

Currency movement essay



**ASSIGN
BUSTER**

Executive summary The Indian rupee (₹) is the official currency of the Republic of India. The issuance of the currency is controlled by the Reserve Bank of India. The modern rupee is subdivided into 100 paise (singular paisa), although this division is now theoretical; as of 30 June 2011, coin denominations of less than 50 paise ceased to be legal tender. Banknotes are available in nominal values of 5, 10, 20, 50, 100, 500 and 1000 rupees.

Rupee coins are available in denominations of 1, 2, 5, 10, 100 and 1000; of these, the ₹ 100 and ₹ 1000 coins are for commemorative purposes only; the only other rupee coin has a nominal value of 50 paise, since lower denominations have been officially withdrawn. The Indian rupee symbol ₹ (officially adopted in 2010) is derived from the Devanagari consonant “र” (Ra) with an added horizontal bar. The symbol can also be derived from the Latin consonant “R” by removing the vertical line, and adding two horizontal bars (like the symbols for the Japanese yen and the euro).

The first series of coins with the rupee symbol was launched on 8 July 2011. The Mahatma Gandhi series of banknotes are issued by the Reserve Bank of India as legal tender. The series is so named because the obverse of each note features a portrait of Mahatma Gandhi. Since its introduction in 1996, this series has replaced all issued banknotes. The RBI introduced the series in 1996 with ₹10 and ₹500 banknotes. At present, the RBI issues banknotes in denominations from ₹5 to ₹1, 000. The printing of ₹5 notes (which had stopped earlier) resumed in 2009.

As of January 2012, the new Indian rupee sign has been incorporated into banknotes in denominations of [pic]10, [pic]100, [pic]500 and [pic]1, 000.

INTRODUCTION The Indian Economy is the eleventh largest economy in the world with a nominal GDP of US\$1, 235, 975 million (IMF list). The Indian market has been booming in leaps & bounds. By 2008, India had established itself as the world's second-fastest growing major economy after China, with a growth rate of 9. 4%. However, the year 2009 saw a significant slowdown in India's GDP growth rate to 6. 8%.

The Rupee hit a record low during early 2009 on account of the global recession. However, due to a strong domestic market, India managed to bounce back sooner than the western countries. Since September 2009 there has been a constant appreciation in Rupee versus most Tier 1 currencies. The exchange rate as on 30th October, 2010 is [pic]44. 345 to the USD. A rising rupee prompted Government of India to buy 200 tonnes of Gold for \$6. 7 billion from IMF in 2009 as a total role reversal from 1991. Indian forex reserves stands at \$294. 01 billion (Oct, 2010). What is Currency?

A generally accepted form of money, including coins and paper notes, which is issued by a government and circulated within an economy. Used as a medium of exchange for goods and services, currency is the basis for trade. Any form of money that is in public circulation. Currency includes both hard money (coins) and soft money (paper money). Typically currency refers to money that is legally designated as such by the governing body, but in some cultures currency can refer to any object that has a perceived value and can be exchanged for other objects. What is currency fluctuation?

Currency fluctuations are simply the ongoing changes between the relative values of the currency issued by one country when compared to a different currency. The process of currency fluctuation is something that occurs every day and impacts the relative rate of exchange between various currencies on a continual basis.

HISTORY BRITISH INDIAN ONE RUPEE NOTE: In 1861, the government of India introduced its first paper money: 10-rupee notes in 1864, 5-rupee notes in 1872, 10, 000-rupee notes in 1899, 100-rupee notes in 1900, 50-rupee notes in 1905, 500-rupee notes in 1907 and 1000-rupee notes in 1909. In 1917, 1- and 21? -rupee notes were introduced. The Reserve Bank of India began banknote production in 1938, issuing 2-, 5-, 10-, 50-, 100-, 1, 000- and 10, 000-rupee notes while the government continued issuing 1-rupee notes.

INDEPENDENT ISSUES SINCE 1949 After independence, new designs were introduced to replace the portrait of the king. The government continued issuing the 1-rupee note, while the Reserve Bank issued other denominations (including the 5, 000- and 10, 000-rupee notes introduced in 1949). During the 1970s, 20- and 50-rupee notes were introduced; denominations higher than 100 rupees were demonetized in 1978.

