

# RUPEE-DOLLAR FLUCTUATION AND ITS IMPACT ON INDIAN ECONOMY

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## ABSTRACT

*Rupee fluctuation has become the trending topic in Indian economy now a days. Decline in the value of rupee in comparison to dollar in the last few months has affected the economy to a greater extent. The decline in the currency value has shown strong and significant negative impact on the various sectors, also the dependency of India on imports and large fiscal and current account deficit adversely affected the economy. To bring stability in the rupee value government and reserve bank is taking several steps. This paper tries to explore the causes and impact of rupee depreciation on the Indian economy and also tries to review the measures taken by Reserve bank and government to cope up with this problem.*

**Keyword:** Rupee depreciation, Fiscal Deficit, Forex Reserve, Inflation

## 1. INTRODUCTION

India got freedom from British rule on Aug 15, 1947. At that time the Indian rupee was linked to the British pound and its value was at par with the American dollar. There was no foreign borrowing on India's balance sheet. To finance welfare and development activities, especially with the introduction of the five-year plan in 1951, the government started external borrowings. This required the devaluation of the rupee. - after independence, Indian choose to adopt a fixed rate currency regime. The rupee was pegged at 4.79 against a dollar between 1948 and 1966. India faced a serious balance of payment crisis in 1991 and was forced to sharply devalue its currency. The country was in the grip of high inflation; low growth and the foreign reserves were not even worth to meet three weeks of imports. Under this situation, the currency was devalued to 17.90 against a dollar.

India being a developing economy with high inflation, depreciation of the currency is quite natural. Depreciation of rupee is good, so long as it is not volatile. A random depreciation that we have seen in the last few months is bad and it has hurt the economy. Right from the beginning of year 2013, the value of rupee has been depreciating.

High growth coupled with a market driven exchange rate bears well for the economy. However, when growth falters and macroeconomic parameters start appearing

vulnerable, one of the first casualties is the exchange rate. Currently, there is no clarity on whether we have seen the worst of the storm or it is just the beginning. The problems are manifold. Persistent high inflation and fiscal deficit, increasing subsidies, faltering exports and slowing industrial production point towards an economy, which is moderating in growth. Monetary policy has so far been ineffective in reversing the inflation trajectory. Fiscal stimulus appears non-existent, especially when the government has added to the subsidy bill by giving a go ahead to the food security bill. In this weakened environment, the rupee has depreciated by close to 20% in the past few months.

## 2. EFFECT OF DEPRECIATION

- Trade deficit will widen because of costlier imports, worsening the current Account deficit.
- Fuel price will keep petroleum subsidy in check, but fertilizer subsidy will rise. Spending on any kind of foreign exchange denominated spending will increase. Capital inflow will slow or reverse.
- Spending on discretionary goods will increase.
- Forex reserves could fall putting pressure on rupee.
- In case of weak demand companies may not be able to pass on higher inputs costs.

- The government and the RBI have issued a series of measures in recent days designed to reduce the current account deficit and bolster the rupee, including increases in the import duty on gold, the end of duty exemptions for flat screen televisions brought in by airline passengers and restrictions on outward direct investment by Indian companies and individuals.
- Exports are unable to leverage the weak rupee fast enough given the speed of its descent. In fact many exporters are caught out because of fixed price contracts in rupees wherein they cannot get the benefits of its rapid fall. The balance of payments is tilting sharply against us.
- The Indian stock- market will take a hiding as opposed to a beating.
- Global rating agencies will revise our rating downwards to "junk" status, making international borrowing difficult and even more expensive.
- If the automated devaluation brought on by the rupee makes some asset classes attractive, there may be slight recovery because of a RBI trade opportunities and bottom fishing.

