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STUDY OF THE REASONS FOR THE CONTINUOUS DECLINE OF INDIAN CURRENCY

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ABSTRACT

In the current era, the currency of India's 'rupee' has been seen to fall continuously. According to the data, from January 2018 to the month of July, its value had dropped by an average of eight percent. For the time being, the investors have to spend 72.93 rupees to buy a dollar. The question is that after the Russian currency 'ruble' in the BRICS group (Brazil, Russia, India, China, and South Africa) it is the Indian 'rupee' whose value has dropped the most, which is a matter of concern. History testifies that the Indian rupee has been devalued thrice since independence. Indeed, Azad India also followed the IMF's parity system. It is claimed that on 15 August 1947, the exchange rate between the dollar and the rupee was 1 USD = 1 INR, but today one has to spend 72.93 rupees to buy one dollar. The Government of India is being held responsible for the 73% fall in the value of the rupee in 74 years. But to find out the real reasons for this, there is a lack of research on this subject. It is natural to raise the question that what reasons have changed in the current way that India's currency is getting weaker than other currencies, including the US dollar? With a view to finding out the reasons for the recent fall in the value of the currency of India, to know the advantages and disadvantages of the fall in the value of the currency of India, this research topic has been chosen.

Keywords: *India's 'Rupee', GDP Growth, Value of the Currency, Dollar.*

Introduction

According to the International Standards Organization, there are 185 currencies worldwide. However, most of these currencies are used by many countries within the country. The extent to which any currency is prevalent around the world depends on the economy and power of that country. The US currency dollar is a global currency. The dollar and euro are accepted with great popularity in international trade. the dollar has become a global currency. Euros and Dollars are very famous and accepted in international trade. The foreign currency reserves held by central banks around the world are 64 percent of US dollars. In such a condition, the dollar itself becomes a world currency. The dollar is a global currency, it is a symbol of the strength of the American economy. The first powerful currency in the world is the dollar and the second powerful currency in the world is the euro. Obviously, the strengthening and acceptance of the dollar reflect the strength of the American economy. 65 percent of the total dollar is used outside the US. The dollar is involved in 85% of trade worldwide. Therefore, foreign banks need dollars in international trade.

The current strengthening of the dollar started in 1944 following the Bretton Woods Agreement. Prior to this, most countries considered gold only the best standard. The government of those countries used to say that they would decide their currency based on the demand for gold. When America had the world's largest gold reserves. The developed countries of the world joined Bretton Woods of New Hampshire and set exchange rates for all currencies against the US dollar. The agreement also allowed other countries to support their own currency instead of gold. In the early 1970s, many countries started demanding gold for the dollar, as they were fighting inflation. At that time President Nixon separated the dollar from gold, instead of allowing Fort Knox to liquidate all its reserves. By then, the dollar had become the world's most strong currency.

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In March 2009, Russia and China demanded a new worldwide currency. They want a reserve currency to be created for the world 'which is isolated from a single country and is able to remain stable for a long time, thus eliminating the losses caused by the use of credit-based national currencies. China was worried that if the inflation of the dollar is fixed, then its dollar will not be of any use. This can happen only when the US finances the US debt. Treasury printed new notes. China has demanded the International Monetary Fund to replace the dollar with a new currency. In the fourth quarter of 2016, China's Yuan became another major reserve currency of the world. By the third quarter of 2017, the world's central bank had $ 108 billion. This is a small beginning, but it will continue to grow in the future. This is why China wants its currency to be used in a full way for trade in the global foreign exchange market. It would be like using Yuan as the global currency instead of the dollar. For this, China is improving its economy.

