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Research Paper

Rupee-Dollar Fluctuation and Its Impact on Indian Economy

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ABSTRACT
Changes in the value of the Indian rupee have recently become a hot topic in the country's economic discourse. The economy has been hit more by the recent decline in the value of the rupee relative to the dollar. Over the last few years, the value of the rupee has dropped by significantly. The value of the rupee has fallen multiple times, with the lowest point occurring on October 9, 2018 at a value of 74.39. The fall in currency value has had clear and noticeable detrimental effects in many different areas. India's economy was harmed by the country's reliance on imports as well as its enormous fiscal and current account deficit. Several measures have been taken by the government and the reserve bank to stabilise the value of the rupee. This article examines the steps taken by the Reserve Bank of India and the government of India to deal with the depreciation of the Indian rupee.
KEYWORDS: *Rupee depreciation, Fiscal Deficit, Forex Reserve, Inflation.*

I. INTRODUCTION

Several large countries now use a variable exchange rate, which causes currency fluctuations. How much one country's currency is worth in terms of another's is known as the exchange rate. This metric is sometimes referred to as the forex rate or the foreign exchange rate. Fixed exchange rates and international exchange rates are the two main categories of currency conversion. A fixed rate is one that does not vary as a result of policy decisions made by the government, while a variable rate affects the value of currency on a continuous basis, much like the share market. The government steps in only when there has been an excessive fluctuation in currency value or when it is absolutely necessary. India followed a fixed exchange rate until 1993, but the country has since switched to a variable rate system. The value of Indian rupee is always changing as a result of the current system of freely floating exchange rates. The Indian rupee fell by about 16% in value in the fiscal year 2018, bottoming out at a rate of 74.39 rupees to the dollar. Rupee depreciation is often attributed to the ongoing trade war between the United States and China, in which the United States has put massive tariffs on over $300 billion worth of Chinese export products. The value of the rupee is also affected by a number of other factors. The impact of the currency's depreciation on the economy is controversial, with some experts saying it will be beneficial and others saying it will be detrimental. The purpose of this study is to investigate the falling value of the rupee and propose solutions to the problem.

II. OBJECTIVES

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 central bank for stepping rupee up.

III. RESEARCH METHODOLOGY

Research methodology refers to the process adopted for conducting research. It explains nature of study, method of data collection and tools applied for analyzing the data. This paper is descriptive in nature as it describes the present situations features of the study. It helps in reduction of biasness and enhances reliability of data in research. The secondary data has been used in the paper. Data has been collected from journals, research papers, periodicals and published reports of reserve bank, different websites etc.

CHANGES IN RUPEE VALUE SINCE INDPENDENCE

Originally, the Indian rupee was made of silver. However, during World War I, the value of the pound sterling, which was pegged to the price of gold, plummeted, along with the value of every other currency. With the advent of the par value system, the value of the Indian currency likewise declined. To comply with this approach, each member of the IMF had to keep its currency's value stable relative to gold or the US dollar.

