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A STUDY ON DECREASING TREND OF INDIAN RUPEE

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ABSTRACT

The volatility of the rupee has recently emerged as a hot issue of discussion in the Indian economy. The decline in the value of the rupee in contrast to the dollar over the course of the past few months has had a stronger impact on the economy. The value of the Indian Rupee has decreased quite significantly in comparison to the United States Dollar, which poses a significant threat to the Indian economy. The value of the rupee needs to be protected, thus Indians should take preventative steps. This article discusses the factors that have contributed to the fall in the value of the rupee, as well as the effects that this phenomenon is having on the economy of India. Which government ought to take specific steps in order to safeguard the value of the rupee. The value of the rupee has been declining as a direct result of the impact of imports. This article provides an in-depth investigation into the phenomenon surrounding the depreciation of the rupee's value. According to the findings of the study, the value of one unit of Indian currency relative to another unit of Indian currency during the Post-liberalization period saw a significant amount of depreciation, which also had an effect on the economy of India. Consequently, in order for the government of India to take the required steps in order to adopt new economic policies and change this circumstance. The topic of why India's currency is growing weaker in comparison to other currencies, particularly the United States dollar, is a logical one to ask given the present state of affairs, and it is important to note that the answer to this question is not straightforward. This study subject was selected with the goals of discovering the causes for the recent drop in value of the currency of India, as well as gaining an understanding of the benefits and drawbacks associated with the aforementioned drop in value of the currency of India.

Keywords: *India's 'Rupee', GDP Growth, Value of the Currency.*

INTRODUCTION

There are 185 different currencies in use around the world, as reported by the International Organization for Standardization. On the other hand, the majority of these currencies are used by a number of different countries inside the country. The economic strength and political influence of a nation have a direct bearing on how widely used that nation's currency is around the globe. The United States dollar is widely accepted across the world. Both the dollar and the euro are used extensively in international trade due to their widespread acceptance. The United States dollar is now widely used across the world. Both Euros and Dollars are widely used and accepted across the world's financial markets. The United States dollar makes up 64 percent of the foreign currency reserves that are kept by central banks across the world. Under these circumstances, the dollar itself would be considered a global currency. The strength of the American economy is often represented by the dominance of the dollar, which is a worldwide currency. The United States Dollar is the most powerful currency in the world, followed by the Euro, which is the second most powerful currency in the world. It should come as no surprise that the rise in value of the dollar and its widespread acceptance reflect the robust state of the American economy. The United States accounts for only 35% of all dollar transactions worldwide. The dollar is involved in 85 percent of all trade that takes place across the world. Therefore, in order to participate in international commerce, foreign banks require dollar currency.

The Bretton Woods Agreement, which took effect in 1944, was the impetus for the beginning of the present strengthening of the dollar. Prior to this, the majority of nations believed that gold was the sole acceptable standard. The governments of those nations used to maintain that the demand for gold would serve as the primary factor in determining the value of their currencies. When the United States held the highest gold reserves in the world. The world's industrialised nations signed on to the Bretton Woods agreement in New Hampshire, which established standard exchange rates for all currencies compared to the value of the US dollar. The accord also gave other countries the ability to back their own currencies with something other than gold. At the beginning of the 1970s, in an effort to combat inflation, a number of nations began to demand gold in exchange for the dollar. In those days, President Nixon severed ties between the dollar and gold, and he did so in order to prevent Fort Knox from selling off all of its holdings. At that point in time, the dollar had already established itself as the most powerful currency in the world.