In 2007, Federal Reserve Chairman Alain Greenspan said that the euro could replace the dollar. By the end of 2006, the total foreign exchange reserves of central banks around the world had risen to 25 percent, while the dollar was 66 percent. The euro is also dominated in many areas of the world. The euro is also strong because the European Union is one of the largest economies in the world. But when Narendra Modi was the Chief Minister of Gujarat, he also called the decline in the Indian currency rupee against the dollar, the weakness of the government. Now when Modi has a strong government at the center, the rupee is still weak. This is a subject of concern for the country. Whereas China is more cautious about its currency. At the same time, the efforts of the Indian government are not seen as strong.

Data Collection Method Used for Research

Data for the research paper has collected from books, newspapers, magazines, reports, and websites.

The Objective of Research

The main objectives of the research presented are as follows:

- To find out the reasons for the recent fall in the value of the currency of India.
- To know the advantages of the fall in the value of the currency of India.
- To know the disadvantages of the fall in the value of the currency of India.
- Suggesting for the development of India based on the findings from research.

Study of The Reasons for The Continuous Decline of Indian Currency

It is often mentioned that when the country became independent in 1947, there was no difference in the value of rupees and dollars. Since independence, the rupee has depreciated against the US dollar, and as of today, the value of one dollar has become almost 73 rupees. The fall of the rupee in Indian politics is now being linked to the prestige of the government. From independence to 1966, the value of the Indian rupee was not valued at the dollar, but against the British pound. A paper has been prepared by the Center for Civil Society on the devaluation of the rupee (reducing the value of currency). According to this paper, British currency was developed in 1949. After this, in 1966, the value of the Indian currency, i.e., the rupee started to be valued against the US dollar. During this period, the rupee had reached the level of Rs 7.50 against 1 dollar after devolution. India's growth rate in 1947 was 0.8 percent. In such a situation, it is not possible to keep the Indian rupee at par with the dollar. In the year 1966, the government of Indira Gandhi devalued the rupee from 4.76 to 7.50 against the dollar. It is said that Indira Gandhi did this under pressure from many agencies so that the rate of rupee and dollar would remain constant. This devaluation was 57.5 percent. This decision was made by Indira Gandhi due to drought and crisis arising after the war with Pakistan-China. In 1991, Narasimha Rao's government devalued the rupee from 18.5 percent to 25.95 percent against the dollar. This was done to overcome the foreign currency crisis. After this, the fall in the rupee did not stop in any government. Whether he was PM Atal Bihari Vajpayee or economist Manmohan Singh and now even in the strong Modi government, this trend did not stop.

In the global economy, the health of any country economy is not affected only by domestic reasons. If the Indian currency rupee is weakening, then the reason is also global. One of the biggest reasons is the rising prices of crude oil in the international market. The United States has banned oil exports to Iran and Venezuela, increasing the price of oil. After 2014, the price of crude oil has reached the highest level in the international market. India imports 80% of the oil it needs. According to RBI, in 2017-18, India spent $ 87.7 billion on oil imports. It is obvious that the price of oil rises, so India's oil import bill also increases and it directly affects the foreign exchange reserves. If the demand for the dollar increases, then the domestic currency is weak. The impact of the weak rupee and the rising price of oil in the international market means that petrol and diesel within the country become expensive. The price of petrol can reach 100 rupees per liter in many cities of India.

The US economy has picked up, so the dollar has strengthened. The US Federal Reserve is raising interest rates to make an investment in the US attractive. As a result, people are withdrawing money from emerging markets like India. The ongoing trade war between the United States and China has also affected the currencies of developing countries. Not only India but Turkey and Argentina's currency has not stopped declining. India's current account deficit is also increasing continuously. Meaning India is importing more than exports. The process of removing FPIs from the Indian market has also not stopped. FPI stands for Foreign Portfolio Investors. Meaning foreign investors are withdrawing their money. The health of the rupee also depends on the supply and demand of foreign currency. For example, if an Indian company buys one-million-dollar computer software from the USA then it will have to pay in dollars only. For this, the importer will have to take one crore dollars by giving Rs 72.8 crore based on the current rate. In January this year, for a million dollars, that company had to pay only 63.50 crores. That means due to weak rupees, we had to give more than nine crores more.