Indian currency has been pegged to the IMF's par value system since it gained independence in 1947. At that time, one dollar was equivalent to one rupee. In September 1949, the dollar was valued at Rs. 4.75 per pound sterling, making the exchange rate Rs.13.33. The dollar was worth 4.75 rupees until June of 1966. Indian rupee was devalued by 57.5%, from 4.76 to 7.50 per dollar or 21 per pound, in 1966 as a result of economic crises, political instability, pressure from multilateral organisations, and war with China and Pakistan. In 1971, the system finally came to an end. The exchange rate dropped to $12.34INR in 1985 and $17.50INR in 1990 because of the spike in oil prices in 1973 and the decreased interest of foreign investors in the Indian economy. In 1991, the Indian economy was at its weakest, with a deficit of 7.8 percent of GDP, a massive interest payment, and a deficit of 3.6 percent of GDP in the current account. The Indian government depreciated the rupee in response to these issues, resulting in a rate of 24.58 U.S. dollars for 100 Indian rupees. The rupee was devalued again in 1991, to the tune of 1 USD = 25.95 INR. However, the devaluation did not help the Indian economy. The value of the rupee steadily fell from 1991 until 1995, when 1 USD was equal to 34.96 INR. The value of the rupee fell to 42.76 US dollars per rupee in 1998 as a result of the Asian financial crisis and the loss in India's rating as a result of the Pokhran explosion, a decline of almost 16%. The value of the Indian rupee stabilised between Rs. 44 and 48 per U.S. dollar from the year 2000 to 2007. The worldwide recession and the collapse of Lehman Brothers in the United States, further depreciated the value of the rupee. The value of the rupee fell by further 17% in 2011 due to global uncertainties such as the Eurozone crisis. The value of the rupee fell by about 19.4 percent, from 55.4 to a record low of 68.85 on August 28, 2013, as a result of the high current account deficit, the falling GDP rate, and the rising inflation. The value of the rupee fluctuated between 61 and 65 from 2014 and 2017. However, in 2018, there was another swing in the value of the rupee. As a result of concerns over a trade war between the United States and China, an increase in crude oil prices, and the general weakness of emerging market currencies, the value of the rupee dropped from an intraday high of 63.44 on January 2 to a record low of 74.39 on October 9. The value of the rupee has been tracked in the table below from 1973.

Table 1: Historical Movement in Indian Rupee Rate

Year	INR/USD	Year	INR/USD	Year	INR/USD	Year	INR/USD
1973	7.66	1984	11.36	1995	32.43	2007	41.20
1974	8.03	1985	12.34	1996	35.52	2008	43.41
1975	8.41	1986	12.60	1997	36.36	2009	48.32
1976	8.97	1987	12.95	1998	41.33	2010	45.65
1977	8.77	1988	13.91	1999	43.12	2011	46.61
1978	8.20	1989	16.21	2000	45.00	2012	53.34
1979	8.16	1990	17.50	2001	47.23	2013	58.53
1980	7.89	1991	22.72	2002	48.62	2014	61.02
1981	8.68	1992	28.14	2003	46.60	2015	64.10
1982	9.48	1993	31.26	2004	45.28	2016	67.17
1983	10.11	1994	31.39	2005	44.01	2017	65.08
				2006	45.17	2018	67.20 (74.39 on October 9)

Average annually currency exchange rate for Indian rupee.
Source: www.forecastchart.com

CAUSES OF CURRENCY DEPRECIATION

Since Indian currency is declining against US Dollars, it is necessary to find out the factors responsible for this decline. Some of the major factors of currency depreciation are as follows:

Trade war between US and China:

The trade conflict between the United States and China is contributing to a depreciating Indian rupee. The falling value of the rupee can be attributed to widespread concerns about the effects of Trump's tariff policies against China on other developing countries. U.S. President Donald Trump had declared a trade war with China and Europe by putting massive taxes on their imports. Increases in the cost of imported goods would lead to a greater exodus of dollars from the Indian economy. We all know that India consistently has a higher import bill than export bill. Therefore, we may conclude that the trade war will have a negative impact on the Indian market, leading to a flight of U.S. dollars from the country's currency exchanges.

Increasing oil prices:

Consistent increases in the price of crude oil on a worldwide scale are also a factor in the depreciation of the currency. To meet domestic demand, India must import vast quantities of oil. The Indian market meets over 80% of its petroleum demand through imports, and the need is still growing at a rapid rate. Since dollars are needed to pay for oil imports, the demand for dollars drives down the value of the rupee. Oil imports rose steadily until 2013–14, but have since fallen, which has helped the rupee's value stabilise. The rising cost of oil imports in 2017-18 could be a major contributor to the rupee's erratic value. India's oil imports for the period from 2010-11 to 2017-18 are detailed in the table below.