The adoption of a floating exchange rate by a number of large nations has led to fluctuations in the value of their respective currencies. The rate at which the currency of one nation may be exchanged for the currency of another nation is referred to as the exchange rate. In certain circles, it is also referred to as the foreign exchange rate or the forex rate. There are two distinct kinds of exchange rates: a fixed exchange rate and a foreign exchange rate. A fixed exchange rate is the more common of the two. The term "fixed rate" refers to a rate that does not vary over time and is not affected by interventions from the government, whereas "variable rate" refers to a rate that continually alters the value of currency in the same way as the share market does. The government will only step in when there has been an excessive amount of change in the value of the currency or when the circumstances so require. Up until the year 1973, India had a fixed exchange rate; however, beginning in 1973, India began to also utilise the floating exchange rate system. As a result of the floating exchange rate mechanism, the value of the Indian rupee is continually subject to fluctuation. During the 2018 fiscal year, the value of the Indian rupee fell by around 16%, resulting in it reaching its all-time low of rs.74.39 per dollar. The trade war between the United States and China, in which the United States has imposed massive tariffs on the export items of China totaling around $300 billion, is widely considered to be the primary reason for the drop in the value of the rupee. The value of the rupee is also affected in a variety of different ways by a number of other variables. The deterioration in the value of the currency has been met with a variety of responses from financial experts; some of these responses indicate a good influence on the economy, while others indicate a negative impact of currency on the economy. In this article, an attempt is made to discover the explanation for the depreciation in the value of the rupee as well as various steps that may be taken to restrict or prevent it.

The reasons behind the decline of the Indian Rupee

The Indian Rupee just broke beyond the psychological barrier of Rs50 to $1, the US currency. The value of the currency has significantly decreased, both in nominal and real terms, particularly when compared to the US dollar and the Japanese yen. A little over a year ago, the Indian Rupee could be exchanged for just 39.26 cents in US currency. What factors have contributed to the precipitous fall in the INR's value?

During the most recent few months, movements in currencies with low interest rates, such as the JPY1, and currencies with high interest rates, such as the AUD, have been subjected to a significant amount of carry trading. Concerning the INR, the data is not as upbeat as it was previously thought.

The unexpected strength of the USD in comparison to a basket of six major currencies, which is known as the USD index, the widening of the country's trade deficit, and the significantly lower flow of external commercial borrowings (ECBs) by Indian corporate houses are some of the factors that have contributed to the depreciation of the INR. Other factors include the outflow of foreign institutional investments (FIIs) from the Indian market.

Over the course of the last three months, the USD index has seen a growth of 17%. Despite rising credit and other economic woes in the world's largest economy, money is flocking to the United States in search of a safe haven as the global financial crisis expands to developing economies. This occurs despite the fact that the United States is the world's largest economy.

In addition, there is a negative correlation between the price of oil and the US Dollar. There has been a significant decrease in the price of oil and other commodities due to the fact that the developed world is now experiencing a recession and the majority of emerging nations are placing an emphasis on inflation control rather than growth.

The devaluation of the Indian Rupee: Consequences

A currency's movement in either the northbound or southbound direction is a typical occurrence in an economy like India's, which is highly connected with the commerce and finance of the rest of the world.

In addition, the RBI operates under a policy of controlled float for the currency rate. However, the rate of appreciation or depreciation of the INR is the primary source of concern for the many stakeholders in the economy. Exporters and importers who do not have sufficient time to hedge against currency risk are negatively impacted whenever there is extreme volatility in the currency market. During example, one study found that between the years 2004-2008, 96 out of 124 industry indexes had symptoms of a bet on the INR's appreciation. This was the case for the period of time included in the study.

The devaluation of the Indian rupee (INR) might, in theory, be beneficial to India's export industry while simultaneously discouraging imports. Those who have taken out loans in a foreign currency, whether they be personal loans (for things like education) or business loans, might anticipate experiencing negative effects.

Last year, when the Indian Rupee (INR) strengthened significantly, there was a lot of uproar among Indian exporters. This was because they were concerned that the appreciation of their country's currency may reduce India's competitiveness in the export market. It is anticipated that Indian exporters would endure negative pricing and revenue shocks as the global financial crisis continues to spread around the world. The devaluation of the INR comes as a much-appreciated release for them. However, the magnitude of the gains gained by a currency's decline in value in actual terms is a critical factor to consider. For example, the real effective exchange rate (REER), which is the actual measure of the rise and fall in a country's currency and is calculated by adjusting the nominal effective exchange rate (NEER) for inflation differentials with the countries whose currencies are included in the basket vis-à-vis the domestic currency, is the real effective exchange rate. This rate is calculated by adjusting the nominal effective exchange rate (NEER) for inflation differentials with the countries whose currencies are included in the basket.

OBJECTIVES

1. To gain an understanding of the factors that have contributed to the depreciation of the Indian rupee and how this has impacted the economy of India.

