

# Rupee rampage essay



**ASSIGN  
BUSTER**

The Indian rupee is the only tender in India, and is also accepted in the neighboring Nepal, Bhutan, both of which peg their currency to that of Indian rupee. The RBI started producing notes in the year 1938.

At present RBI controls the issuance and management of currency of India. The rupee is divided into 100 paise. On each bank note, the amount is written in 17 different languages of India. Indian economy background Indian's economic journey from an underprivileged country to an emerging global economy is an inspiring example for many developing nations.

In order to understand Indian's economic journey, it is essential to shed some light on Indian's political and economic history. After independence India faced a number of issues including a shattered economy, a minimal rate of literacy and horrific poverty.

Indian economy came to notice only after 1991 reforms; Prime Minister Mahatma Gandhi took steps towards liberalizing and privatization to reform Indian's economy. Manmohan Singh, who was the finance minister at that time went forward and introduced several economic reforms.

The combination of foreign direct investment and expertise in information technology helped produce thousands of new jobs and created a growing middle class that in turn created increased domestic consumption and that resulted, again, in more foreign direct investments to meet the demand of Indian consumers. Presently the developing country; India is facing a lot of problems with regard to inflation, current account deficit, falling of rupee. For any developed country for that matter manufacturing led growth has been

laid strong foundation for economic development but Indian economy never enjoyed manufacturing led growth.

All It had is service led growth.

So the government should promote the manufacturing sector for future economic growth, In order to reduce dependency on IT and the service Industry, and divert true Investments to the rural areas of India to decrease unemployment and Increase employment in small towns and villages.

Comparison of 4 currencies against Indian Rupee for past 5 years. 1 .

INNER/POUND panned High 105.

170 panned LOW 65. 726 2. INNER/USED 2 Period Average 49. 690 panned High 67.

7732 panned LOW 43. 8200 3. INNER/EURO Period Average 66. 6810 panned High 90. 5558 panned LOW 56. 0387 4.

INNER/JPG 3 Period Average 0. 5712 panned High 0. 178 panned LOW 0.

4097 Above mentioned data regarding rupee's performance against the foreign currencies like POUND, USED, JPG, and EURO.

It is clear from the graph that Indian rupee had errors depreciating value problem from past one year or so. There are many reasons which affected the rupee depreciation of rupee one among them is Euro Zone Crisis. Euro Zone Crisis Global slowdown due to Rezone sovereign debt crisis has impacted the Indian economy through declaration in exports, widening of trade and current account deficit, decline in capital flows, and fall in value of Indian rupee, stock market decline and lower economic growth.

<https://assignbuster.com/rupee-rampage-essay/>

Export oriented sectors and capital investment are the most affected sectors. One of the measures that the government has taken in order to stem the rupee decline is by increasing the foreign direct investment for infrastructural development. The Indian rupee depreciated at 1.

5% due to Euro zone crisis. The RBI will use its foreign exchange reserves to support the rupee in the near term as any escalation in the Euro zone problems is likely to lead to a large capital outflow and the central bank will then have to stand behind the rupee more firmly. ND may even consider controls on current account transactions in case of large outflows. What went wrong? There are number of reasons to rupee depreciation starting from poor governance, external factors, world economy developments etc.

Recently number of factors contributed to the great fall of rupee in front many foreign currencies. The government has taken many steps to contain the free fall of rupee in the past few days but has failed to do so. As result, the rupee tested all-time low of 68. 30 versus the US dollar in past week.

**Deteriorating Current Account Deficit (CAD):** The CAD is the difference between dollar outflow from exports and dollar inflow from imports.

High current account deficit is worsening all the efforts done by the government as well as RBI with regard to rupee depreciation. India's export failed to generate new destination as India achieved GDP growth of 4. 8 at the end of March 2013. There has been a deterioration, mainly on account of huge imports of gold, higher costs of crude oil imports and recently, of coal.

Weak demand in our major markets has kept our exports from growing.

Exports have been further hit by a collapse in iron ore exports. Deficient FED Inflows: Foreign direct investment is very much essential for an economy to grow. The money which comes from foreign investors boost the economy.

