8.77	1990	32.42	2003	46.6
1952	4.79	1965	7.77	1978	8.2	1991	41.32	2004	45.28
1953	4.55	1966	7.8	1979	8.16	1992	43.23	2005	44.1
1954	4.75	1967	8.56	1980	7.89	1993	45.28	2006	45.17
1955	4.78	1968	8.3	1981	8.68	1994	44.31	2007	41.2
1956	6.67	1969	8.1	1982	9.48	1995	45.00	2008	43.41
1957	6.8	1970	7.86	1983	10.11	1996	35.52	2009	48.32
1958	7.2	1971	7.52	1984	11.36	1997	36.36	2010	45.65
1959	7.4	1972	7.21	1985	12.34	1998	41.33	2011	51.23

1960	6.3	1973	7.66	1986	12.6	1999	43.12	2012	57.78
1961	5.8	1974	8.03	1987	12.95	2000	45.00	2013	63.76
1962	7.6	1975	8.41	1988	13.91	2001	47.23		

Sources: - RBI Bulletins & economic times

Before 2011 India had faced two major devaluations that are in the year 1966 and 1991. So let's understand the reasons and the measures adopted by government for the major devaluations that took place in India. The Indian rupee has dropped by nearly 4% to a new low of 68.7 to the US dollar amid growing concerns over the health of the country's economy. The decline comes a day after India approved infrastructure projects worth $28.4bn (£17.7bn) to try to revive the economy and prop up its currency. The rupee has lost 20% of its value this year and is one of the world's worst-performing currencies. It has also been hit by fears that the US will scale back stimulus measures. The US central bank has sought to increase liquidity in the US economy, through its policy of quantitative easing, in an attempt to boost growth. A part of that liquidity has flowed into Asian markets, such as India, and lifted stock and asset prices. However, the Federal Reserve has said it will scale back the program if the US economy improves, with some analysts expecting this "tapering" to begin as soon as next month. That has seen investors pull money out of emerging markets, hurting currencies and stocks in those countries. The Indian Rupee has depreciated to an all time low with respect to the US Dollar. On 28th August 2013, the Indian rupee had gone down to 68.825 against the Dollar but the situation was somewhat revived by the Reserve Bank of India that decided to open a special window for helping state owned oil companies – Indian Oil Corp Ltd., Bharat Petroleum Corp and Hindustan Petroleum Corp. The beneficiaries will be able to buy dollars through this window till further notice is provided. These companies, together, require about 8.5 billion dollars every month to import oil and it is expected that this will help them meet the requirements. This has had an immediate effect as is evident from the fact that the INR has started at 67 against the USD at the early proceedings in the Interbank Foreign Exchange Market. The question, however, is why this is happening. There are several reasons and its effects that can be enumerated in such a bellow:

- **Basic law of economics**

As per the rudimentary laws of economics if the demand for USD in India exceeds its supply then it's worth will go up and that of the INR will come down in that respect. It may be that importers are the major entities who are in need of the dollar for making their payments. Another possibility here could be that the Foreign Institutional Investors are withdrawing their investments in the country and taking them elsewhere. This can create a shortfall in supply of the dollar in India. In fact, of late, the FIIs have been heading to greener pastures like Singapore owing to the greater operational efficiency and lesser bureaucratic problems that have unsettled the Indian business fraternity and hampered its overall economic growth. This situation can only be addressed by exporters who can bring in dollars in the system. If somehow the FIIs can be wooed back, then this imbalance can also be addressed to a certain extent.

- **Price of crude oil**

The worth of crude oil has been a major bane for India since it has to bring in the majority of its requirement from outside the country. The demand for oil in India has been going up every year and this has led to the present situation. All over the world, the price of oil is given in dollars. This implies that as and when the demand for oil increases in India or there is an increase in oil prices in the global market, there also arises a need for more dollars to pay the suppliers. This also results in a situation where the worth of the INR decreases significantly in comparison to the dollar.

- **Performance of dollar with respect to other currencies**

The central banks across Japan and countries in the Euro zone have been bringing out a lot of money and this has meant that both Yen and Euro have lost their value. Compared to this the US Federal Reserve is giving hints that it will end the fiscal stimulus so that the dollar becomes stronger with respect to other currencies such as the Indian Rupee at least for the time being. Till now in 2013, the US dollar index has become stronger by 1.91%.

