

Depreciation of Indian Currency in the Current Economic Scenario

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Abstract: In recent few months depreciation of Indian Rupee against United States Dollar has been major concern. Researchers have found in this paper that despite several efforts by RBI through its self acclaimed relevant policies and steps to strengthen INR got poorly failed and till now as on 15th ;October 2018, INR still declining against US Dollar (INR 74.05).

Although a weak as well as strong currency has its own pros and cons, as depreciation of currency can bring smile on many faces specially NRIs who are about to transfer their remittances to their bank accounts in India and also depreciation of currency bring higher return from their EXPORTS.

Also strong currency can boost economy in several aspects and make IMPORTS cheaper.

Therefore in this research paper we will make an attempt to highlight various causes and effects of depreciation of Indian currency in current Indian Economy with advantages if exist and disadvantages of depreciation of rupee in present context of Indian Economy.

Also researchers will show intense review of various experts of Indian and global economy in which several micro as well as macro economic factors were studied and analyzed.

Keywords: Economy, Depreciation, Currency, Export, Import

INTRODUCTION

While noticing depreciation of Indian Rupee since May 2018 we have gone through many articles portray many confounding reasons and factors, to an extent it is essential to mention those in this paper before giving our insights and views.

Few most read and commented articles are mentioned.

According to Indian exporters, imported goods for major exports are not getting expensive and the benefits of rupee weakening due to commodity and service tax (GST) pending REFUNDS. The value of the Indian rupee has cried off by 15 percent compared to the beginning of this year in 2018. The last 6 months have been a continuous drop in the value of the rupee, which lasted a consecutive long after 2002. The rupee has reached 74.28 against the dollar at this point of in first week of October, 2018. Usually the advantage of declining currency is that exporters gain on several aspects, because the export of goods is competitive as compared to competitive countries.

As in the view point the president of the Federation of Indian Export organization (FIO), mentioned in one his articles “Contrary to the prevailing common belief this time, the exports are not going to be profited out of the rupee.” People have

a perception that the exporters are already hedging their risks while exporters are taking loans in foreign currency and are being asked to pay the cash according to the current exchange Rate. Exporters ' still have to meet Rs 10,000 crore from 8,000 integrated GST refunds.

On the other hand, the state consistently refuses to give input tax credit. It has risen to Rs 15,000 crore, he said. It also makes it difficult to get part of the fee from the States. Furthermore he added that states like Uttar Pradesh, Bihar, Andhra Pradesh, and Chhattisgarh do not have the money to give to Exporters.

In another article one financial analyst said that because of this, the traders of small, medium scale and micro-industry are having a bad impact and banks are ignoring their business loans. The competitive economies on the other hand are not behind it. FIO's Director General said, ' The rupee in the Asia Pacific is the worst performing currency, despite all the other countries such as the Argentine peso, the Brazilian rial, the Russia ruble, the rand of South Africa and especially the sharp fall in the Turkish currency Lira. , which has caused India's competitiveness in certain areas such as agriculture, metals and textile Exports.

He said that buyers of Africa, West Asia, Latin America, Asia typically demand discounts that have a bad impact on exports and exporters all due to fluctuations in currency.

The Government acts to prevent the destruction of the currency by making it easier for foreign investors to buy bonds and rupee increase tariffs on imported goods, making it less likely to be made abroad.

India's exports succeeded in surpassing the 300 billion figures in 2017-18 for the first time in two Years. During the April-August period of the current financial year, exports rose 16.13 percent to 136.09 billion, higher than the 117.19 billion dollars in the same period last year.

However, there are no signs of diminishing pressure in the labor-based sectors like Apparel. The export of Ready apparel continued dearly in August and has registered a decline of 3.35 per cent.. Another major sector earning from exports is gems and jewellery, which has increased 23.95 percent.

The continued decline in the rupee price is going to be a bad influence on the economy but a part of the economy is being benefited from this decline. The well-known economist Rajesh Rapariya told that usually the rupee declines to damage importers but the importers who have stocked will remain in profits.

In addition, companies that have not taken loans from abroad in foreign countries will be in advantage at this time. He pointed out that the rupee's fall also benefited Indians who send money to India as far as remittances are concerned.

Furthermore he also added that these are the benefits one would like to take until the country's economy remained stable.