In 1987 the 500-rupee note was introduced, followed by the 1, 000-rupee note in 2000. One- and two-rupee notes were discontinued in 1995.

OBJECTIVE OF STUDY To get idea about fluctuations of Indian currency in last 10 years To gain knowledge about the factors affecting currency fluctuations To analyze effect of currency fluctuations on economy Impact of currency fluctuation on consumption, investment, exports and imports Factors Affecting Currency Fluctuation [pic]

ECONOMIC POSITION: 1. Internal Factors

2. External Factors Internal Factors includes: Industrial Deficit of the country.

- Fiscal Deficit of the country.
- GDP and GNP of the country.
- Foreign Exchange Reserves.
- Inflation Rate of the Country.
- Agricultural growth and production.
- Different types of policies like EXIM Policy, Credit Policy of the country as well reforms undertaken in the yearly Budget.
- Infrastructure of the Country

External Factors includes:

- Export trade and Import trade with the foreign country.
- Loan sanction by World Bank and IMF
- Relationship with the foreign country.
- Internationally OIL Price and Gold Price.

FOREIGN DEBT: Foreign debt, also known as external debt, is a term used to classify the amount of money a country owes to other countries or external banking organizations such as the World Bank. There are many reasons a country may choose to go into foreign debt, including infrastructure development or economic stimulation. As of 2009, the estimated foreign debt for all world countries combined hovered at about \$56.9 trillion US Dollars (USD). One term that comes up often when considering foreign debt is sustainability.

For external debt to be sustainable, a country must have a high enough gross domestic product (GDP) in order to pay down and eventually pay off the debt while continuing its own economic function. Therefore, a country with a high GDP or large employed population may be able to sustain much more debt than a small or poor country.

POLITICAL FACTOR: In India election held every five years mean thereby one party has rule for the five years. But from the 1996 India was facing political instability and this type of political instability has created hefty problem in the different market especially in Forex market, which is highly volatile.

In fact in the year 1999 due to political uncertainty in the BJP Government the rupee has depreciated by 30 paise in the month of April. So we can say that political can become important factor to determine foreign exchange in India. INFLATION RATE: It is widely held that exchange rates move in the direction required to compensate for relative inflation rates. For instance, if a currency is already overvalued, i. e. stronger than what is warranted by relative inflation rates, depreciation sufficient enough to correct that position can be expected and vice versa.

It is necessary to note that an exchange rate is a relative price and hence the market weighs all the relative factors in relative terms (in relation to the counterpart countries). The underlying reasoning behind this conviction is that a relatively high rate of inflation reduces a country's competitiveness and weakens its ability to sell in international markets. This situation, in turn, will weaken the domestic currency by reducing the demand or expected demand for it and increasing the demand or expected demand for the foreign currency (increase in the supply of domestic currency and decrease in the supply of foreign currency). INTEREST RATE: An important factor for movement in exchange rates in recent years is interest rates, i. e. interest differential between major currencies. In this respect the growing integration of financial markets of major countries, the revolution in telecommunication facilities, the growth of specialised asset managing agencies, the deregulation of financial markets by major countries, the emergence of foreign trading as profit centres per se and the tremendous scope for bandwagon and squaring effects on the rates, etc. have accelerated the potential for exchange rate volatility. BALANCE OF PAYMENTS: As mentioned

earlier, a net inflow of foreign currency tends to strengthen the home currency vis-a-vis other currencies. This is because the supply of the foreign currency will be in excess of demand. A good way of ascertaining this would be to check the balance of payments. If the balance of payments is positive and foreign exchange reserves are increasing, the home currency will become strong.

LAST 10 YEARS GRAPH | Year | Rupees | | 2000 | 45 | | 2001 | 47. 23 | | 2002 | 48. 62 | | 2003 | 46. | | 2004 | 45. 28 | | 2005 | 44. 01 | | 2006 | 45. 17 | | 2007 | 41. 2 | | 2008 | 43. 1 | | 2009 | 48. 32 | | 2010 | 45. 61 | | 2011 | 46. 61

| Last 10 Years Fluctuation With U. S. \$ Rs/\$ exchange rate for last 10 years [pic] Major Fluctuations The major reason which draws attention towards this rupee appreciation has been a flood of foreign-exchange inflows, especially US dollars.

