

Depreciation In The Value Of Rupee-its Causes, Impact And Remedy

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ABSTRACT

The Indian Rupee value has been depreciated very considerably against the US Dollar making considerable risk to the Indian economy. Indian should take preventive measures to protect the rupee value. From past many decades around 1973 until 2013, there are considerable changes in the value of Rupee .In the year the rupee value against US dollar is 52.84.The fall of the rupee value in the month of June 11, 2013 it is 59 .The fall of the rupee value will have consequences in the Indian economy. After the introduction of LPG policies in the year of 1991 there are numerous changes in the Indian economy. This paper explains about what are the causes of depreciation of the rupee value, and how it is impacting on Indian economy. What government should take certain measures to protect the rupee value. How imports have been impacting on to devalue the rupee value. This paper is comprehensive phenomena to study rupee depreciation of rupee value.

Keywords:

Rupee Value, Depreciation in the value of Rupee, Indian Rupee, Rupee Value Depreciation

OBJECTIVES

To Know the Trend of the Rupee Value Against US Dollar
To have an Idea about what is Rupee Depreciation
To Understand the Real Implication of the Rupee
To know the causes of Depreciation and what Government should take certain measures to overcome depreciation of Rupee Value.

INTRODUCTION

Depreciation means a fall in the value of domestic currency in terms of foreign currency. If this is what happened the value of the rupee decreased. For example in the year 2011 if the value of the rupee is 52 Rupees. Now in the year of 2013 if it is around 64 Rupees. This is the condition, we call it as rupee value decreased. The Value of Dollar is increased. When you pose a question. How it is impacting on economy means, the cost of dollar will increase, consequently the import goods and its value also increase, consequently the value of the dollar increase, for same goods we have to pay more money to import. This is where the balance of payment problem will arise.

EFFECTS OF DEPRECIATION

- 1.Trade deficit will widen because of costlier of imports, worsening the current account deficit.
- 2.Capital inflow will slow or reverse.

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- 3.Global rating agencies will revise our rating downwards to “junk” status, making international borrowing difficult and even more expensive
- 4.In case of weak demand companies may not be able to pass on higher inputs costs.
- 5.The Indian stock-market will take a hiding as opposed to a beating.
- 6.There may be a situation of balance of payment problems will come in to the picture.
- 7.The Necessary and importing products and its price may go up. Consequently the indebttness would gradually increase.
- 8.There may be balance of payment problems
- 9.There may be a condition for Inflation
- 10.There may be a condition for Deflation
- 11.It may be difficult for formulation of Monitory policy and Fiscal Policy.
- 12.The entire economy may move in difficulties.

HISTORICAL PURSPECTIVE ABOUT HOW RUPEE VALUE IS DEPRICIATED AGAINEST US \$

7.5 JUNE 6, 1966	Rupee is devalued from Rs 4.76 for a dollar to Rs 7.50 a dollar	9.1 JAN 1, 1982	Export Import Bank of India established
7.5 AUG 15, 1971	Convertibility of USD suspended, End of Bretton Woods System	23.1 JUL 1 & 3, 1991	Rupee devalued in two stages
7.8 1973	Oil shock, oil prices quadrupled, double digit inflation, global recession	28.7 MAR 1992	Dual exchange rate system (LERMS) introduced
8.2 JAN 1, 1974	Foreign Exchange Regulation Act, 1973 comes into force	31.2 1993	Unified exchange rate comes into practice
8.1 DEC 9, 1974	Asian Clearing Union (ACU) established to facilitate payments	31.4 AUG 1994	Rupee made convertible on the current account
8.9 SEP 25, 1975	Exchange value of rupee linked to a basket of selected currencies	38.9 NOV 28, 1997	A series of measures introduced in response to the Asian currency crisis
8.7 NOV 1, 1975	Foreign currency (non resident) account scheme introduced to encourage private remittances from abroad	39.8 MAY 11, 1998	Pokhran blasts, international sanctions
8.9 APRIL 1977	A new series of money supply introduced	44.7 JUN 2000	Foreign Exchange Management Act, 1999 replaces FERA
8.4 JUNE 3, 1978	RBI Act amended for more effective utilization of foreign exchange reserves	47.4 SEP 11, 2001	Terrorist attacks in the US, market sentiment hit
7.9 JAN 17, 1980	International gold prices soar to all time highs	46.1 SEP 15, 2008	Lehman Brothers filed for bankruptcy protection, recession follows
8.2 1981	Inflationary pressures, adverse movement in foreign trade, hike in oil prices	59.0 JUN 11, 2013	Rupee tumbles to all time low

Exchange rate on the day of event or the nearest date. Where there is no fixed date, the rate is

Source: The Times of India, New Delhi dated 14th June 2013

Historically the rupee value is decreased from June 1966 to June 11, 2013 the value of the rupee is showing decreasing trend. In the month of June 11, 2013 the rupee tumbles to all time low. In the year of Sep, 2008 Lehman brothers field for bankruptcy protection, recession follows. In the year of 2000 foreign exchange management Act, 1999 replaces FERA. Pokhran blasts, international sanctions. From the above results explains about how the rupee value is depreciated from 1966 to 2013.