Indian government imposed many restrictions in opening up sectors for FED.

Recently overspent opened up many sectors for Fids but still there are some loopholes which made investors withdrew their projects from India.

Some of examples like Poss. have pulled out its project worth 30000 core steel plant project from Karakas and Reclamation scrapped its \$12 billion worth steel plant project from Odessa. The problems like land acquisition, government orders delays, clearance delays, lack of promptness are the reasons for deficient FED inflows.

Out flow of IF: The movement of IF is also one of the reason for rupee fall. Overseas investors have pulled out nearly RSI 18, 500 core (about USED 3 billion) from the Indian UAPITA markets in July, and RSI 44, 162 core (over USED 7. Billion) in the month of June. The Outflows of Ells had direct impact on rupee and have put a continuous pressure on rupee not allowing it to overcome form the lope.

Rising imports: The imports of luxury goods and the gold, crude oil which contributes mainly to the rupee fall. Gold imports have been declined thanks to government measures but the other components which is been imported contributing major to the cause. Gold contributes 10% of overall imports. The value of the rupee follows the simple demand and supply rule. Demand for the dollars may be created by the importers.

For those products they imports the importers requires more dollars to pay for their imports.

5 Economic stimulus measures by US Federal Reserve: The bond purchasing program of US Federal Reserve through Quantitative easing technique is also one of the factors for currency depreciation in Asian Countries. Due to the economic slowdown, the US Federal Reserve has announced a number of measures to 'stimulate' the American economy, which are aimed at ensuring (mostly through lowering of interest rates) that large sums of money is made available to banks for lending to American investors.

This has resulted in the strengthening of the dollar and consequently investor will withdraw investments from emerging markets like India and chases assets in US. This led to a reversal of capital flows to emerging economies which are now sharply pulling down not just the Rupee, but also the Brazilian Real, the Turkish Lira, the Indonesian Rapid, the South African Rand and many other currencies. The outflow of money from emerging markets will lead to currency weakness.

Ells pulled out nearly 550 cores stock (10 July 2013) and 900 cores in the month of June.

Poor governance: The governance plays crucial role in development of any economy ND it becomes main reason for any downfall in economy. The rupee fall is one of the outcome of the poor governance, poor implication of some policy, corruption, and delay in approvals, slow in implementing developmental projects. Presently the Indian government has lost its control over the direction of Indian economy. The projects worth RSI\$billion is

<https://assignbuster.com/rupee-rampage-essay/>

pending Ammo's approval. Problems like land acquisition, environmental clearance are making projects enviable.

The recent bill which is been passed ' Food Bill" which is going to cost \$20 billion every year again add on pressure for economic crisis. External debt: The money owed by Indian governments, companies and individuals to the entities aboard also has affected the depreciation of Indian rupee. This debt has been rising due to trade credit taken by the importers and by Indian companies Oil prices: India has to import bulk of its oil requirements to satisfy the local demand. In international market, prices of oil are quoted in dollars.

Therefore, as result when the demand for the oil increases, the demand for dollar also increases. This increase in demand for dollar weakens the rupee further.

6 Volatile domestic equity market: Indian equity market has been volatile for some time owe. So, Ell's are in dilemma whether to invest in India or not. Even though they have bought in record inflows to the country in this year there is a chance that they might be thinking of taking their money out of the equity market. Therefore decrease in supply and increase in demand of dollars results for depreciation in Indian rupee.

As per the report in Business Today the international investors in India have withdrawn to the tune of RSI.

44, 162 core during June 2013. Inflation: Another reason affecting the Indian rupee is inflation. India is experiencing very high inflation now. This will

decrease the purchasing power of rupee against these currencies. This will lead to rupee depreciation.

Impact of Rupee fall Common Man: Rupee fall directly has an adverse effect on common man with regard to increase in price in oil, FMC goods, electronic items, cars or the goods component involves imported items will become costlier.

