Abstract

Exchange rate plays a denominate role in a country’s international trade there by influencing the country’s balance of payment. It is highly volatile in nature and it is determined by the market forces of the economy. The fluctuation in the movement of exchange rate is affected by the several macro-economic variables. It has been predicted that rupee may slide to 70 to the dollar in a month. RBI declared Stern measures on 14th August in order to tackle the outflow of foreign currency which also includes control on Indian firms investing board and on outward remittances by resident Indians. Whether currency will be able to find its stable level or will continue to go down further is a mystery. Rupee has weakened which means we need to spend more rupees to get that dollar. It is observed that five variables Balance of Payment–Current account, Foreign exchange reserves and GDP at factor cost are the most significant variables affecting the exchange rate of Indian rupee against US dollar during the period of study.

Keywords: RBI, Exchange Rate, GDP, FDI, FII.

INTRODUCTION

Currency fluctuation is the result of floating exchange rate which has been adopted by several major countries. The exchange rate refers to the rate at which currency of one country can be converted into the currency of another country. It is also known as foreign exchange rate, forex rate. There are two types of exchange rate; one is fixed exchange rate while the foreign exchange rate. Fixed rate refers to the rate which remains constant and does not fluctuate due to governmental intervention while the fluctuating rate changes the value of currency continuously just like share market. Government intervenes only when there is too much change in the value of currency or the situation demands. Till 1973, India used to follow fixed exchange rate but from 1973 India has also adopted the floating exchange rate system. Due to this floating exchange rate system, Indian currency is fluctuating continuously. In the financial year 2018, the Indian rupee value has declined around 16% and reached the lowest value of rs.74.39 per dollar. The main reason of decline in the rupee value are...
taken to be US CHINA trade war where US has imposed a huge tariffs of approximately $300billion on the export products of china. Several other factors also affect the value of the rupee in various ways. Experts have given different opinion for the depreciation in the value of the currency, some points towards the positive impact while some sys negative impact of currency on economy. This paper tries to find out the reason of depreciation in rupee value and possible measures to curb or prevent it.

If this depreciation in rupee continues, RBI will have very less room to cut policy rates which in turn will add to the borrower’s woes that are waiting to get rid of high loan regime. Students who are studying abroad have to bear the brunt of depreciating rupee. Expenses towards the university/college fee as well as that of living will increase, thereby spelling a huge burden on the students. Indian rupee depreciation will also affect the tourism. In case you are planning to spend your holiday abroad it will affect you as your travel charges as well as hotel charges will increase drastically, excluding shopping and other miscellaneous spending activity.

**REVIEW OF LITERATURE**

Harberger (2003) studied “Impact of economic growth on real exchange rate”. The study found that there is no systematic connection between economic growth and real exchange rate. Husain et al. (2004) found in their study that little access to international capital is available for the weaker and less developed countries, so low rate of inflation and higher level of durability is associated with fixed exchange rate regime in those countries. However, they found no robust relationship between economic performance and exchange rate regime in the developing economies. They also found that advanced economies may experience durable and slightly higher level of growth rate without higher level of inflation in flexible exchange rate regime.

Kanika Arora (2014) studied “Real implications of the depreciation of the rupee on the Indian economy”, shows that in the long run, the Indian economy has more to lose and less to gain with weaker rupee. The study concluded that the Indian Rupee has depreciated significantly against the US Dollar marking a new risk for Indian economy. Grim global economic outlook along with high inflation, widening current account deficit and FII outflows have contributed to this fall. RBI has responded with timely interventions by selling dollars intermittently. But in times of global uncertainty, investors prefer USD as a safe haven. To attract investments, RBI can ease capital controls by increasing the FII limit on investment in government and corporate debt instruments and introduce higher ceilings in ECB’s. Government can create a stable political and economic environment. However, a lot depends on the Global economic outlook and the future of Euro zone which will determine the future of INR.

**STATEMENT OF THE PROBLEM**

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. Secondly, the degree of volatility in the global economy hasn't helped. Besides the Euro zone crisis, the downgrade of the US economy has led to flight of capital in order to boost the US home economy. The US dollar has become in short supply and unlike its peers, India needs to attract sufficient foreign funds to close the fiscal and current account gap. The fact that a weakening of the Indian economy has happened at the same time as a global debt crisis has elevated the exchange problem. The appreciation in the US dollar has led to the decrease in the value of Indian rupee. The value of US dollar has been rising ever since the US Federal Reserve has announced quantitative easing. Based on the above research has framed following research question,

- Whether the exchange rate of Indian rupee compare between pre and post-liberalization grow or not?
- What is the growth of foreign investments flow in Indian capital market?