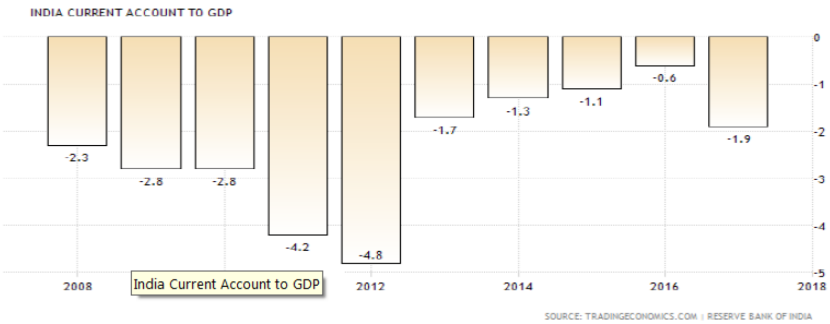
Table 2: Oil Import To India(Us $Millions)

YEAR	(US $ millions)
2010-11	105964.4
2011-12	154967.6
2012-13	164040.6
2013-14	164770.3
2014-15	138325.5
2015-16	82944.5
2016-17	86963.8
2017-18	108658.6

Wider current account deficits(CAD):

The value of the rupee has dropped for many reasons, including the widening current account deficit. A country has a current account deficit if its imports are greater than its exports. Since India consistently imports more commodities than it sells, its current account will constantly show a deficit. Therefore, more foreign cash is required to meet India's needs. As a result, the value of currencies around the world fell as demand for foreign cash increased. With a deficit of roughly 15807.13 million dollars in 2018, the current account situation is worse than the previous year's deficit of roughly 13047.43 million dollars. In March of 2018, the current account deficit was 1.9% of GDP, up from 0.6% the previous year. In an effort to preserve the value of the rupee, the government has taken measures such as increasing the import fee on a variety of products. India's trade gap is depicted here as a percentage of GDP.

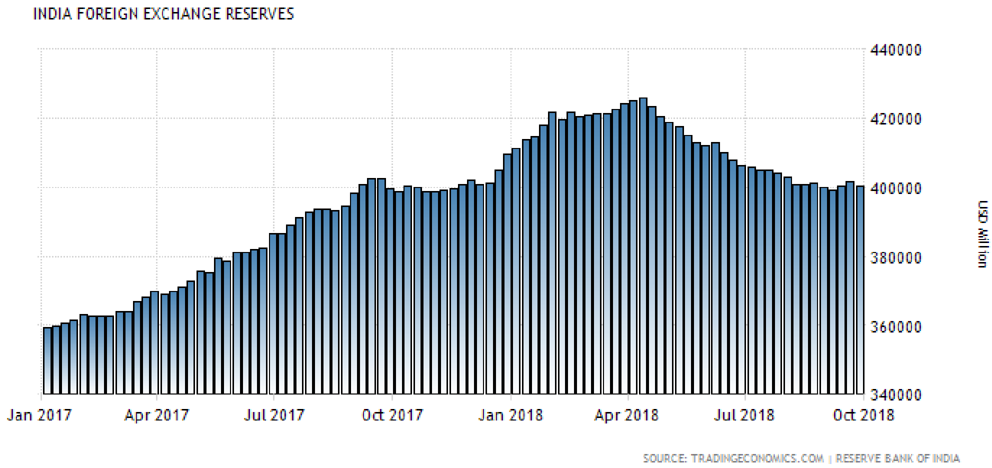
Graph 1: Indian Current Account To GDP



Low foreign exchange reserves:

The falling value of the rupee can also be attributed to the country's meagre foreign exchange reserves. Due to RBI's sale strategy to stabilise the value of the rupee, India's foreign exchange reserve has been decreasing over the past few months. The Reserve Bank of India said that during the first week of September 2018, India's foreign exchange reserves dropped to $399.28 billion. Gold, the Special Drawing Rights (SDR), and foreign exchange reserves are all components of a foreign exchange portfolio. As of 41 weeks following November 17, 2017, the foreign exchange reserve dropped below $400 billion. The value of the rupee has decreased in tandem with the reduction in the country's foreign exchange reserves, which peaked at $426 billion on April 13, 2018 and have been steadily declining thereafter. The current account deficit is a major contributor to the decline in foreign exchange reserves. The following graph displays India's foreign exchange reserves during January 2017 to October 2018.

