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# THE PERFORMANCE AND JOURNEY OF THE INDIAN RUPEE - US DOLLAR EXCHANGE RATES

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**ABSTRACT**

US dollars is the utmost required currency in the world. With the power and might the USA holds as the superpower nation, it is but obvious that countries peg their currencies against USD.Rupee at an all-time low versus US dollar: The Indian rupee on October 2018, collapsed to the all-time low value against the US dollar at the foreign exchange market and broke 71 per USD level for the first time in history.In this research article an attempt is made to study the performance and journey of the Indian rupee US dollar from 1947 to 2018 and to find the factors influencing the depreciation of Indian currency against US dollar.

**KEYWORDS :**

## INTRODUCTION

US dollars is the utmostrequired currency in the world. With the power and might the USA holds as the superpower nation, it is but obvious that countries peg their currencies against USD. Among 185 recognized currencies by International Standards Organization very few are traded outside their countries. The three majority traded currencies in the world are USD, Euro and Yen. USD composes up 64% of the global trade, thus making it the de-facto global currency of the world. Currently, the value of India's currency "rupee" is continuously falling and its value has declined by 12% from January - September 2018. Amid, the BRICS nations; following the Russian Ruble, the Indian rupee have depreciated the terribly in this period. Presently, the exchange rate between the dollar and rupee is floating around Rs.72.51 againstoneUS dollar. In this article an attempt is made to study the performance and journey of Indian rupee to US dollar from 1947 to 2018 and to find the factors influencing the depreciation of Indian currency against US dollar.

## Exchange Rate

An exchange rate is the price of a nation's currency in terms of another currency. An exchange rate has two components, the domestic currency, and a foreign currency, and can be quoted either directly or indirectly. In a direct quotation, the price of a unit of foreign currency is expressed in terms of the domestic currency. In an indirect quotation, the price of a unit of domestic currency is expressed in terms of the foreign currency. Exchange rates are quoted in values against the US dollar.

## DEPRECIATION

Currency depreciation is the fall in the value of a currency in the exchange market. When the external value of the domestic currency depreciates while the internal value remains the same, such situation is known as the devaluation of the domestic currency. The depreciation take place because of market forces i.e. demand and supply.At the time of independence; India adopted the Par Value System of International Monetary Fund (IMF). On the August 15, 1947; the exchange rate between the Indian rupee and US dollar was 1USD is equal to 1 INR.

## Journey of USD to INR

- **First Devaluation due to lack of funds in the government**

Prime Minister Nehru adopted five year plans from Russia to have wealth crunch. To have a wealth crunch.  Among 1950s to 1960s, Indian government constantly borrowed foreign money in the form of loan.During the time the exchange rate became Rs. 4.76 to a dollar.

- **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. The Indira Gandhi Government devaluated it after years of a deep current account deficits, two wars with China and Pakistan, and a drought. To increase the domestic production scenario, Indian government needed updated technology, to have technology and to face the challenge of higher inflation, Indian government open the Indian economy for foreign trade, government devalued external value of rupee to Rs.7 against 1 dollar. And then it stayed at that level for a long time.

- **The Big deal of 1991**

In 1991 there were large scale reforms. Massive ones, like removing import quotas, export subsidies and so on. The rupee devalued by 20% almost instantly. To tackle the problems of Current Account Deficit (CAD), interest payment, fiscal deficit etc., Indian government devalued the Indian currency again USD to Rs.24.58 INR.

## Other Reasons

Experts find 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,

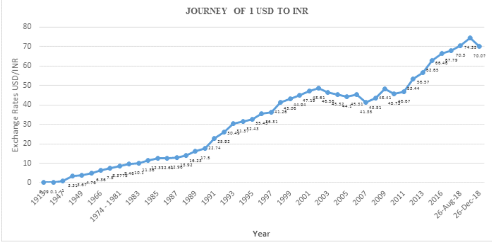
Inelastic import bill of petroleum products
Import of gold in huge quantity
Import of luxury goods
Nuclear test: Pokhran-II
Asian financial crisis of 1997
Global Financial slowdown of 2007–08
European sovereign-debt crisis (2011)

## Fall in Rupee

The recent fall in the rupee was mainly due to conditions in the euro zone, plunging stock markets, falling foreign investment inflows and strengthening of the dollar. The rupee how it moved from 7.5 in 1966 to nearly 74 in 2018