2. To have an understanding of the factors that contribute to the falling value of the rupee

RESEARCH DESIGN

Sources of Data: The study only used secondary data that was acquired specifically for it. The data that were necessary for the study were gathered and prepared from the RBI Website and Bulletin, and the scope of the study extends over a period of 44 years, beginning in 1969-1970 and ending in 2012-2013. In addition, the remaining necessary data were gathered from a wide variety of publications, such as journals and periodicals.

Framework of Analysis: The data that were obtained have been analysed with the assistance of various statistical techniques. Specifically, the Mean, the Standard Deviation (SD), the Coefficient of Variation (CV), the Compound Annual Growth Rate (CAGR), the Correlation, and the Paired "t" Statistics Analysis.

Hypotheses: The following hypotheses have been framed in the present paper:

H01: There is no substantial correlation between the rise in the value of the Indian rupee before and after the liberalisation of its economy.

H02: There is no substantial association between the exchange rate and the variables that affect the macro economy.

RESULTS AND DISCUSSIONS

The conclusions of this article are provided in two main sections: I Growth of Exchange Rate in Indian Rupee and (ii) Macro-Economic Factors Compare with the Exchange Rate. These portions are as follows: I Growth of Exchange Rate in Indian Rupee.

Part-I: Growth of Exchange Rate in Indian Rupee

This section's primary focus is on analysing the growth of the exchange rate between the Indian rupee and the United States dollar during both the pre-liberalization period of 1969–1970–1990–1991 and the post-liberalization period of 1991–1992–2012–2013.

Table-1 Comparison of the Pre-Liberalization and Post-Liberalization Growth in the Exchange Rate of the Indian Rupee Against the United States Dollar from 1969–1970 to 2012–2013.

(Per Rupee value)

Pre-Liberalization from 1969-1970 to 1990-1991			**Post-Liberalization from 1991-1992 to 1912-1913**		
Year	**US Dollar**	**CAGR**	**Year**	**US Dollar**	**CAGR**
2005-06	7.57	-	2004-05	25.92	0.01
2006-07	7.52	0.00	2005-06	31.44	0.01
2007-08	7.56	0.00	2006-07	31.37	0.00
2008-09	7.67	0.00	2007-08	32.42	0.00

2009-10	8.04	0.01
2010-11	8.41	0.00
2011-12	9.00	0.01
2012-13	8.76	0.00
2013-14	8.21	0.00
2014-15	8.15	0.00
2015-16	7.88	-0.01
2016-17	8.69	0.01
2017-18	9.49	0.01
2018-19	10.14	0.01
2019-2020	11.37	0.01
Mean	**10.76**	
SD	**3.95**	
CV	**0.37**	
CAGR	**0.05**	

2008-09	35.43	0.00
2009-10	36.32	0.00
2010-11	41.27	0.01
2011-12	43.06	0.00
2012-13	44.94	0.00
2013-14	47.19	0.00
2014-15	48.60	0.00
2015-16	46.58	0.00
2016-17	45.32	0.00
2017-18	44.10	0.00
2018-2019	45.31	0.00
Mean	**42.59**	
SD	**7.74**	
CV	**0.18**	
CAGR	**0.04**	

Source: *Compiled and Calculated From RBI Report.*

According to Table-1, it was noted that the rise of exchange rate in Indian rupee Vs the US Dollar of Pre-Liberalization from 1969-1970 to 1990-1991 and Post-Liberalization from 1991-1992 to 2012-2013. These years span from 1969-1970 to 1990-1991 and from 1991-1992 to 2012-2013, respectively. The oscillating tendency can be seen in the rise of the Indian rupee when compared to the growth of the US dollar during the research period. The statistics demonstrate that there was an increase in the value of the Indian rupee relative to the US dollar from the research period of 1969–1970 to 1990–1991, which was prior to the implementation of liberalisation. It was because of the efficient market power, there was no rivalry from huge merchants, and the Balance of Payment (BOP) was able to face the expanding trend. These are all reasons why the value of the currency increased proportionally to the dollar. The period from 1997–1998 to 2003–2004 in Indian currency and 1991–1992 to 2001–2002 in US Dollars had the highest rupee value but the lowest growth. Because of improper irregular activities of Balance of Payment, dominance of Multinational Companies, inability to foresee and uncontrolled elements of inflation in domestic product, and slow development of GDP growth in India, this occurred. All of these are examples of how the value of the Indian rupee has decreased in comparison to the US dollar since liberalisation took place.