In an interview with the Economic Times, the CO-CIO of Birla Sun Life Mutual Fund, Mahesh Patil has stated that the increase in worth of USD is the major reason behind the depreciation of the INR. The Federal Reserve's decision to reduce its Quantitative Easing has also contributed to the present situation as every asset class has been affected by the decision.

- **Volatility in the equity market**

The equity markets in India have been volatile for a certain period of time. This has put the FIIs into a dilemma as to whether they should be investing in India or not. In recent times their investments have touched an unprecedented level and so if they pull out then the inflow will go down as well.

As per a report in Business Today, the international investors in India have withdrawn to the tune of INR 44,162 crore during June 2013 and this is a record amount. This has also created a current account deficit (CAD) that is only increasing, thus contributing significantly to the depreciation of the INR.

- **Effects of equity market problems on investors**

Now if the INR becomes weak then it will affect the investors who are putting their money in India. For the first time ever since 2012 the FIIs have been reduced to net sellers of debt based securities. The main reason behind this is the present state of the INR. The expenses incurred in hedging the unpredictable INR are reducing the yield differential that is the main area of profit for these investors. India, in fact, is not the only emerging market where the currency has taken a hit. The situation is similar in countries like Indonesia, Brazil and Thailand. The bond markets in several countries like India are also taking a hit as the FIIs are withdrawing en masse. The exchange traded funds are also being redeemed as the global business fraternity is looking to cut down on risks.

- **Poor current account deficit**

One of the main reasons behind the Indian government's inability to arrest the fall of the national currency is the critical current account deficit. In the 2012-13 fiscal India's CAD was measured at 4.8 per cent of the GDP. The government has been unable to come up with any new destinations for exporting its products and this has also hampered the growth in this sector. There are other crucial reasons here like the lack of one window for clearance purposes and procedural delays. Even areas where India has traditionally done well on this front have fared badly this time around.

- **Downgrading of Indian stocks**

Goldman Sachs, one of the leading banks in the world, has rated Indian stocks as being underweight. It has also asked investors to be careful given the concerns surrounding the recovery of the growth of Indian economy.

- **Condition of import bill**

India's import bill has been going up of late and most of this can be attributed to gold. This has also hampered India's efforts to arrest the slide of the INR. Gold alone takes up more than 10 per cent of India's import bill – in April 2013, 141 tons of gold were imported and it went up to 162 during May. The government took some measures that restricted gold imports to 31 tons during June but once again in the first 25 days in July the imports went up to 45 tons.

- **Contraction of Indian economy**

The various important sectors of Indian economy such as manufacturing, mining and agriculture have seen poor growth in 2013 and this has made them less appealing propositions for the investors. During June 2013, the aggregate industrial production in India reduced by 2.2 per cent and in July 2013 the RBI predicted that in the present fiscal there would be a growth of 5.5% which was lesser than its previous prediction of 5.7%.

- **Future prospects of INR**

In spite of all that has been said above it will be foolish to write off the INR completely and say it shall not rise from the mire. Experts are saying that the government needs to take some short and medium term steps that will help the economy get back on its feet yet again. It is only through continued efforts that the Indian government will be able to retrieve the situation. However, it will take a Herculean effort to help the INR get back to the 55 mark.

- **Increase in the Import Bill**

A depreciation of the local currency results in higher import costs for the country. Failure of a similar rise being experienced in the prices of exportable commodities is going to result in a widening of current account deficit of the country.

- **Higher Inflation**

Increase in import prices of essential commodities such as crude oil, fertilizer, pulses, inedible oils, coal and other industrial raw materials are bound to increase the prices of the final goods. Thereby making it costlier for the consumers and hence inflation might be pushed up further.

- **Fiscal Slippage**

The central government fiscal burden might increase as the hike in the prices of imported crude oil and fertilizer might warrant for a higher subsidy provision to be made for these commodities.

- **Increase in Cost of Borrowings**

Interest rate differentials in domestic and global markets encourage the industry to raise money through foreign markets however a fall in the rupee value would negate the benefits of doing so.

Conclusion

Thus we can see that since 1950 besides few appreciations rupee is depreciating against US Dollar and the causes of depreciation are invariable different. Even after taking few measures by government if we see the recent depreciation, Rupee depreciation has abated but it still remains under pressure. Both domestic and global conditions are indicating that the downward pressure on Rupee to remain in future. Thus, RBI should likely to continue its policy mix of controlled intervention in forex markets and administrative measures to curb volatility in Rupee. Apart from RBI, government should take some measures to bring FDI and create a healthy environment for economic growth. Some analysts have even suggested that Government should float overseas bonds to raise capital inflows.

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