The surge of capital inflows into India has taken variety of forms ranging from foreign direct investment (FDI) to remittances sent back home by Indian expatriates. The main impact of these flows is as follows: 1. FDI: India's starring economic growth has created a large domestic market that offers promising opportunities for foreign companies. Moreover many companies rising competitiveness in many sectors has made it an attractive export base. 2. ECB (EXTERNAL COMMERCIAL BORROWINGS): Indian companies have borrowed enormous amounts of money overseas to finance investments and acquisitions at home and abroad.

This borrowed money has returned to India, boosting capital inflows. In 2007-08 (april-september) external assistance (net) was placed at US \$ 729 million

as against US \$ 386 million for the corresponding period in 2006-07 indicating a growth of 88.9%. 3. FOREIGN PORTFOLIO INFLOWS (FII'S): India's booming stock market embodies the confidence of the investors in the country's corporate sector. Foreign portfolio inflows have played a key role in fuming this boom. Looking at the period of 2003-04 and 2006-07, the net annual inflow of funds by foreign institutional investors averaged US \$ 8. bn. Trends during first five months of 2007 indicate that this flood is continuing with net FII inflows amounting to US \$4.6 bn. Another major source of portfolio capital inflows has been overseas equity issues of Indian companies via global depository receipts (GDR's) & American depository receipts (ADR's). Moreover FII's registered in India has doubled to 1050 between March 2001 -march 2007 and now around 3,336 FII subaccounts also exist. . FII equity flow has increased from \$9.8 billion in 2004, \$ 11 billion in 2005 to over 16 billion in 2007. these inflows have risen to 43% in 2007.

However in mid-October RBI banned foreign investment via off shore derivatives called participatory notes (PN). These derivatives were used by foreign investors not registered in India (say hedge funds) to indirectly invest through registered investors. Between Mar 2004 - Aug 2007 the number of FII sub accounts that issued PNs rose from 14 to 34. Many believed that motive behind such RBI measure was to improve transparency of capital inflows and that restricting inflows via PN would have little or no impact on overall inflows coming into the country. 4.

INVESTMENT AND REMITTANCES: Another major source of capital inflows has been non-resident Indians (NRI's) investing large amounts in special bank

accounts. While NRI's emotional connection to the country of origin is part of explanation to this, the attractive interest rate offered on such deposits also provide a powerful incentive. In 2006-07 NRI deposits amounted to US\$ 3. 8 bn. another large source of foreign exchange inflows has been remittances from huge number of Indians working overseas temporarily. Such remittances amounted to a colossal of US \$ 19. bn in April-December 2006, a 15% year on year increase.

CHANGING SCENARIO OF 2008

The current year 2008 has started with sudden tide of depreciation of rupee. The rupee has lost its glory of invincibility that surrounded it over past one year. Between January and second week of February rupee depreciated against greenback by atleast 3%. The demand and supply theory

The current year 2008 has started with sudden tide of depreciation of rupee. The rupee has lost its glory of invincibility that surrounded it over past one year. Between January and second week of February rupee depreciated gainst greenback by atleast 3%.

The recent spell of depreciation of rupee is the outcome of surging demand for greenback from oil importers. Oil prices have globally hit anew record of \$135 per barrel on 22may 2008. Since oil is prices in dollar in global market and most of our crude oil requirements being met from imports from overseas, rising prices of crude oil meant that domestic oil companies will need more dollars to fund their purchases. This triggers rupee sales and dollar purchases thus leading to weakening of rupee.

ADVANTAGES OF RUPEE APPRECIATION

DAMPENING OF INFLATION:

Normally, currencies appreciate when the economies are doing well and the rise in their value is a cause for celebration especially for consumers. A higher value of rupee will result in cheaper imports which, in turn has a dampening effect on inflation. Thus, rupee appreciation helps control inflation.

- FOREIGN DEBT

SERVICING: Appreciation of the rupee helps in easing the pressure, related to foreign debt servicing (interest payments on debt raised in foreign currency), on India and Indian companies.

