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Rupee - Dollar Fluctuation

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Abstract

Rise in import bills, costlier foreign education and travel are the result of Weak Indian Rupee. The impact comes from study increase of petrol and diesel prices throughout the year. This paper brings to light the impact of Rupee-Dollar fluctuation on Indian economy. The present risky environment is created on Indian economy is due to depreciation of rupee against dollar. It shows that there is a strong and significant negative impact of the currency volatility across sectors. The relationship between the values of local currencies in terms of foreign currencies and export competitiveness of any country is very difficult. During the last one year, Indian rupee weakens many times and reached to a lowest level. Indian economy already suffered a lot from large fiscal and current account deficit and adversely affected by relatively exchange rate pressure. To bring back again many hard decisions has to be taken by the regulator authority. This paper presents different challenges the economy faces due to the fluctuation and steps triggered by the central bank and government to create stability..

Keywords; *Trade Deficit; Devaluation; Emerging Market; Super economy; Rupee depreciation policy & Current Account Deficit*

I. INTRODUCTION

The exchange rate between Indian rupee and US Dollar is equal to one (i.e., I US Dollar = 1 Indian Rupee) on 15th August, 1947, there is no outside borrowing/loans in the balance sheet of India. After the Global financial meltdown, economic superpower nations created a currency war that become highly political significant in the Emerging Market. China and European Union artificially depreciated their currency to make their goods/services more attractive in US market. The trade war between China and US later became a currency war that makes Chinese currency to depreciate 8%.

Recently Indian rupee slipped to all time lowest against the US dollar because of continued uncertainty in the international market. US Fed put force on all the emerging market currencies by shrinking the international rates. Whenever there is excess volatility in the market RBI will immediately intervene and try to lower the exchange rate by selling the dollars. In 2007 it sold nearly $27 billion dollar and also increased the domestic interest rate by 25 basis points for the second time (25 basis points first time) to shield the falling rupee value, but yet it continues to come down. The major problem India faces are rising oil price, Foreign Institutional Investor selling their stock and bond and sudden increase in global interest rate. If, at least the oil does not increase the chance of rupee stabilization is expected in the market.

II. RUPEE AFTER INDEPENDENCE

TABLE – 1 HISTORY OF INDIAN RUPEE

Sources: Moneycontrol.com

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Year	USD	Rupee	Year	USD	Rupee
1947	1	1	1995	1	34.96
1952	1	4.75	1996	1	35.52
1966	1	7.5	1997	1	36.36
1973	1	7.66	1998	1	41.22
1974	1	8.03	1999	1	43.12
1975	1	8.4	2000	1	46.78
1976	1	8.97	2001	1	47.93
1978	1	8.20	2002	1	48.98
1979	1	8,16	2003	1	45.57
1980	1	7.89	2004	1	43.84
1981	1	8.68	2005	1	46.11
1982	1	9.48	2006	1	45.17
1983	1	10.11	2007	1	44.25
1984	1	11.36	2008	1	49.82
1985	1	12.34	2009	1	46.29
1986	1	12.6	2010	1	45.09
1987	1	12.95	2011	1	51.10
1988	1	13.91	2012	1	54.47

The above table shows Indian rupee dollar fluctuation from 1947 to 2019. It shows that from 2011 to 2019 dollar becomes very strong. If rupee slides continuously exporters will defer in bringing export receipt and importer will try to buy forward and this activities will run on currency. Rupee depreciation is not a new phenomenon, it was done three times in Indian history, and this decisive action by RBI has lifted the sentiments. In the last five years rupee has performed better in some of the emerging market and it depreciated a lot in short period and then stabilized for long period.