Falling will make crude oil, fertilizers, medicines and iron ore, which India imports in large quantities, costlier. Manufacturing activity gets affected: Delicate economic conditions and downcast client demand led to strong fall in the new orders placed at Indian manufacturers. The Indian manufacturing sector deteriorated for the first time in almost four years in August (first quarter of 2013-14) according to widely-tracked HISS Purchasing Managers' Index (UP). Every industry which is dependent on imports will have to face an increase in cost of production and operations. Overseas prohibited the purchase of real estate by Indians in overseas markets.

RBI has reduced the investment ceiling on outward remittance from \$200,000 to \$75,000 a year as a short-term measure to control rupee fall. Loss to oil companies: The oil companies import the crude oil from abroad and make the payment in dollars. When rupee falls in front of dollar it will create additional cost to government, it will add more loss along with loss of subsidized sale of crude oil. The rupee's fall has resulted in under recoveries in diesel rising to ₹10.

₹2 a liter, higher than ₹9.03/liter in January despite seven price revisions and every rupee that depreciates 7% against the dollar costs state companies ₹7,900 crore year. If the dollar is estimated at ₹66 for the rest of 2013-14

<https://assignbuster.com/rupee-rampage-essay/>



fiscal, oil companies will run up an unsustainable RSI core in under-recoveries. Increase in cost and price: The fall in rupee will reduce the value of the rupee since it encourages the increase in the price of goods which are manufactured. The cost of good.

Recently due to the increased import duties and fall in rupee German luxury car maker Mercedes- Benz announced hike in prices of its entire model range in India by up to 4. 5 percent to partly offset impact of rupee depreciation and higher import duties. Movie industry: The fall in rupee has affected movie industry also. Reports suggest that there are some changes in travel patterns as majority of film-makers are opting for nodular destinations such as Sir Lankan, Dublin, Bali and Packet or sticking to domestic destinations such as Kashmir, Kraal and Ago.

Foreign Locations (fall) 2012 2013 0% (increase) Indian Locations 35% (increase) Foreign Education: The foreign education will become costlier if rupee fall continues. The students need to shell out more ass rupee falls down.

Students who have taken loans to fund their foreign degree are also bearing the brunt. Education loans are usually in rupees, but as students pay their expenses in a foreign currency, the cost of education and stay has increased. For \$100, 000, a student had to pay RSI 45 lake. Now, he has to shell out RSI 52-54 lake, depending upon the exchange rate.

Job and remuneration: The industries which mainly dependent on imported monuments for production will face increase in the cost of production. The

hefty import duties will cause more problems and in order to reduce cost the companies salaries are reduced or kept on constant level.

8 Vacations: The foreign tour will become costlier for Indians as result of fall in rupee whereas foreigners have benefit in traveling to India. The Air fares, shopping expenses become expensive for any tourist. Buying car: The rupee depreciation has affected automobile sector to large extent.

The automobile companies face increased cost of production if they are opted for imported components. And they have to pay higher royalty to the foreign patents firms. Many automobile companies lost market because of rupee fall like Tata motors sales fell down 33%, M sales dropped by 28% in the month of August(13).

Temples gold: The rupee fall has impacted temple gold. RBI recently came out with measure of protecting rupee fall by collecting gold from the richest temples of India and converting them and releasing them to market so that import of gold could be reduced.

The Traumatic temple in Andhra Pradesh, Shirdi SAA Baby temple in Maharashtra's, Skydiving's at Jabalpur and Padmanabhaswamy temple in Kerala are among the richest in India with huge reserves of gold and precious metals. What could be done? The Indian rupee has declined to an all-time low of 59.

82 to the dollar and foreign investors who have invested money on Indian stocks are mainly affected because of this massive decline. So, to prevent

the rupee depreciation, Indian policy makers need to consider some of the measures to cover up the losses.

We have already observed that depreciation is caused by market forces, which are global in nature and extremely difficult to control. However, certain measures can and should be taken to arrest this rather drastic fall, some are suggested below: Improving the climate for foreign investors: The most obvious way to offset rupee fall is to increase growth and bring more dollars into the system, thus reducing the CAD.

Relaxing of norms for FDI investments is one of the more obvious ways to do it.