OBJECTIVES OF THE STUDY

- To analyze the rupee value against the dollar.
- To find the reasons of decline in rupee value.
- To find the impact of depreciation in rupee on several sectors.
- To find the efforts made by government and RBI for stepping rupee up

RESEARCH DESIGN

Sources of Data

The data collected for the study is secondary one. The required data for the study were collected and compiled from the RBI Website and Bulletin and the study covers a period of 35 years from 1984-1985 to 2018-2019. In addition, the other required data were collected from various journals and magazines.

CHANGES IN RUPEE VALUE FROM INDEPENDENCE

Table 1 Historical Movement in Indian Rupee Exchange rate during the year 1984 to 2019

<table>
<thead>
<tr>
<th>Year</th>
<th>INR/USD</th>
<th>Year</th>
<th>INR/USD</th>
<th>Year</th>
<th>INR/USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>11.36</td>
<td>1996</td>
<td>35.52</td>
<td>2008</td>
<td>43.41</td>
</tr>
<tr>
<td>1985</td>
<td>12.34</td>
<td>1997</td>
<td>36.36</td>
<td>2009</td>
<td>48.32</td>
</tr>
<tr>
<td>1986</td>
<td>12.60</td>
<td>1998</td>
<td>41.33</td>
<td>2010</td>
<td>45.65</td>
</tr>
<tr>
<td>1987</td>
<td>12.95</td>
<td>1999</td>
<td>43.12</td>
<td>2011</td>
<td>46.61</td>
</tr>
<tr>
<td>1988</td>
<td>13.91</td>
<td>2000</td>
<td>45.00</td>
<td>2012</td>
<td>53.34</td>
</tr>
<tr>
<td>1989</td>
<td>16.21</td>
<td>2001</td>
<td>47.23</td>
<td>2013</td>
<td>58.53</td>
</tr>
<tr>
<td>1990</td>
<td>17.50</td>
<td>2002</td>
<td>48.62</td>
<td>2014</td>
<td>61.02</td>
</tr>
</tbody>
</table>
Table 1 shows the currency was devalued and the exchange rate was 1 USD = 25.95 INR. However this devaluation was an unsuccessful step for Indian economy. After 1991 the rupee value was continuously declined and in 1995 it reached at 1 USD = 34.96 INR. From 2000-2007, Indian rupee stopped declining and ranged between 1$ = 44 - 48. In late 2007, Indian rupee reached a record high of 39 Indian rupees per us dollar due to huge foreign investment flow in country. In 2008 the rupee declines from 39.99 to 50.95 per dollar around a decline of 21.5% due to global recession and fall of Lehman brothers in US. Due to global uncertainties like Euro zone crisis the rupee value was again declined around 17% in 2011. Due to high current account deficit, decline in gross domestic product rate and high inflation, the rupee value declined around 19.4% from 55.4 to historic low of 68.85 on 28 August 2013. From 2014 till 2017 rupee value was ranging between 61 to 65. However in 2018 rupee value fluctuated again. From 63.44 (intra day highest on 2nd January) the rupee fell around 16% to 74.39 on October 9 (all time low) due to the fear of USA-China trade war, crude oil price rise and weakness in emerging market currencies.

**INCREASING OIL PRICES**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>USD (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 - 2011</td>
<td>105964.4</td>
</tr>
<tr>
<td>2011 - 2012</td>
<td>154967.6</td>
</tr>
<tr>
<td>2012 - 2013</td>
<td>164040.6</td>
</tr>
<tr>
<td>2013 - 2014</td>
<td>164770.3</td>
</tr>
<tr>
<td>2014 - 2015</td>
<td>138325.5</td>
</tr>
<tr>
<td>2015 - 2016</td>
<td>82944.5</td>
</tr>
<tr>
<td>2016 - 2017</td>
<td>86963.8</td>
</tr>
<tr>
<td>2017 - 2018</td>
<td>108658.6</td>
</tr>
<tr>
<td>2018 - 2019</td>
<td>140918.4</td>
</tr>
</tbody>
</table>

Source: https://rbidocs.rbi.org.in

The table shows the import of oil in India in last 9 years Continuous increment in the crude oil price at the global level are also a cause of decline in the rupee value. India has to import huge oil in order to satisfy its local demands. Around 80% of the petroleum consumption in Indian market is satisfied through import and the demand is still increasing. As a result the demand for dollar
arises (for payment of import of oil) which reduces the value of rupee in comparison to dollar. The oil import was continuously increasing till 2013-14 but there was a decline in the last few years which was helping in stabilizing the rupee value. In 2017-18 the oil import has again raised which may become a major factor in the fluctuation of rupee value.