The difficulty for the Indian economy right now is that the trade deficit is steadily increasing. According to RBI, the trade deficit had increased to $ 45.7 billion in the quarter ended in June 2018 from $ 41.9 billion in 2017. Demand for foreign currency i.e., the dollar has increased in the country. This is because the number of importers of goods and services, foreign travel, investment abroad, payment of debts, and treatment abroad has increased. It is exported from India, but India's exports have reduced. The number of Indians going abroad has also increased. If a student takes admission in the United States, then thousands of dollars have to be spent and of course, these dollars are paid only by giving money. Meaning if the demand for the dollar increases, the rupee will be weak. That means if the dollar is expensive then more money will have to be paid. According to RBI, Indians studying abroad spent $ 2.021 billion in 2017-18. According to the RBI, Indians spent four billion dollars when they roamed abroad in 2017-18. Right now, the rupee is weak, so traveling abroad has become more expensive. The rising foreign expenses of Indian companies are also being considered as a reason for the fall in the rupee.

In the US, almost all the big markets are facing the challenge of withdrawal of capital due to an increase in interest rates. The countries which have high current account deficit are most vulnerable. India's current account deficit has been 2.5% of GDP, which is the highest in the last 6 years. If the price of crude oil reaches $ 90 per barrel, then India's current deficit will be 3.6% of GDP. However, India has become more stable in terms of foreign exchange reserves. According to the Institute for International Finance (IIF), India's foreign exchange reserves are sufficient for 10 months of imports, while in 2013 only six months of imports were left. At the same time, foreign debt is low in India in proportion to the size of GDP and large emerging markets. Some analysts say that the weakening of the rupee is also in India's favor. This will increase exports and boost investment in manufacturing.

Root Causes of Rupee Weakness

- **The Fire in Crude Oil Prices:** due to crude oil prices not only increased the demand for dollars but also the current account deficit (more imports than exports of goods and services) also made around two percent of GDP at this time. Has happened. The main reason for crude oil being expensive is the decision by OPEC and Russia to cut its production from January 2017. Apart from this, the US has again banned it last month, proclaiming the breaking of the nuclear agreement with Iran three years ago. At the same time, the global production and export of crude oil have been greatly affected due to the deepening of the economic crisis in the South American country Venezuela.
- **Strengthening the US Economy:** A decade after the 2008 global economic downturn, the US economy is now almost back to normal. This year its growth rate is estimated to be around 3 percent and in the current quarter, it can be up to three and a half percent. Apart from this, the retail inflation rate in the US has also increased to 2.8 percent in May, while the unemployment rate has gone to the lowest level of the last two decades - 3.8 percent. Apart from this, the Trump government's move to cut taxes and many decisions that strengthen American industries have also exited its economy. Due to the strength of the US economy and the increase in interest rate, many investors have started withdrawing their investments from India and other countries of the world to America. With this, the demand for the dollar in the international money market is not taking the name. On the other hand, the average performance of European countries is also strengthening both investment and dollar in America.

Conclusion

The Ministry of Finance and the Reserve Bank of India are exploring options for giving money in oil imports and other goods for oil. India is looking towards Russia, Iran, and Venezuela with this. It is being said that India can take oil in exchange for the supply of medicines to Venezuela. Along with this, the Commerce

Ministry has asked the Reserve Bank of India to try the option of doing business with China also in rupee and yuan. India wants to do this to deal with the rising prices and shortage of foreign currency dollar and euro. Right now, there are many such examples around the world who are struggling with the decline in their currency due to the current account deficit. The current account deficit depends on the balance of trade. Balance of trade means the difference between imports and exports of any country. Right now, there is no hope of any decline in the prices of crude oil. In such a situation, no immediate improvement in the situation of the rupee is expected. If the increase in India's import bill is not halted, then this trend can continue. Irrelevant imports from abroad should be reduced so that the demand for dollars can be reduced.

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