Table 2 Paired t-Test for Pre and Post Liberalization of Exchange Rate of the Indian Rupee Vs the US Dollar from 1969-1970 to 1990-1991 and 1991-1992 to 2012-2013

Variables	Mean ± S.D Pre-Liberalization	Mean ± S.D Post -Liberalization	Mean Diff.	Std. Deviation	Std. Error Mean	't' ratio
Indian Rupee per 1 US $ Exchange Rate	10.76 ± 3.95	42.56 ± 7.74	-31.83	5.67	1.21	-26.35*

*** Significant at 5 Per cent Level.**

It is clear from looking at table 3 that the pre-liberalization and post-liberalization exchange rates of the Indian rupee vs the US dollar from 1969–1970 to 1990–1991 and 1991–1992 to 2012–2013 are significantly different. At a significance level of 5%, the value that was computed is lower than 0.05. As a result, the hypothesis cannot be supported. Therefore, there is a substantial correlation between the rise of the Indian rupee before and after the time of liberalisation.

Part-II: Macro-Economic Factors Compare with the Exchange Rate

The various Macro-Economic factors compare with the exchange rate from 1990- 1991 to 2012-2013 is presented in table-3.

Table-3 Various Macro-Economic Factors Compare with the Exchange Rate from 1990-1991 to 2012-2013 (Rs. In Millions)

Year	Exchange Rate	Inflation	Interest Rate (Lending Rate)	External Debt (Current US Dollar)	GDP	FDI
1990-91	22.3	13.9	17.9	86.86	3.1	74
1991-92	255.9	11.8	18.9	89.66	3.9	277
1992-93	30.35	6.4	16.3	93.06	4.1	550
1993-94	31.37	10.2	14.8	99.61	4.6	973
1994-95	32.36	10.2	15.5	95.17	4.7	2144
1995-96	35.42	9.0	16.0	94.91	5.3	2426

1996-97	36.42	7.2	13.8	94.7	6.4	3577
1997-98	41.2	13.2	13.5	98.77	7.7	2635
1998-99	43.05	4.7	12.5	99.13	7.5	2169
1999-00	44.91	4.0	12.3	100.24	7.59	3584
2000-01	47.18	3.7	12.11	98.64	4.3	5472
2001-02	48.63	4.4	11.9	104.82	5.52	5626
2002-03	46.56	3.8	11.15	117.87	3.99	4323
2003-04	45.3	3.8	10.9	122.59	8.06	5771
2004-05	44.09	4.2	10.8	120.22	6.97	7606
2005-06	45.29	6.1	11.12	158.5	9.48	20336
2006-07	41.27	6.4	13.0	202.93	9.57	25483
2007-08	43.24	8.4	13.3	225.99	9.32	43406
2008-09	48.36	10.9	12.2	249.99	6.72	35596
2009-10	42.6	12.0	10.2	290.28	8.59	24159
2010-11	73.64	8.87	10.17	260935	9.32	1107.6
2011-12	81.79	9.3	10.06	305861	6.21	499.18
2012-13	81.48	11.14	11.0	345498	4.96	1406.25
Mean	**54.90**	**7.98**	**13.02**	**39779.91**	**6.43**	**8660.87**
SD	**46.24**	**3.31**	**2.50**	**105445.20**	**2.04**	**12240.95**
CV	**0.84**	**0.41**	**0.19**	**2.65**	**0.32**	**1.41**

Source: Compiled and Calculated From RBI Report.