With Indian companies taking advantage of the United States soft interest rate regime and raising foreign currency loans, known as external commercial borrowings (ECBs), this is a welcome phenomenon from the point of view of their interest commitments on the loans raised. This will help them avoid taking a bigger hit on their bottom-line, which is beneficial for its shareholders. Indian companies which have Foreign Currency Convertible Bonds (FCCBs) like Reliance Communications, Bharat Forge, Sun Pharma and Ranbaxy benefit from the appreciation of rupee. **OUTBOUND**

TOURISTS/STUDENT BONANZA: The appreciating rupee is a big positive for tourists traveling or wanting to travel abroad. Considering that the rupee has appreciated by over 10% against the US dollar since mid-2002, traveling to the US is now cheaper by a similar quantum in rupee terms. The same applies to students who are still in the process of finalizing their study plans abroad. For example, a student's enrollment for a \$1, 000 course abroad would now cost only [pic]44, 000 instead of the earlier [pic]49, 000! •

GOVERNMENT RESERVES:

Considering that the government has been selling its stake aggressively in major public sector units in the recent past, and with a substantial chunk of this being subscribed by FIIs, the latter will have to invest more dollars to pick up a stake in the company being divested, thus aiding the governments build up of reserves. **DISADVANTAGES OF RUPEE APPRECIATION •**

EXPORTERS' disadvantage: The exporters are at a disadvantage owing to the

currency appreciation as this renders their produce expensive in the international markets as compared to other competing nations whose currencies haven't appreciated on a similar scale.

Small exporters are hit badly by rupee appreciation as they have limited access to hedging products. This tends to take away a part of the advantage from Indian companies, which they enjoy due to their cost competitiveness. However, it must be noted that despite the sharp currency appreciation in recent times, Indian exports have continued to grow. • DOLLAR

DENOMINATED EARNINGS HURT: the strengthening rupee has an adverse impact on various companies/sectors, which derive a substantial portion of their revenues from the us markets (or in dollar denominations).

Software and BPO are typical examples of the sectors adversely impacted by the appreciation of rupee. **RUPEE APPRECIATION FROM THE EXPORTER'S POINT OF VIEW** Most developing countries have economies based largely on exports that are competitive in global markets because of low prices. When those countries' currency gains value, they are no longer able to offer exports to the global market at the same low prices that they planned to. This may cause importers to look elsewhere to country's with lower valued currency and thus prices or to order less than they would have otherwise.

Thus, the share of exports in economy will be affected, if the currency appreciates. The main effect on the exporters is that an appreciated currency makes the exporter's products more expensive in overseas markets and it thus erodes their international competitiveness. In the Indian scenario today, the IT industry is growing by 31% YOY and major operations (around

80-85%) are outsourced from the US-based companies. Hotels like ITC, Taj etc. have about 50% of their revenues in terms of dollars. Thus, these industries will stand to lose when rupee appreciates.

Similarly, silk industry had to bear the brunt as it was 71% sensitive to the hardening of the currency. Cotton and jute were less sensitive to the rising rupee at 23% and 18% respectively. The IT sector companies were upto 90% sensitive to rupee appreciation. RUPEE APPRECIATION FROM THE IMPORTER'S POINT OF VIEW The reverse phenomenon happens when you look at rupee appreciation from the importer's point of view. Oil companies are highly benefitted, more than 80% crude oil is imported from the gulf and other countries. Acc to an Indian Oil Corporation manager, for every Rs1 appreciation, crude oil price dips by 2%.

Another major beneficiary of rupee appreciation are the Indian companies who have gone for recent acquisitions using foreign debt-leverage. Indian companies who have International borrowings in their account are also benefitted. An appreciating rupee is beneficial for the country's external debts as well. Consumer electronic goods, imported apparels etc become available at cheaper prices as a result of a higher valued rupee. Industries which import raw materials get these at a cheaper price. LITERATURE REVIEW 1. In the year, December 2010 Dr.

Gaurav Agrawal, Aniruddh Kumar Srivastav & Ankita Srivastava had done A Study of Exchange Rates Movement and Stock Market Volatility. This research empirically examines the dynamics between the volatility of stock returns and movement of Rupee-Dollar exchange rates, in terms of the

extent of interdependency and causality. 2. In the year, March 2011 RBI had done study on an empirical analysis of relation between currency future and exchange rates volatility in India. In this paper they have find a relationship between the exchange rate volatility and the trading activity in the currency futures.

