

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

it is claimed that rupee depreciation is good for the Indian economy as it provides impetus to exports. This claim is supported by Pronab Sen, Chairman of the National Statistical Commission, who believes that depreciation of the currency has a positive effect on growth. But since it also pushes up inflation, so he advocates a tight monetary policy to control inflation. But this tightrope walk comes with a huge risk of falling, and the volatility in the depreciation of the Indian rupee this year has sent a warning signal that there may be something wrong with the economy.

Since the year 2009, the Rupee has depreciated not only against the dollar, but also against currencies like Pound Sterling, Euro and Yen.

Table 1: Exchange rate of rupee in terms of US dollar, pound sterling, euro and yen

Year	US Dollar	Pound Sterling	Euro	Yen
2009	48	75	67	51
2010	45	70	60	52
2011	46	74	64	58
2012	53	84	68	67
2013	62	101	84	59

Source: *Handbook of Statistics on Indian Economy, Reserve Bank of India (RBI).*

In 2013, the Rupee-dollar battle took an unimaginable, horrendous and threatening turn when 1\$ = Rs 68, which sent a shudder down the entire economy. The rupee had depreciated nearly 20 percent in the year 2013. The economy, which was once growing at 9 percent and dreamt of ending poverty and diseases, found it difficult to grapple with this new reality. Though the fall of the Rupee was triggered by the external environment like ending of quantitative easing by the US, but domestic

factors like ballooning fiscal deficits and rising CAD also lent a hand, and Mr. P. Chidambaram also accepted this. It was because of currency related disruption in the economy that the Economic Advisory Council to the Prime Minister forecasted the rate of economic growth at 5.3 percent (lower than the 6.4 percent in the April 2013 Review of the Economy Report) for the year 2013-14 in its September 2013 Economic Outlook Report.

Effects of Depreciation of Rupee on You and Me

1. Chain Reaction

Increasing output signals a booming economy to the investors, and this tends to boost share prices. Gavin (1989) believes that a booming stock market has a positive effect on the aggregate demand. Desislava Dimitrova (2005) believes that foreign investors will be unwilling to hold assets in a currency that is depreciating because the probability of gaining returns on investment is very low. If this is the case, then it leads to deceleration in the performance of the stock markets. This creates pessimism in the job market and low business school placements that reduces the purchasing power of Indian consumers (Employees in the job market are consumers at the end of the day), reducing aggregate demand in the economy. This reaction continues unless there is implementation of effective monetary and fiscal policy by both the RBI and government.

2. Rise in the Input Prices

Depreciation of the currency leads to a rise in input costs of producers. One of the most important inputs, which is highly inelastic in nature, whose cost rises because of a fall in the value of the Rupee is crude oil. India meets 75 percent of its crude oil demand

through imports. Oil companies pay for crude in dollars, and hence they will have to pay more money for importing oil, leading to high fuel prices. This creates an impact on the automobile sector as fuel alone account for 25-30 percent of the ownership cost of a small car in the year of purchase, according to CRISIL Research. Maruti, Mercedes-Benz, Hyundai, etc. have all hiked their prices because of higher input costs. This results in low sales volume and has been observed since 2011-12 onwards. High fuel prices also have implications on the airline industry which experiences huge cost challenges. Jet Airways, India's second-biggest airline by market share, has suffered a net loss of Rs 891.01 crores due to weaker rupee and high input costs.

3. Foreign Education and foreign goods remains a dream

With the weakening of rupee, it has become difficult for students aspiring to study in foreign universities and institutes to finance themselves. Most of the students take a loan for studying abroad. If the Rupee weakens, then they have to shell out more money. For instance, if they need \$80000 to study abroad, in Indian currency they would require Rs 4000000 (1\$=Rs 50). But now if the Rupee weakens to say \$1=Rs 60, the money required increases to Rs 4800000. This is a sharp 20 percent increase, which creates a deep impact on their aspiration of attaining education abroad. Even foreign goods also become expensive, since we have to spend more money on each dollar.

Conclusion

The currency of a nation represents its strength, image and buying power. If the currency weakens, it projects an image that nobody is interested in the business activity and goods of that particular nation. In that case, depreciation helps in correcting the trade imbalances. But trade imbalance will

only be corrected if home country is exporting a good which is inelastic in nature and it has a comparative advantage in it. High inflation, large CAD and nervous investors around the globe have led to the weakening of the Rupee and that had adverse impacts like deceleration in stock market performance, rise in the input costs and greater Rupee requirement for the purpose of education abroad. Everyone in the economy is, in some way or the other, affected by the weakening of the rupee. Therefore, weak rupee is bad for the economy and efforts should be made to strengthen the economy by correcting the loopholes.

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