The results of a comparison of the major macroeconomic parameters with the exchange rate are presented in Table 3, which covers the years 1990-1991 through 2012-2013. During the course of the research, there was an increase in value for the average exchange rate. The reason for this is that India now has a positive Balance of Payments. When compared to the current rate of currency in 2012-2013, which is Rs. 81.48, the rate of exchange in 1990-1991 was the lowest at Rs. 22.3. The overall tendency of fluctuation may be seen in the average inflation rate during the course of the research. When compared to the rate of inflation of 3.7 percent in 2000-2001, the rate of inflation in 1997-1998 was 13.9%. This was because India's GDP growth had been on a downward trend recently. During the course of the research, there was a discernible pattern of fluctuation in the average interest rate. When compared to the interest rate of 10.06 percent in 2011-2012, the interest rate from 1991-1992 had the highest rate ever recorded at 18.9 percent. It was owing to maintaining unfavourable lending standards, which included excessive loan amounts to both businesses and individuals, as well as less stringent cash reserve ratio maintenance (CRR).

During the course of the investigation, there was a discernible upward trend in the average level of foreign debt. The year 1990-1991 saw the lowest level of external debt at 86.86 million dollars. In the 2012-2013 fiscal year, the largest external debt climbed by $ 3,454,98 million. It was owing to a reduction in the return on foreign investments as well as an increase in the amount of exports over imports. The varying tendency may be seen in the average growth rate of GDP over the time period under consideration. The most significant increase in GDP was in 2006-2007, when it was 9.57 percent. The most recent period with the lowest GDP growth was 1990-1991, when it was only 3.1%. During the course of the study, there was a pattern of fluctuation in the average rate of FDI. When compared to the investment of $ 74 million made at the beginning of the period, India had the world's biggest investment of $43,406 million in the 2007-2008 fiscal year. It has been discovered that India has been using an outdated market system and has not modernised its infrastructural facilities in comparison to other emerging countries.

Table 4 Analysis of the Correlation between Several Macroeconomic Factors and the Exchange Rate from 1990-1991 to 2012-2013

H02: There is no substantial association between the exchange rate and the variables that affect the macro economy.

Macro- Economic Factors	**Exchange Rate**	**Inflation**	**Interest Rate**	**External Debt**	**GDP**	**FDI**
Exchange Rate	1					
Inflation	0.234	1				
Interest Rate	-0.484*	0.414*	1			
External Debt	0.508*	0.225	-0.405	1		
GDP	-0.185	-0.167	-0.567**	0.038	1	
FDI	-0.161	0.035	-0.240	-0.245	0.575**	1

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

The results of an investigation of the link between key macroeconomic indicators and the exchange rate are presented in Table 4, which covers the years 1990-1991 through 2012-2013. There was found to be a positive association between external debt and exchange rate (.508), foreign direct investment and GDP

(.575). Both the negative correlation between GDP and interest rates (.567) and the negative correlation between interest rates and exchange rates (.484) were found to be significant at the 5 and 1 percent levels. There was found to be a positive association between interest rate and inflation (.414), which is significant at the level of 5%.

CONCLUSION

This research provides a fundamental knowledge of the phrase "rupee fluctuation" as well as the impact that changes in the value of the rupee have on the economy of India. It takes some time to get the situation back to how it was before the rupee's appreciation or depreciation since there are a variety of distinct factors, both internal and external, that might cause either of those outcomes. The weakening of the rupee's value should serve as a cautionary flag for the Indian economy. All aspects of the economy are impacted when there is a decline in the value of the rupee. Hidden inflation exists as a consequence of the devaluation of the rupee, which contributes to a slowdown in the expansion of the economy. The government of India ought to adopt measures to attract foreign investment to a greater extent and for the long run rather than only in the short term. Instead of pointing the finger at one another and attempting to salvage the rupee individually, the Reserve Bank of India (RBI) and the government should work together. The focus of the administration should be on addressing the basic issues facing the economy. Additionally, all of the country's political parties have to work together in order to rescue the rupee and restore investors' trust. In order to bring the current account deficit down to a more manageable level, efforts should be made to both lessen the amount of goods imported and increase the number of goods exported. To ensure that the value of the rupee does not continue to fall, the government has been adopting several various sorts of proactive initiatives. However, because of various challenging situations and difficult conditions, it is not feasible to exercise any control over the value of the rupee. The government is not even making any effort to raise public knowledge in an effort to manage the value of the rupee. Therefore, in order for the government of India to take the required steps in order to implement new economic policy in order to change this circumstance.

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