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INDIAN RUPEE DEPRECIATION AND EXCHANGE RATE TRENDS: 2000 ONWARDS

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Abstract
The fall in the value of the currency not only hurts the national pride, but also carries other risks as well. Depreciation of rupee dampens the inflow of foreign capital, rises in the external debt, burdens and also mount India's oil and fertilizers subsidy bills. The most positive impact of depreciation of rupee is the stimulation of merchandise exports and discouraging merchandise imports and thus improving the terms of trade. The strengthening of the US economy is expected to affect all emerging and Asian markets throughout 2014, but India is more on a sticky wicket than other countries.

Key words: Depreciation, Volatility, Exchange rate, Trends of Exchange.

Introduction

Previous study of exchange rate data of last 10 years depict that rupee has been volatile, against the dollar in 2008 and 2013. We found that depreciation of rupee adversely effects whole economy except few like, exports, etc. There are no quick fixes to countries imbalanced external sector and the Indian economy remains vulnerable to external stocks and global liquidity conditions. From the study we concluded that Indian rupee against dollar kept on depreciation and on August touched the highest low mark of 68.5 against dollar on Aug – 28. Thus we can say that it is desirable to impose curbs on imports of non – essential items. Also quantitative restrictions on the import of gold, silver, and non essential items

Objectives of the Research

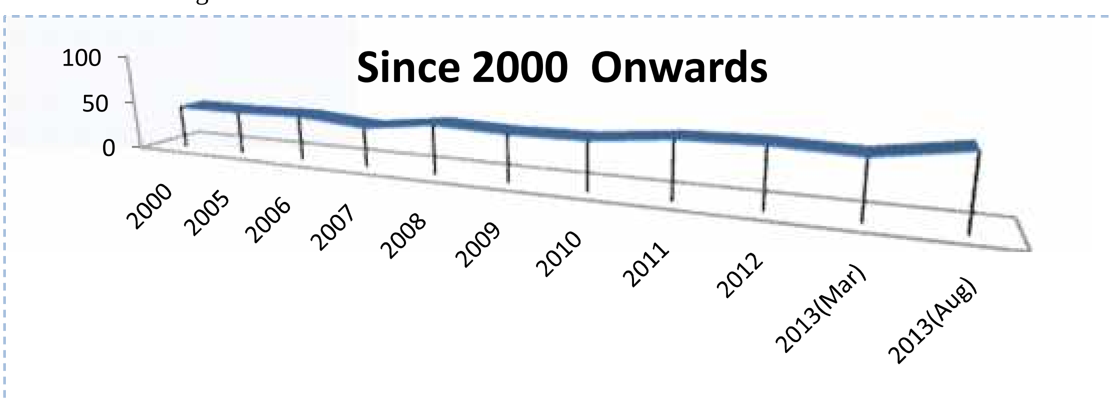
1. To analyze the current trends and patterns of the movement of Indian rupee versus the dollar in the forex market.
2. To analyze the causes of various trends in a volatility of the exchange rate in forex movement.
3. To analyze and understand the main causes and implications of rupee depreciation against US dollar.

Review of Literature

Annual report of 2007 – 2008 of ministry of commerce and industry, Govt of India revealed that Indian exports enjoyed the advantage of slow depreciation of currency i.e. the period of mid 2005 – 2006. However rupee showed a turn in August 2006. From April 2007 onwards, rupee experienced a rise in its value.[1] Govt of India on 1 January, 2012 has decided and attempt has been made to have direct investment by qualified institutional investors (QFI) in Indian equity markets in order to widen the class of investors, attract more foreign funds and value market volatility.[2] According to ASSSOCHAM INDIA. It reveals that it is feared that the rupee depreciation mark breaking 53 which could result in the price increase for the consumers.[3]

Journey of Indian Rupee

Our country Indian's main hurdle in economic development is that compared to its area resources are less Moreover import of crude oil and gold from the rest of the world is to the extent of 75-80% of the total domestic requirement Exchange rate risk also drives away foreign investors which in turn deprecate the local currency. Below given figures and graphic reflect the Indian trends in exchange rate.[4]



Source: www.worldforommyp. com.

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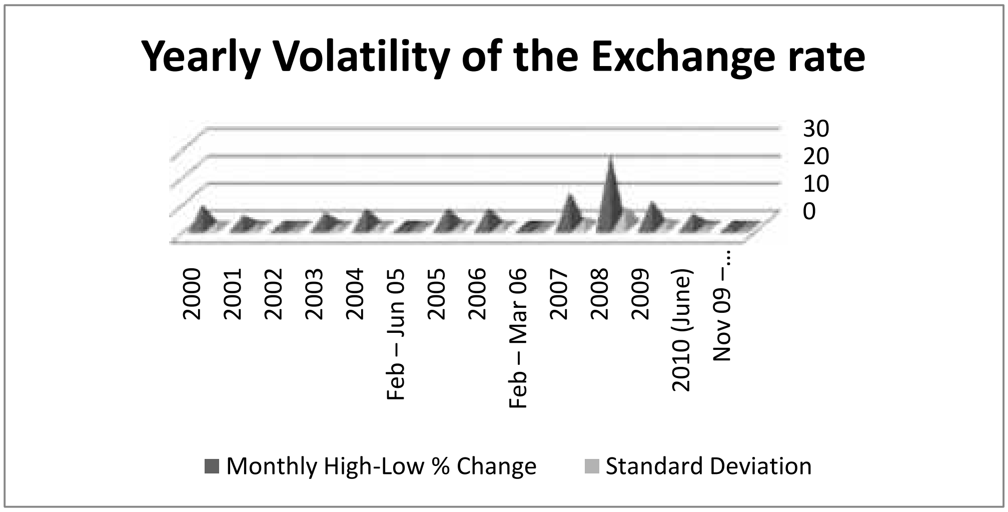
Rupee versus dollar performance: A study of the exchange rate data of the last 13 years shows that the rupee has been most volatile against the US dollar in 2008and 2013. During the US subprime crises of 2008. The INR USD exchange rate plunged by 11.13%. In 2012 – 2013 when the Indian GDP dropped to a decade low level, the Indian, currency also nosedived by 13.52%. Interestingly, election year 2004, was also characterized by exchange rate volatility, but this time the trend was reverse. The value of the rupee appreciated by 5.04% on year basis, 2009 – 10 (Election year – 2009) saw the rupee lose value by 14.09% during the year.[5]



