

The Indian economy boasts one of the highest growth rates in the world. While the prime focus of the Indian government is on recouping the earlier growth and exchange rates, it must be done through the process of social inclusion and economic integration. India, being the second most populous country in the world, witnesses antithetical diversity- both culturally and economically. High saving rates provide a massive potential for public investment in the areas of education, technology, research and human development. The government ought to concentrate equally on both economic growth and development, as it is only when the per capita income of the country and the standard of living of its people increases, will the country be better recognized globally. Inclusive growth translates to a more equitable distribution of resources and a bridging of the gap between rich and poor. While the key challenges of alleviation of poverty, better education, health and indeed higher growth rates still persist, we hope to witness revolutionary reforms in the coming years!

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The Excruciating Cry of the Indian Rupee

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Mr Raghuram Rajan, the new governor of the apex banking institution of our country, has indeed brought about miraculous changes in the state of the Indian economy, but the Indian economy has been dancing to a very low tune of late because of the poor performance of the rupee. The rupee, as we all know, has given a very poor show in the past few months and there are umpteen number of factors responsible for it.

To begin with, the value of any currency depends upon the demand and supply of dollars in that economy. The demand for dollars in India has been continuously mounting whereas its supply is diminishing, which has led to excess demand and thereby the depreciation of rupee.

To add to our woes, the economy is dealing with two major deficits, the first being the current account deficit or CAD while the other is the fiscal deficit. Starting with the CAD first, the imports in our country far exceed the exports, which means more foreign exchange is needed by our country. This deficit is primarily because of the excessive import of crude oil and gold. Now, the other deficit is the fiscal deficit, which indicates that our expenditure is way ahead than our revenues, reflecting very poorly on our economy.

The above paragraphs tell us why the demand for foreign reserves is increasing, but along with it the supply of foreign reserves is also decreasing. The FIIs are

losing faith in the Indian administration due to a number of scams taking place and are gradually pulling out big chunks of their investment. This has also had a very bad impact on our foreign reserves, contributing to the depreciation of the Indian rupee.

But Mr Rajan brought a ray of hope with him and the Indian rupee has gradually started recovering. The dark clouds of despair are lifting and positive sentiments are building. He has initiated many reforms, including levying high import duties on gold, which has indeed reduced gold imports. As far as oil is concerned, it is a necessity and hence can't be done away with. Therefore, the oil importing companies have been granted easy access to foreign reserves so that oil can be imported with ease. Also, exports have been promoted to a very large extent. Due to this, the gap between exports and imports is gradually diminishing. FIIs have also been lured into investing in the Indian economy by ensuring transparency in transactions, which thereby ensures inflow of foreign exchange.

By adopting such measures, Mr Rajan has brought considerable positive changes in the economy. Vital signs of recovery are being observed and hopes are high that the rupee will soon regain its strength in the international market.

Weak rupee: Is it good, or is it bad for the economy?

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Astrologers say, "The Rupee symbol debuted on an inauspicious day and the horizontal line across the symbol appears to "slit the throat" of the currency".

-Washington Post, August 20, 2013

Introduction:

The period 2001 to 2008 was a golden period for India. The Indian economy witnessed a boom which made economists like Arvind Panagariya say "India – an Emerging Giant". Alas, since 2008, the Indian economy has been showing the signs of a lag. The growth rate slowed to 4-5%, just half of what it was during the time of the boom. Ever since we started encountering unfavourable macroeconomic environment, we started having problems like high inflation and widening current account deficit (CAD), giving birth to the depreciation of the Rupee which has been the cause of concern. A weak Rupee is also known as depreciation of the currency. It makes its presence felt in the economy when domestic currency becomes less expensive in terms of foreign currency. For example, if the equilibrium rupee-dollar exchange rate was Rs 56, and then it changes to Rs 68, we say that the rupee has depreciated against the dollar. The depreciation of the currency discourages imports but encourages exports. When exports are greater than imports, there is no current account deficit. Hence, many times