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Currency devolution its impact rate and exchange rate

Mandeep, Mandeepmalik27@gmail.com

Abstract: This paper indicates the Indian currency depreciation against the dollar. The data for the study were collected and compiled from the RBI Website and Bulletin. In this paper the currency growth, foreign investment and macroeconomic studied. For the study required data were col lected from various journals and magazines. The study concluded that the exchange rate in Indian currency was highly depreciation of Post-liberalization period and also its impact on the Indian economy. So, in order to Indian government take necessary step in to introduce new economic policy to switch over this scenario. We discussed also the term of currency devolution.

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Key words: Rupee Depreciation, Indian Currency growth between pre and post Liberalization, Exchange Rate, Inflation, Interest Rate, External

Introduction: Devaluation of Indian Rupee taken place 3 times since 1947. In 1947 the exchange rate was 1 USD to 1 INR but today we have to spend 66 INR to buy a USD. Devaluation means reduction in the external value of the domestic currency while internal value of the domestic currency remains constant. A country goes for devaluation of its currency to correct its adverse Balance of Payment (BOP). If a country is experiencing an adverse Balance of Payment (BOP) situation then it has to devalue its currency so that its export gets cheaper and import became costlier.

In such a situation one has to pay more than before to get units of foreign currency. This fall takes place in the market and on its own. Market determined exchange rate serves the purpose of aligning the domestic economy with the world economy was the price route. As consequences the domestic price gets linked up with those of the world price. With the liberalizations and globalization of the economy in recent years, imports are bound to increase. The lessening of restrictions on imports and lowering of tariff on imports which the economic reform implies, an increase in imports has in fact taken place. Again with trade has become an important element of the new strategy of growth.

The price of Indian rupees in comparison to USD

On the behalf of above fig. we can say that the price of Indian rupees falls year by year since 1990 to 2018. In this way we can say that if the price of Indian rupees falls down day by day than the value of Indian market increase day bay day.

The Indian Rupee has fallen in value against a basket of currencies since independence in 1947. In recent years, the Indian Rupee has continued to depreciate in value.

In 1990, you could buy $1 for 16 Indian Rupees. By 2018, the value of a Rupee had fallen, so that you would need 72 Indian Rupees to buy $1.

Meaning of Exchange Rate: Exchange rate means the price of a nation's currency in terms of another currency. The market in which the currencies of various countries are exchanged, traded or converted is called the foreign exchange market.

Exchange rate can be of three types:

1. Floating exchange rate.
2. Fixed exchange rate.
3. Managed exchange rate.

Floating Exchange Rate: The system of exchange rate in which the value of a currency is allowed to adjust freely or to float as determined by demand for and supply of foreign exchange.
Fixed Exchange Rate: If the exchange rate is being determined by the government not by the demand and supply forces, it is called fixed exchange rate.
Managed Exchange Rate: In this kind of system exchange rate is partially allowed to fluctuate, government don't allows fluctuation more than 1 to 3 percent. So in this system exchange rate is neither fixed nor free.

Why value of Indian currency declined against US dollar: At the time of independence, there were no outside loans on the balance sheet of India. But when British departed from India, Indian economy paralyzed in the absence of capital formation and proper planning.

1. Lack of Fund in the hands of the Government: In the situation of wealth crunch, Prime Minister Nehru adopted model of five year plans from Russia. Between1950s to 1960s, Indian government continuously borrowed foreign money in the form of loan. Now the exchange rate became 1$= Rs.4.75

2. War with China and Pakistan: Indian government was facing budget deficit and was in a state that it could not borrow more additional loan from outside due to negative rate of savings. India- China war of 1962, Indo-Pakistan war of 1965 and huge drought in 1966 crippled the production capacity of the Indian economy so inflation increased in the economy.

3. Political Instability and Oil Shock of 1973: Oil shock of 1973 caused when the Organization of Arab Petroleum Exporting Countries (OAPEC) decided to cut the crude oil production which further increased the oil import bill. So to pay this import bill India borrowed foreign currency which reduced the value of Indian currency. Assassination of P.M. Indira Gandhi also reduced the confidence of foreigners in the Indian economy.

4. Economic Crisis of 1991: It is claimed as the toughest time for Indian economy. During this phase fiscal deficit was 7.8 % of GDP, interest payment was eating 39% of the total revenue collection of the government, Current Account Deficit (CAD)was 3.69% of GDP and WPI inflation was hovering around

14%, India was about to be declared defaulter by the international community. So to tackle all these problems government devalued Indian currency again and the exchange rate became 1 USD = 24.58 INR

5. Other Reasons: Experts are saying that the value of Indian rupee has not depreciated but in fact the value of Dollar has appreciated due to expectations against US that US Federal Bank might increase the interest rates. Other reason includes...

- Inelastic import bill of petroleum products
- Import of gold in huge quantity
- Import of luxury goods
- Nuclear test: Pokhran-II
- Asian financial crisis of 1997
- Global Financial slowdown of 2007–08
- European sovereign-debt crisis (2011)

Impact of Devaluation in Indian Rupee:

- **Inflationary pressures.** India is trying to control inflation, which has been running into double digits. But, devaluation makes itself makes it harder to control inflation. The devaluation increases the price of imports, such as oil and fuels, leading to cost-push inflation. Also, devaluation is considered an 'easy' way of restoring competitiveness. Therefore devaluation may reduce the incentives for exporters to work on improving long-term competitiveness. Finally, devaluation can help boost domestic demand. Exports will rise and consumers will switch to domestic producers rather than imports. This can cause demand-pull inflation.
- **Economic growth:** Devaluation can boost domestic demand and short-term economic growth. However, this is not necessarily helpful for the Indian economy. India's economy needs to concentrate on boosting productivity and long-term productive capacity, rather than relying on boosting domestic demand. The rapid devaluation has also caused a loss of confidence in international and domestic investors. With a history of quick depreciation, foreign investors will be more nervous of investing in India. The devaluation and inflationary impact will also discourage domestic investors, e.g. firms worried about future oil prices. This reduction in investment is damaging to long-term economic growth.
- **Devaluation spiral:** The concern is that high Indian inflation causes devaluation, which in turn feeds into more cost-push inflation. Thus it becomes a difficult to escape out of this unwelcome negative spiral of inflation-devaluation-inflation.

Conclusion: This article analysis to know the current scenario and currency depreciation against the dollar value in India. Post-liberalization period of Indian currency exchange rate is not satisfactory. However, foreign investment in Indian capital market shows the decreasing trend during the study period. Similarly, the analysis reveals that the exchange rate in Indian currency was highly depreciation of Post-liberalization period and also its impact on the Indian economy. So, in order to Indian government take necessary step in to introduce new economic policy to switch over this scenario.

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