The advantage of exporters is the sectors specifically in pharmaceutical sectors but it is ardent to see that it shows that only companies are gaining profits be it pharmaceutical or any other sector but it does not create any ample employment opportunities in the current scenario of Indian economy.

Same situation analyzed in the IT sector that net exports found to be closed to 180 billion INR. Here, that the profits of these companies are rising because of the depreciation of the rupee, but the employment situation is rather adverse that the size of the business due to the rupee's devaluation is growing but not really growing the jobs in corporate sectors and that is one of adverse impact on current Indian economy in post demonetization period as mentioned by Khan AK, Faisal SM (2018) Role and Significance of FDI (Outward) in Indian perspective An Analysis: Post Demonetization Period in the Journal of Accounting & Marketing.

Hence, the advantage of corporate profits is not getting the employees; while those employees are buy expensive things in the market. The people in any country would only pay money until they are confident on the government. There may also be a reduction in NRI deposits. With a 15 per cent decline since May, the rupee has reached the lowest level

against the US dollar. Investors moving back to the US Federal Reserve's stimulus package are likely to pull money back from emerging markets like India.

It also relieves the domestic traders that were facing stiff competition from cheap imports. But this benefit is limited. Khan & Faisal (May, 2018) in their research paper titled "Foreign Direct Investment (Influx) from different nations and its impact on Economic Development in India: - A detailed study in Service sector and its contribution in overall economic development", in International Journal of Scientific and Research Publications, clearly mentioned various development and growth of many sectors in the context of Influx FDI in Indian context. They also added that how FDI is encouraged in emerging economies such as India and in short they also focused an importance as well relevance of currency valuation.

In another research paper Faisal (2015) in his paper titled Valuation of Currency and Its Impact on Investment: A Study in the Context of Many Confounding Factors, published in International Journal of Management and Commerce Innovations about several aspects of confounding factors affecting valuation of Indian currency against base currency US Dollar.

As per IMF report about current Indian economy state that record deficit was a record last year where India's current account deficit reached a level of 6.5 per cent against GDP. Likewise, the current account deficit during the fiscal year ended March 31st to about five per cent against GDP. According to the IMF, this is a sign of alarming situation if the current account deficit mentioned in balance of payment of a country reaches a level of six per cent against GDP. The challenges for India are very difficult, as there is much more to it. There is a drop-off in the market adversely.

Historical Indian Currency Movement in the month of October, 2018

US Dollar	Indian Rupee	Analysis
1 USD	73.4657 INR	USD INR rate for 16/10/2018
1 USD	73.7677 INR	USD INR rate for 15/10/2018
1 USD	73.6879 INR	USD INR rate for 14/10/2018
1 USD	73.6859 INR	USD INR rate for 13/10/2018
1 USD	73.6859 INR	USD INR rate for 12/10/2018
1 USD	74.049 INR	USD INR rate for 11/10/2018
1 USD	74.249 INR	USD INR rate for 10/10/2018
1 USD	74.3407 INR	USD INR rate for 09/10/2018
1 USD	73.8812 INR	USD INR rate for 08/10/2018
1 USD	73.8906 INR	USD INR rate for 07/10/2018
1 USD	74.09 INR	USD INR rate for 06/10/2018
1 USD	74.0999 INR	USD INR rate for 05/10/2018
1 USD	73.6298 INR	USD INR rate for 04/10/2018
1 USD	73.3476 INR	USD INR rate for 03/10/2018
1 USD	72.924 INR	USD INR rate for 02/10/2018
1 USD	73.3672 INR	USD INR rate for 01/10/2018

*Compiled by research scholars

The rupee is continuing to fall against the dollar rapidly. After beginning with the edge on Tuesday, the Bucks have made a new record of the fall and most likely to fall in next phase of economy if corrective measures are not taken in order to improve economy. Today as on 17th Oct, 2018 the rupee has reached a level of 73.47 against a dollar. And as a result foreign investors (FIIs) are constantly showing the effect of withdrawing money. It is the first time that when the rupee has received sharp declines in this level that further see no chance of improvements.

The Value of USD to INR since 1947 till 2018

Let's take a look that what was the highest or lowest values of 1 USD to INR during each year since 1947. Our very hard analysis has brought in detailed content as mentioned below.