The rupee's decline affects everyone in the economy because it feeds directly and indirectly into general inflation, which is a continuing problem even as output growth decelerates, and therefore hits common people hard. There are several ways in which the falling rupee immediately has an inflationary impact, one of the most important of which is the price of energy. Since the misguided decontrol of oil prices, it is not only the globally traded price of fuel but also the exchange rate that determines domestic oil prices. Going by the way economies in the euro zone and the US have been behaving, it would be naive to expect that the export earnings would be contributing significantly to foreign exchange inflows in the near future. The govt should concentrate on correcting the economic fundamentals rather than indulge in soap operas in a run up to the election. A better co-ordination with RBI is required rather than blame game. Apart from all the political parties should come together in fixing the problem and getting back the investors' confidence.

### 3. IMPACT OF RUPEE DEPRECIATION ON INDIAN ECONOMY

The rupee depreciation affects the Indian economy in several ways. The economy is affected positively as well as negatively but the negative impact are so much that they cover all the positive points and as a result only the negative effects are seen on the economy. Some of the points showing impact of rupee depreciation are as follows:

**Encourage exports:** The depreciation in Indian currency is a positive sign for the Indian exporters and export companies. Due to decline in the rupee value the export of a country becomes cheap. As a result the company can enhance its export so as to bring balance in current account. The industries like textiles, pharmaceuticals, power and fertilizers and several involved in exports are beneficial due to decline in rupee value. Also the weak rupee enhance the competitiveness of India in global market.

**Discourage imports:** The depreciation in Indian currency is negative sign for the Indian importers. Due to depreciation in rupee value the import of a country becomes costlier as a result the company depending upon the heavy import like petroleum companies, drug companies, engineering goods companies and other importing companies has to face problem and a decline in their income. The reason is that the companies have to pay more for the imported goods as a result the profit margin reduces. Also government impose several restrictions on import to save the rupee value from further decline.

**Higher inflation:** Due to decline in the rupee value the purchasing power of the currency decline and this results in higher inflation. Due to the decline in rupee the necessary goods which has to be imported becomes costlier which ultimately affects the pocket of common man negatively. Due to decline in rupee value the foreign tours became costlier. The RBI report shows that outward remittances by Indian in the last five years has increased due to the decline in rupee value. The total outward remittance by Indians in 2017-18 towards travelling, studying abroad and on maintenance was 11.33 billions \$ which was 8.170 in 2016-17. Also the prices of necessary things like petrol, diesel etc. is rising continuously.

**Increase in cost of borrowings:** Decline in rupee value creates problem in borrowing also. Due to

decline in rupee value the cost of foreign loans increases as a result more dollars required. This become a hurdle for the Indian industries' borrowings and Indian economy at such time when Indian banks are too cautious towards lending.

**Increase in fiscal burden:** The decline in rupee value will increase the fiscal burden in two ways. Firstly, due to decline in rupee deficit import become dearer. It result in rise in import bill. The rise in import bill enhances the current account deficit. Secondly, decline in rupee value will enhance the inflation. As a result government has to spend excess amount on subsidy to stabilize the purchasing power of people. In this way fiscal burden increases from rupee fluctuations.

**Other impacts:** Decline in rupee value affect all the industries in the economy adversely. We can call the falling rupee a direct attack on the pocket of common man. The rupee decline creates huge volatility in share market and investors are losing their faith in stock market. The necessity things have become costlier. There is no increase in the exports and small-scale industries are also facing huge loses.

The decline in rupee value is a warning signal for the Indian economy. The decrease in the value of rupee affects all the sectors of the economy. Due to the decline in rupee, there is hidden inflation which results in declining the growth of economy. Due to the trade war in US and China there is fear in Indian economy also. However as per the report by US Treasury Department, India can be removed from the US currency monitoring list of major trading partners. However these steps are not sufficient for stabilizing the value of Indian currency. The Indian government should take initiatives to encourage the foreign investment to larger extent and not only for short term. RBI and government should co-operate with each other to stabilize and save rupee rather than playing blame game against each other. The government should concentrate on correcting economic fundamentals. Also all the political parties should come together to save the rupee and enhancing the investors' confidence. Efforts should be made to reduce the import and encourage exports in order to bring current account deficit to lower level.

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