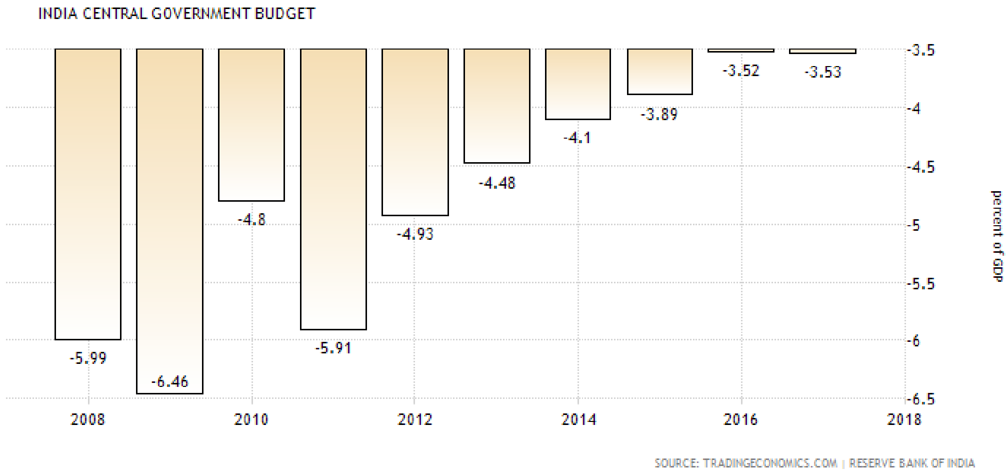
Graph 2: Indian Foreign Exchange Reserves(US $ Billion)



High fiscal deficit:

The term "fiscal deficit" is used to describe the gap between tax revenues and government expenditures. The high level of the fiscal deficit contributes to the falling value of the rupee. The net fiscal deficit for 2018–19 is $6147.26 billion, up from the previous year's deficit of $5893.82 billion. Since 2014–15, the fiscal deficit has grown annually. Despite the government's best efforts, the fiscal deficit remains stubbornly large due to reasons like as falling GDP, a wildly changing rupee, and steadily increasing oil prices. The fiscal deficit is depicted here as a proportion of GDP.

Graph 3: Indian Central Government Budget(Fiscal Deficit As A Percentage Of GrossDomestic Product)



Demand for Gold:

The rising import and demand for gold also contribute to the instability of the rupee. In India, buying and wearing jewellery made of gold and other precious metals is both a cultural norm and a status signal for special events. As a result of the country's massive demand for certain metals and its limited domestic supply, India must pay exorbitant fees to import them. The 2017–18 gold import was $ 33657.2 m, an increase from the 2016–17 total of $ 27518.0 m. An increase in the current account deficit, which has a negative effect on the value of the rupee, can be traced back to a rise in gold imports. Imports of gold are second only to those of petroleum in terms of cost. In order to prevent further depreciation of the rupee, the government is implementing measures, such as increasing the import duty and restricting imports for internal consumption, to minimise gold imports. The import of gold over the period from 2012-13 to 2017-18 is detailed in the table below.