Trading in currency futures in USD-INR rates was permitted at the time when the financial crisis had hit the advanced economies. MONETARY POLICY

UNDER FLEXIBLE EXCHANGE RATES If exchange rates are fixed, then the capital flow affects the stock of foreign exchange assets and the money supply.

If the exchange rate is allowed to vary, then the exchange rate will change in response to the capital flow. Similarly, the policy change affects the level of economic activity.

A change in income results in a changed demand for imports and net exports . he change in demand for imports

affects the demand for foreign exchange and also has an impact on foreign exchange market. The third party of analysis accordingly identifies the

impact of the change in the interest rate in the money market on the foreign exchange market-foreign exchange reserves or the exchange rate. As the

exchange rate depreciates, the competitiveness of domestic economy improves and exports increases. The increase in money supply in a floating

exchange rate regime with imperfect capital mobility thus resulting: A depreciation of the exchange rate. • An increase in income • A decline in

interest rate • An improvement in the current account balance

BIBLIOGRAPHY •[http://www.investopedia.com/terms/c/currency.](http://www.investopedia.com/terms/c/currency.asp#ixzz28ttvjLVD)

[http://www.mbaknol.](http://www.mbaknol.com/managerial-economics/factors-affecting-the-exchange-rate-of-indian-)

[com/managerial-economics/factors-affecting-the-exchange-rate-of-indian-](http://www.mbaknol.com/managerial-economics/factors-affecting-the-exchange-rate-of-indian-)

<https://assignbuster.com/currency-movement-essay/>

rupee/ •[http://www. marketoracle. co. uk/Article28468. html](http://www.marketoracle.co.uk/Article28468.html) •[www. ccsenet. org/ijbm](http://www.ccsenet.org/ijbm) •[http://www. sapphireconsultinggroup. in/Rupee_appreciation. html#Executive](http://www.sapphireconsultinggroup.in/Rupee_appreciation.html#Executive) [http://www. investorwords. com/2186/GNP. html#ixzz2CsUdLeaQ](http://www.investorwords.com/2186/GNP.html#ixzz2CsUdLeaQ)

APPENDICES BPO

BPO is distinct from information technology (IT) outsourcing, which focuses on hiring a third-party company or service provider to do IT-related activities, such as application management and application development, data center operations, or testing and quality assurance. BOP A record of all transactions made between one particular country and all other countries during a specified period of time. BOP compares the dollar difference of the amount of exports and imports, including all financial exports and imports. A negative balance of payments means that more money is flowing out of the country than coming in, and vice versa.

EXCHANGE RATE the exchange rate is the quantity of one currency required to buy or sell one unit of the other currency. FISCAL DEFICIT The difference between total revenue and total expenditure of the government is termed as fiscal deficit. It is an indication of the total borrowings needed by the government. While calculating the total revenue, borrowings are not included. FDI FDI refers more specifically to the investment of foreign assets into domestic goods and services. FOREIGN DEBT An outstanding loan that one country owes to another country or institutions within that country.

Foreign debt also includes due payments to international organizations such as the International Monetary Fund (IMF). The debt may be comprised of fees for goods and services or outstanding credit due to a negative balance of

trade. GNI The Gross national income (GNI) consists of: the personal consumption expenditures, the gross private investment, the government consumption expenditures, the net income from assets abroad (net income receipts), and the gross exports of goods and services, after deducting two components: the gross imports of goods and services, and the indirect business taxes.

GDP Gross Domestic Product, is a primary indicator used to assess the strength of a country's economy representing the total value of all the goods and services produced over a particular time frame. $GDP = C + G + I + NX$ Where, "C" is equal to all private consumption, or consumer spending, in a nation's economy "G" is the sum of government spending "I" is the sum of all the country's businesses spending on capital" NX" is the nation's total net exports, calculated as total exports minus total imports. (NX = Exports - Imports) GNP

Gross National Product. GNP is the total value of all final goods and services produced within a nation in a particular year, plus income earned by its citizens (including income of those located abroad), minus income of non-residents located in that country. IMF The IMF plays three major roles in the global monetary system. The Fund surveys and monitors economic and financial developments, lends funds to countries with balance-of-payment difficulties, and provides technical assistance and training for countries requesting it.