| Year | 1 USD TO INR | Year | 1 USD TO INR | Year | 1 USD TO INR |
|---|---|---|---|---|---|
| 1913 | 0.09 | 1989 | 16.23 | 2005 | 44.1 |
| 1925 | 0.1 | 1990 | 17.5 | 2006 | 45.31 |
| 1947 | 1 | 1991 | 22.74 | 2007 | 41.35 |
| 1948 | 3.31 | 1992 | 25.92 | 2008 | 43.51 |
| 1949 | 3.67 | 1993 | 30.49 | 2009 | 48.41 |
| 1950 - 1965 | 4.76 | 1994 | 31.37 | 2010 | 45.73 |
| 1966 | 6.36 | 1995 | 32.43 | 2011 | 46.67 |
| 1967 - 1973 | 7.5 | 1996 | 35.43 | 2012 | 53.44 |
| 1974 - 1981 | 8.3775 | 1997 | 36.31 | 2013 | 56.57 |
| 1982 | 9.46 | 1998 | 41.26 | 2014 - 2015 | 62.65 |
| 1983 | 10.1 | 1999 | 43.06 | 2016 | 66.46 |
| 1984 | 11.36 | 2000 | 44.94 | 2017 | 67.79 |
| 1985 | 12.37 | 2001 | 47.19 | 26-Aug-18 | 70.3 |

| | | | | | |
|---|---|---|---|---|---|
| 1986 | 12.61 | 2002 | 48.61 | 26-Oct-18 | 74.35 |
| 1987 | 12.96 | 2003 | 46.58 | 26-Dec-18 | 70.07 |
| 1988 | 13.92 | 2004 | 45.32 | | |




### Factors behind the depreciation of the INR against the USD

### 1. Surge in the crude oil Price

Increasing oil prices can take a bite out of India's economy. Crude oil is the major contributor in the import bill of India. Coupled with rising crude oil prices, the depreciating rupee can worsen current account deficit situation. In India about 80% crude oil is imported from the other countries like Iraq, Saudi Arabia, Iran and other gulf countries. According to the survey report of energy research and consultancy firm Wood Mackenzie, it was found that the fuel demand is anticipated to more than double to 190,000 barrels in 2018 rise form 93,000 barrels last year's. While the demand of crude oil is increasing the bill of oil import is also gets rising.

Data published by Petroleum Planning and Analysis Cell (PPAC), found that in current fiscal year (2018 – 2019) it is expected there will be jump in crude oil import bill from $88 billion last fiscal year to $109 billion in current fiscal year, i.e. up by 24%. Economic survey 2018 estimates that if there is increases in the crude oil prices by 10 dollar then the India's GDP will get decreases up to 0.2- 0.3 percent.India might overtake China as the world's largest oil demand growth center by 2024, according to a Wood Mackenzie report.

### 2. Global trade war between the US and China

The US President Donald Trump has instigated the trade war with China and European countries and India and these countries also reacted in the same way. Subsequently, due to this war the price of the imported commodities will get go up which will boost increase the outflow of dollar from the Indian market.Indian import bill is always greater than its export bill, so trade war will adversely affect the Indian market and India will also experience the outflow of US dollar from its domestic market.

### 3. Increasing Trade Deficit of India

Trade deficit is a condition, in which the import bill of a country exceeds its export bill. Indian merchandise trade deficit of $157 billion in 2017-18 was the widest since 2012-13 with a merchandise trade deficit of $190 billion and thetrade deficit was about $ 118 billion in the FY 2016. In Indian market, outflow of foreign currency is more than inflow of foreign currency. As per the law of demand, when more and more foreign currency flow out, i.e. dollar goes out of Indian market, its domestic price rises and the price of Indian rupee get depreciated.

### 4. Foreign Portfolio Capital Out-flows

If foreign investors finds other attractive markets in other parts of the world, they pull out their invested money in the Indian stock market by selling their equity shares. They demand their money in the most respected currency or easily accepted money i.e. dollar. So in such situation the demand of dollar increases which further leads to depreciation or devaluation of Indian currency against US dollar.

Foreign investors' portfolio investments have long been recognised as 'hot money' that comes in fast but can go out even faster and it is the outward journey that seems to be the underlying theme for the Indian capital markets as 2018 draws to a close, with net outflows nearing the Rs 1 lakh crore mark.Foreign Portfolio Investors (FPIs) have made withdrawal of about Rs. 87,000 crore from Indian capital markets in 2018, making highest in ten years. FPIs withdrew a net sum of Rs. 35,000crores,i.e., USD 4.6 billion from equities besides Rs. 52,700crore, i.e., USD 7.6 billion from the debt markets during the year 2018.

### 5. Current Account deficit

Increasing oil prices and a falling rupee mean that India's current account deficit may broaden to 2.8% of the GDP this financial year, higher from 1.9% last year, according to a report by Nomura Research. In 2018, the deficit has presently jumped to aalmost five-year high of $18 billion,which adds more pressure on the rupee.

### 6. US Fed (Federal Funds) rate changes

While national economies split an intricate bond, the causes of US Fed rate hikes are felt in the Indian market as well. A hike in the fed rates four times in 2018, strengthens the US Dollar, which in turn leads to a depreciation of the Indian currency.

## CONCLUSION

By all indications, most of these global cues are unlikely to change much in the immediate future. So businesses and individuals in India need to brace themselves. Our government should take efforts to further strengthen FDI and promote exports — by diversification, improving the quality of our commodities, and focussing more on developing and emerging market economies — will be helpful. That is the only long term sustainable and viable way to prevent the rupee from falling.

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