Table 3: Gold Import In India(US $ Million)

YEAR	GOLD IMPORT (US $ MILLION)
2012-13	53820.6
2013-14	28704.7
2014-15	34407.2
2015-16	31770.7
2016-17	27518.0
2017-18	33657.2

Withdrawal by foreign institutional investors:

Changes in the value of the Indian rupee can also be attributed to the scepticism of international investors towards the Indian economy. Foreign investors are wary due to the slowdown across many industries, the high volatility of the stock market, and the policies of governments. Due to this, they have begun to shift their financial resources away from the Indian economy and towards more developed nations like the United States, where development is reviving. Investors' departures indicate that the Indian government is dragging its feet in making the necessary policy adjustments to revive the economy. Negative FDI (-1336 million USD) was recorded in November 2017, with a subsequent recovery until April 2018. Foreign direct investment (FDI) has been falling since April 2018, with a total of $1,898 million in April but just $4,659,000 in August. The 10-year graph also reveals that FDI growth in our country has been sluggish and slow. Foreign Direct Investment (FDI) in India during the past decade is depicted in the following graph:

Graph 4: Foreign Direct Investment in India(US $ Million)

Other reasons:

Rupee value changes are due to a number of factors, including but not limited to: rising inflation, interest rate differences, stock market volatility, a lack of clarity in policy reforms, and speculation. The value of the rupee is affected either directly or indirectly by these variables. The value of the rupee is affected by the Reserve bank's monetary and fiscal policy. The value of the rupee is also affected by governmental policy and regulation. The value of the rupee has dropped as a result of the government's demonetization, Goods and Services Tax, and other policies. The value of the rupee is affected either directly or indirectly by the share market, which in turn is affected by the mood of investors.

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:

Encourages 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 cheaper. 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.

Discourages 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 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 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 results 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 stablize 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.
Hence we can say that the rupee decline adversely affect the whole economy.

STEPS TAKEN BY GOVERNMENT OF INDIA AND RBI

During last few years, the Indian rupee has fared worse than its Asian counterparts. The value of the rupee has consequently dropped significantly. But the government and the Reserve Bank of India are taking measures to stabilise the value of the rupee. To protect the value of the rupee, the Reserve Bank of India (RBI) has been making intervention operations, which require it to liquidate foreign reserve assets like gold and special drawing rights (SDRs). According to data published by the Reserve Bank of India (RBI), the government institution has withdrawn $24.6 billion between April and June 2018. Similarly, the Reserve Bank of India sold $1.9 billion in July and $3.6 billion in August 2018 to maintain a steady currency (according to Nomura). The government has also taken many measures to protect the value of the rupee. In order to reduce imports and encourage exports, the government has raised the import tax on a number of products, including gold. The government made a number of announcements in that month of September. Capital account measurements emphasise the influx of U.S. dollars into the Indian economy via channels such as external commercial borrowings, foreign portfolio investments, masala bonds, and so on. The government has taken these measures to attract foreign currency by making ECBs more accessible to manufacturing enterprises. Withholding tax exemptions on Masala bonds pique the interest of investors. The FPI 4 exposure limitations have been adjusted to decrease the outflow of debt and increase the inflow of new debt. In addition, the government has eliminated hedging for infrastructure ECBs to lessen the impact of a possible decrease in the value of the rupee. Furthermore, the government thinks the depreciation of the rupee poses no harm to the Indian economy andthere is no need to hit the panic button, as our fundamentals is better than those of our competitors.

IV. CONCLUSION

A falling rupee is a red flag for India's economy. The fall in rupee value has had far-reaching consequences for the economy as a whole. Subtle inflation caused by the falling rupee has dampened economic expansion. Concern over the global economy has spread to India as a result of the trade war between the United States and China. However, the US Treasury Department study indicates that India can be removed from the list of significant trading partners whose currencies the US monitors. In spite of this, these measures will not be enough to stabilise the Indian rupee. In order to attract long-term foreign investment, the Indian government should make some changes. Instead than pointing fingers at one another, the Reserve Bank of India and the government should work together to stabilise and save the rupee. Fixing the economy's foundations should be the government's top priority. All the political factions should work together to save the rupee and boost investor confidence. The current account deficit can be reduced if imports are decreased and exports are stimulated.

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