GOVERNMENT STEPES AGAINST DEVALUATION OF RUPEE

IMPOSED QUANTITATIVE RESTRICTIONS

The government used the method of Quantitative Restrictions with varying levels of

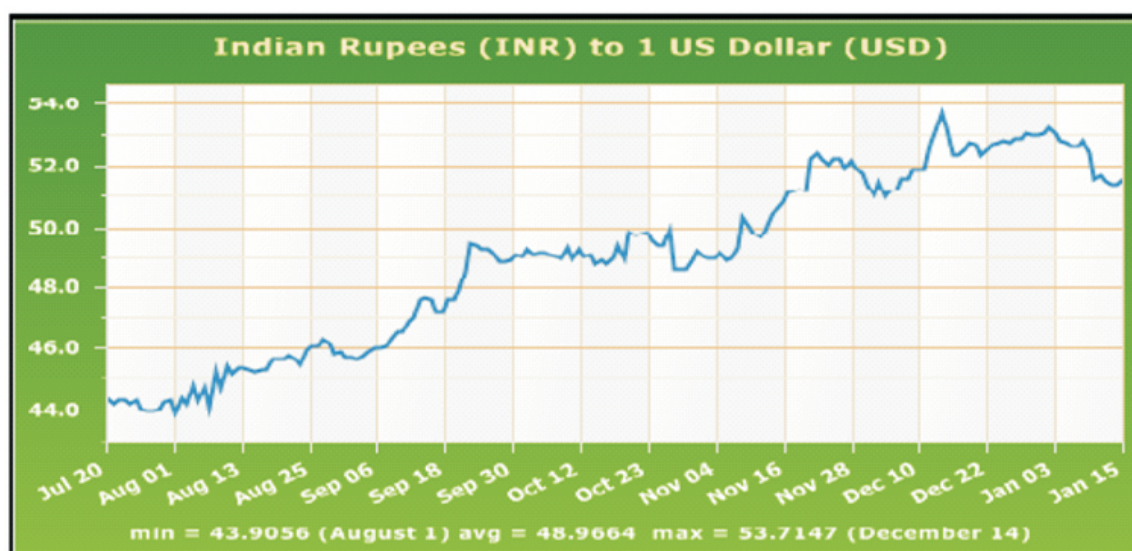
severity until the import-export policy of 1985-1988. Periodically, when import prices reached a premium, the government would impose import tariffs in order to absorb the gains accruing to foreign exporters as a result of Indian's Import.

PROVIDE EXPORT SUBSIDIES

Government began to subsidize exports in an effort to further narrow its consistent current account.

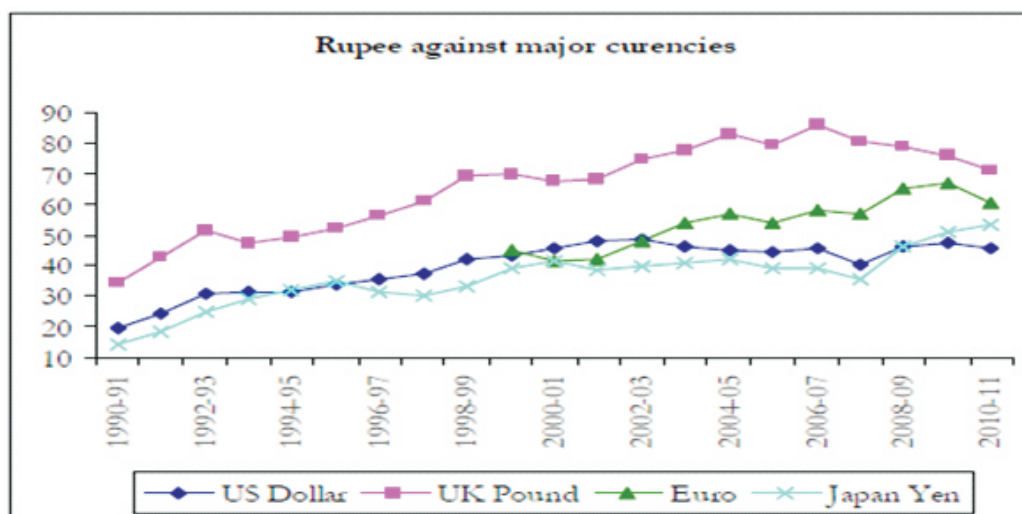
It was around 43.96 against a dollar in the July end and now for \$1 it is Rupees 53.71.