WIDER CURRENT ACCOUNT DEFICITS (CAD)

Wider current account deficit is also a major reason of decline in the rupee value. Current account deficit means the excess of imports of goods and services over the exports. India's current account always shows deficit because India imports more goods than it exports. As a result India needs more foreign currency to meet the needs of the country. This results in more demand for foreign currency which resulted in decline in the value of currency. The current account deficit is around 15807.13 million$ which was 13047.43 in the last year. The current account deficit is -2.3% of the GDP in March 2018 which was 0.6% in the previous year. The data was all time high in 2004 with 2.2% of GDP (positive) while it was lowest in the December 2012 at 6.8% of GDP. The government is taking steps like hike in import duty of several products in order to reduce the import and bringing the current account deficit to lower level in order to save rupee value. The graph shows the India's current account deficit as a % of GDP.

![Graph showing India's current account deficit as a % of GDP.](source:tradingeconomics.com | Reserve Bank of India)

LOW FOREIGN EXCHANGE RESERVES

Low forex reserve is also a factor of decline in the rupee value. India's foreign exchange reserve is declining in the last few months due to RBI's sale proceeding in order to stabilize the value of rupee. As per RBI report the Indian forex reserve fell to $399.28 billion in the first week of September 2018. Foreign exchange reserve consists of foreign currency assets, gold, SDR and reserves. The forex reserve was below $400 billion after 41 weeks after 17 November 2017. Forex reserve reached at $426 billion on 13 April 2018 after which it is continuously declining which results in decline in rupee value. Again the current account deficit is also a biggest reason of the lower forex reserve. The following chart shows the Indian forex reserve position in last one year.

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Lack of confidence of foreign investors in Indian economy is also a reason of fluctuation in Indian currency value. The economic slowdown of many industries, high volatility in stock market and governments policies creates doubts in the mind of foreign investors. As a result they started withdrawing money from Indian economy and moving towards the advanced economies like US where growth is recovering. The withdrawal by foreign investors shows that the Indian government is very slow and late in implementing policy changes for recovery of economy. The foreign direct investment in November 2017 was negative (-1336 million US $) which was recovering till April 2018. After April 2018 the FDI is decreasing and in august it was 1898 million US $ (highest being 4859 million US $ in April 2018). Also the graph of 10 years shows that the growth of foreign direct investment in our country is weak and very slow. The following graph shows the FDI in India in last one year.

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 enhances 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 imposes 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 these 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 have 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 billion $ 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 becomes a hurdle for the Indian industries’ borrowings and Indian economy at such time when Indian banks are too cautious towards lending.

**STEPS TAKEN BY GOVERNMENT AND RESERVE BANK INDIA**

The Indian rupee is the worst performing currency of Asian region in the year 2019. As a result there has been sharp decline in the rupee value. However government and reserve bank of India is taking several steps to bring stability in rupee value. The reserve bank of India is involved in intervening efforts which dictates that RBI has to sale the gold, SDRs and other assets reserved as foreign reserve to save rupee. As per RBI report the central bank has drawdown $ 24.6 billion from April to June. Also in July RBI sold $ 1.9 billion in July and 3.6 billion in August to stable rupee. (According to Nomura) Also the government has taken several steps to save the rupee value. The step includes increase in the import duty of several goods including gold in order to curb the import and encouraging the exporters to export more. In September the government announced several measures. The measures are primarily on the capital account side focusing more on entering of dollars in Indian economy through different routes like ECBs (External Commercial borrowings), FPI, Masada bonds etc. The steps are government has made ECBs easier for manufacturing companies in the hope of bringing dollars in economy. Masada bonds have been exempted from withholding tax so that the investors are interested towards the bonds. There has been revision in
the FPI 4 exposure limits so that the debt outflow reduces and fresh debt investment encourages. Also government has removed the hedging for infrastructure ECBs so that the threat of rupee decline may be reduced. Also the government believes that the decline in rupee value is not a big threat for Indian economy. Up asana Hardwar, a senior economist says that there is no need to press the panic button because our fundamentals are stronger than others.

CONCLUSION

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 stabilising 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.

REFERENCES