YEAR	1 USD TO INR	YEAR	1 USD TO INR
1913	0.09	1982	9.46
1925	0.1	1983	10.1
1947	1	1984	11.36
1948	3.31	1985	12.37
1949	3.67	1986	12.61
1950	4.76	1987	12.96
1951	4.76	1988	13.92
1952	4.76	1989	16.23
1953	4.76	1990	17.5
1954	4.76	1991	22.74
1955	4.76	1992	25.92
1956	4.76	1993	30.49
1957	4.76	1994	31.37
1958	4.76	1995	32.43
1959	4.76	1996	35.43
1960	4.76	1997	36.31
1961	4.76	1998	41.26
1962	4.76	1999	43.06
1963	4.76	2000	44.94
1964	4.76	2001	47.19
1965	4.76	2002	48.61
1966	6.36	2003	46.58
1967	7.50	2004	45.32
1968	7.50	2005	44.1
1969	7.50	2006	45.31
1970	7.50	2007	41.35
1971	7.49	2008	43.51
1972	7.59	2009	48.41
1973	7.74	2010	45.73
1974	8.10	2011	46.67
1975	8.38	2012	53.44
1976	8.96	2013	56.57
1977	8.74	2014	62.33
1978	8.19	2015	62.97
1979	8.13	2016	66.46
1980	7.86	2017	67.79
1981	8.66	2018	70.09

Source: bookmforex.com

In the aforesaid figures obtained during our analysis we have surprisingly noticed and found that an Indian Rupee have remarkably come down since 1947 as it used to be equivalent to United States Dollar then.

But we have found it partially true because during that period of time India was ruled by British and there were no external commercial borrowings and more of that INR was pegged to BP i.e. British Pound, that is in statistics we see there was parity of INR vs USD but practically it was not the case till year 1966 post independence and Indian became totally free country to trade with different nations worldwide.

History witnessed that India became a republic free nation in 1950 as the constitution of India came into existence and India introduced its first five year plan and we saw at that time 1 USD was equal to 4.16 INR , the devaluation or depreciation started showing statistically recorded in free India.

Since then we have been noticing sometimes there is an appreciation and sometimes depreciation in the Indian Currency worldwide. And many theories and logics given by so many economists and research scholars in their piece of works.

Currency valuation and Big Mac Index or PPP:-

As per theory and concepts introduced by The Economist in 1986, specifically describing Purchasing Power Parity (PPP) of different nations worldwide.

Big Mac was named as a base price of Mc Donald's burger. BMI in theory as mentioned by I. Haidar (2011) explains statistics about undervalued and overvalued currencies, related to their exchange rate differentials. But comparing BMI of different parts of world have some issues and hurdles, like first we have noted that the food regulations vary in different countries especially in Europe and more specifically in Switzerland as cost of supplies in production of Big Mac is higher than USA because of strict food regulations.

Therefore it is false idea to value currencies of different nations on the basis of Law of One Price i. e. PPP.

Depreciation or under-valuation of INR in the context of BMI/PPP:-

In such classical example we try to explore various aspects of over-valuation (if found in BMI index-2018) as well as under-valuation of Indian Rupees in below mentioned case study-

A McDonald's Big Mac costs INR 180 (including GST) in India's city Lucknow as in October, 2018, and if present exchange rates are considered then it would be around

\$ 2.44 (as on 21st Oct, 2018) in Indian market. And the same Big Mac's price in USA is found to be around \$5.5, while comparing these two prices in the same product the differential \$ 3.06 makes Indian currency de-valued.

Furthermore BMI is known on the basis of Law of One Price, Purchasing Power Parity (PPP) and INR 180 could buy as much Big Mac as \$2.44 after converting INR 180 into dollar , but \$ 2.44 could not buy the same product Big Mac in New York city USA because there one has to pay \$ 5.5 to buy it.

Thus it is a violation of Purchasing Power Parity (PPP) or Law of One Price. We have noticed in aforesaid case study that there is other confounding multiple factors too that determines over-valuation as well as under-valuation of currencies of different nations.

This is an actual case in the present context of Indian economy as INR is depreciated or devalued by approximately 55.49 %. Hence INR should be showing worth INR 32.72 approximately instead of INR 73.52 as on (21st Oct. 2018).

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