Source: www.rbi.org.in

The researcher tracked the quarterly data of the exchange rate of the Indian rupee against dollar since 2000-08, and calculated the percentage change there in, which again shows the more trend the in the exchange rate fluctuations since last 8, years. Following the facts of graph specifically shows that the Indian rupee has started exhibiting the two way movements in the international financial market i.e. depreciation trends as well as appreciation.

Depreciation of Indian Rupee

On October 17 the Indian rupee fell to its lowest in more than 6 years. The Indian rupee ended at 48.8775 on 25th June 2002 and almost same (48.88) as October 17, 2008. On 22 October, the rupee fell as low as 49.50, at which point it was down 20.4 percent in 2008. Interestingly the rupee has depreciated against the dollar more than most other currencies in Asia in 2008-09. Further, it has been observed that Indian currency has depreciated not only against the US dollar in 2008, but also against the other strong currencies like Euro and Yen. On January 1, 2008, Indian rupee opened at 57.51 and 35.29 against the Euro and Yen (This moment is against 100 Yen) respectively and ended at 67.95 and 43.85 on September 26, 2008. Thus the Indian rupee has shed more than 15 per cent against the Euro and Yen since the beginning of the year.[6]

Causes of Depreciation of Indian Rupee

A myriad of factors can cause currency depreciation, i.e. economic, political , corruption etc. but some factors require greater attention and should be analyzed objectively than the others, There are four key factors behind the recent depreciation: (1) flight of reign funds the Indian market; (2) slowdown in the capital inflows , which decreases the supply of dollar (3) higher global crude oil prices, which widen the current account deficit and also increase dollar buying by oil companies and (4) recovery of Us dollar.[7]

Falling Rupee and Its Impact

Oil imports consume the largest part of the forex reserves. A depreciating rupee is bound to offset the decrease in the international prices of commodities such as oil. Purchase the same quantity of oil A depreciating is not only impacting the import bill it has also severely affected the cost of borrowings for the corporate sector. The report suggested that a sharp fall of about 17 per cent in the value of rupee from near Rs 44-level against the Us dollar at the start of 2011 to below Rs. 51-level currently has made the cost of repaying these foreign loans costlier by a similar margin. The external commercial borrowings and short term trade credits accounted for 70 per cent of the rise in total external debt over the quarter broadly reflecting the surge in imports. NRI deposits and multilateral borrowings amounted for about 20 per cent of the increase in total external debt. A major drawback of depreciation in the value of rupee is that it will increase the burden of servicing and repaying of foreign debt of Indian Government (which has dollar denominated debt) and those companies that has raised

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dollar denominated debt. Thus since the beginning of year 2008, FIIs have till data sold $ 13.00 billion-a far cry from inflow of $ 17.23 billion and $ 8 billion in 2007. Further, depreciation of rupee may increase the level of inflation in the economy. Products that are directly imported, such as crude oil, fertilizers, pharmaceuticals products, ores and metals, or use imparted components such as Personal computer and laptop become more expansive following the rupee depreciation.[8] A major chunk of components in computer in computer viz., processor, hard disk and motherboard, is imported. Products such as keyboards, mouse and monitor would also witness a dissemble impact on their prices on the account of rupee depreciation

Gainers from Rupee Appreciation

Sectors likely to gain from the currency gaining are auto, engineering, and aviation companies. The biggest gainers in the auto sector are hero, Honda, Maruti, Tata Motors, and Ashok Leyland as the imported price of their raw materials will cost less. A Jet Airway is the gainer on its aviation fuel costs for its domestic routes companies with foreigner's currency loans. Currency convertible bonds (FCCBS) like Reliance Communications, Bharat Forge, Sun Farma, and Ranbaxy are also likely to gain due to rupee appreciation.[9]

Conclusion

The government should consider imposing higher, custom duties on consumer electronics goods, to restrict the imports. Steady decline in GDP growth, constant and continuing contractions in industrial output, inflation, financial corruptions policy confusion, etc, do not portray India as a favored investment destination, which results in depreciation. It is imperative for government to have focus on exports rather than on imports. Attracting FDI into India has become a vital ingredient of the economic development strategies for India. Investor friendly environment will help India establish itself as a favored destination.

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