Here it a Graph showing the exchange rate fluctuation between Rupee and US \$



(Sources: www.exchange-rates.org)

The above graph explains about how rupee value depreciated from July 20 to up to December 14. In the month of August it is around 43.90 and it has been depreciated more on an average of 48.96 rupees in the month of August and in the month of December it is around 57.71 and in the year of 2013 it has been depreciated to all most to most in the entire economy of the India from the year of 1966 to 2013. The value of the rupee is depreciated more. The impact of rupee depreciation is high in Indian economy. The cause comes from crude oil and its prices.



Source: RBI

Even some major currencies like US Dollars and UK pounds and Euros and Japan Yen also showing some major fluctuations in the currency which effects more on Indian rupee. The Indian rupee fluctuated more specifically in the year of 2013. This trend explains about the imports from other countries is becoming tough.

INDIAN RUPEE AND ITS EXCHANGE RATE HISTORICALLY.

1950 – 4.79 Indian rupee to 1 American dollar
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 1960 – 4.77 Indian rupee to 1 American dollar
 1965 – 4.78 Indian rupee to 1 American dollar
 1970 – 7.56 Indian rupee to 1 American dollar
 1975 – 8.39 Indian rupee to 1 American dollar
 1980 – 7.86 Indian rupee to 1 American dollar
 1985 – 12.36 Indian rupee to 1 American dollar
 1990 – 17.50 Indian rupee to 1 American dollar
 1995 – 32.42 Indian rupee to 1 American dollar
 2000 – 44.94 Indian rupee to 1 American dollar
 2005 – 44.09 Indian rupee to 1 American dollar
 2010 – 44 to 50 Indian rupees to 1 American Dollar.

EFFECTS OF EXCHANGE RATES ON EXPORTS AND IMPORTS

A beautiful example and literature has been extracted from an article which is given by Vivek Kumar Tiwari and Neha Raitani, they explained when rupee value depreciated how it is impacting on Indian exports and imports “Suppose US company wants to buy Indian textile and suppose one T-Shirt costs Rs. 120 and exchange rate is Rs. 50/\$. So for American company the cost of T-Shirt is \$2.4. Now, if rupee depreciates to Rs. 60/\$ the price of T-shirt becomes \$2 only. This will make Indian T-shirt cheaper to buy and will increase its demand. Companies who were importing from other nations (may be China or Bangladesh) might shift to India and Indian exports will increase.

Consider the opposite scenario. Rupee appreciates to Rs. 40/\$ making the cost of one T-shirt \$3. This will repel US importers and might drive them to other rival exporters whose garments are cheaper. Thus, depreciating currency helps exports while appreciating currency has opposite effect.

Similarly if India imports \$ 1000 iPad from US, at exchange rate of Rs. 60, it will cost Rs. 60000. If currency appreciates to Rs. 50/\$ the price will reduce by Rs. 10000. This might encourage many new people to buy iPad which earlier thought it to be too expensive. Thus, the demand for imported products will increase in appreciating currency and will drive imports upward. Depreciating currency will have opposite effect.

From the above explanation it is clear that when the rupee value depreciated the cost of imports would gradually increase and it might lead to balance of payment problems to economy. Which is weakening the economy in all aspects. Especially the crude oil imports also becoming very hectic to Indian economy. Because, when certain necessary articles imports from foreign countries, we have to pay currency in terms of host currency. This is becoming very hectic to Indian economy.

CONCLUSION

Government has been taking many different kinds of forward steps to control the rupee value not to decrease. But, due to some tough circumstances and tough conditions the control of the rupee value is not possible. Government is not even taking any awareness measurement to control the rupee value. The demand for the gold also, will be in considerable manner. Government should take long term reforms to control the value of rupee. For successful implementation of these reforms there might be strong pressure from all sources. When government implements certain strong regulations then automatically the economy will move in a positive direction. We would like to thank all Authors who have helped me to write an article in the issue of the devaluation of rupee value. We would like to thank all my professors for clarifying doubts to write this article and move in successful direction. Thanks

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