Chart 1

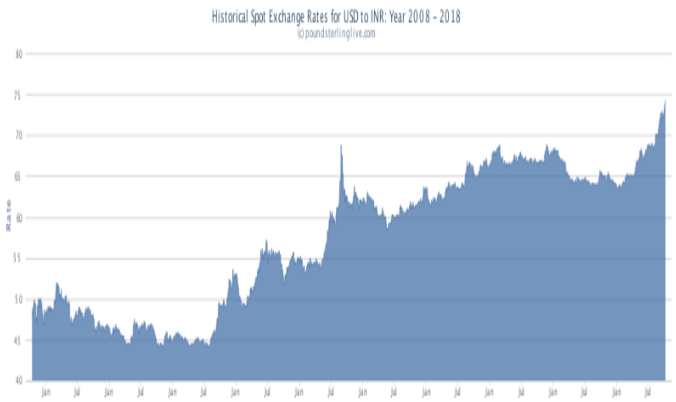
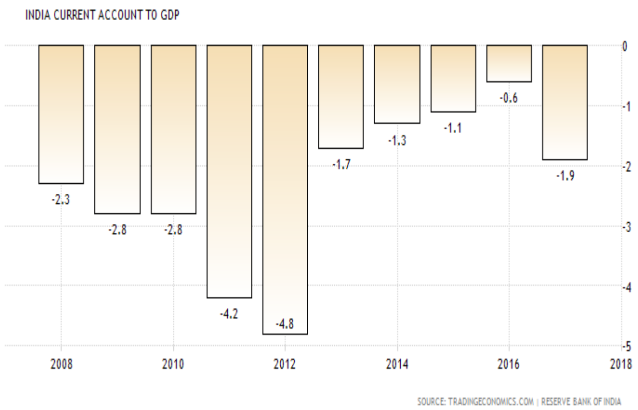


Table 2 – Current Account Deficit

Year	Current Account Deficit
2011-12	4.2% of GDP
2012-13	4.8% on GDP
2013-14	4% of GDP
2014 -15	1.3% of GDP
2015-16	1.1% of GDP
2016-17	0.6% of GDP
2017-18	1.9% of GDP
2018-19	Will touch 2.8 to3.2% of GDP (3% is sustainable limit)

Chart 2



Asian currencies were hardly hit and it leads to increase in current account deficit. Indian trade deficit in 2018 is $18 billion against $11.45 billion in 2017 is due to rise in oil price, low growth in export and high imports. Most of the importers started postponing the dollar payment expecting a fall in price and exporters tried to take advantage of the higher receivable that they can get.

III. IMPACT ON DEVALUATION OF CURRENCY

Devaluation in rupees will sharp the export and grind the import to a halt. The process will hurt the growth and lead to high cash outflow. So the need of foreign capital to finance Current Account Deficit

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does not arise. Lot of research studies showed that development is linked to increased trade. China has far-reaching trade links and convertible currencies to strengthen their economies.

Table 3 Foreign Direct Investment

Year	FDI
2013 -14	$24.29 billion
2014-15	$34.9 billion
2015-16	$55.6 billion
2016-17	$36 billion
2017-18	$ 30 billion

Chart 3

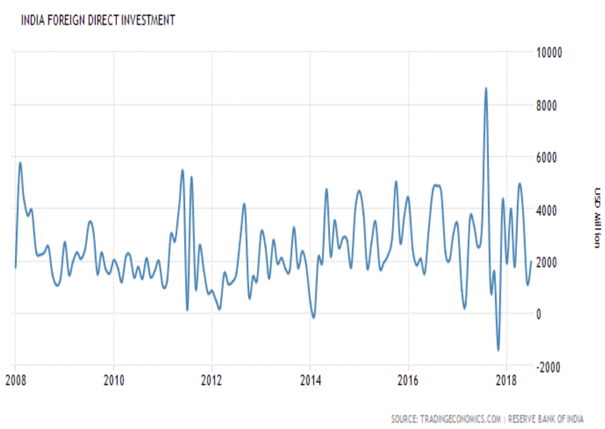

Table 3 Non Resident Indians

Year	NRI
2016-17	$ 116 Billion
2017-18	$ 126 Billion

India's developments came from public sector investment but the private sector investment remains muted. RBI started using foreign exchange reserve to defend its currency. India's is having nearly $400 billion to cover the import. If Current Account Deficit continues to widen RBI must access to external finance to defend the currency.

IV. GOVERNMENT & RBI INTERVENTION

RBI is an agency which act in between the rupee, external environment and government. Government of India policies must boost then export, capital inflow and tourism. Boosting export over import has not worked for India since 1970's but China has achieved it. If inflation is higher than the trading partner country, it will attract goods and service. India's has two option:

finance the trade deficit through surplus in capital flow

backed by RBI if rupee weakens.

V. CONCLUSION

Rupees look weak in 2013 and it started dropping like a rock. India was among the fragile with South Korea, Brazil, Indonesia, Turkey, Macros especially inflation, current account balance, foreign exchange reserve as bitter low. Sign of RBI intervention is known from falling foreign exchange reserve. Stakeholders are advocating for gradual depreciation of rupee to increase export and need to improve production, infra, human capital, ease of doing business, removing the administrative obstacles to remain in the competitive market

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