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Babuddin Khan
Third Concept
LB - 39, Prakash Deep Building,
7, Tolstoy Marg, New Delhi-110 001.
Ph : 23711092, 23712249, Fax No: 23711092.
E-mail : third.concept@rediffmail.com
Website: www.thirdconceptjournal.co.in

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Rupee's Free Fall

Continuous free fall of the rupee in recent days does not bode well with the growing economy, both in short-term and long-term, especially at a time when the pace of growth is gathering momentum. Rupee's declining value vis-à-vis US dollar is undoubtedly not a new phenomenon, but the steep fall being recorded by it in recent days should be a cause of serious concern. Government's plea that depreciation of the rupee vis-à-vis US dollar is less as compared to other currencies is no solace because fall in rupee has been worse among the Asian currencies. Some experts opine that at the time India attained independence, the value of one rupee was said to be equivalent to one dollar and over the decades, the rupee has been on a roller coaster ride and by September this year it has plunged to an all-time low of around 72 against one US dollar. Devaluation of rupee in 1966 recorded a depreciation of about 57 per cent, and again in 1991, rupee was devalued to 25.95 against a dollar in the wake of foreign exchange crisis. Asian financial crisis of the late 1990s further contributed to rupee depreciation when it reached a low of about 43 per US dollar.

Further sharp depreciation in rupee from 40 in end-March to 51 at end-March 2009 occurred in the wake of global financial slowdown. August-December 2011 again witnessed currency depreciation by about 17 per cent in the wake of the deepening Eurozone crisis. Factors like reversal in capital inflows, high CAD, deceleration in GDP rate coupled with high WPI inflation and large-scale deficit in 2013 pushed rupee to a historic low of 68.85 against the dollar. The then ruling dispensation was UPA at the fag end of its second term in power and it was bitterly criticized by BJP, then the main opposition party. A senior BJP leader had then tweeted: "The rupee has lost its value. The Prime Minister has lost his grace." The history of 2013 has been repeated in 2018 as far as free fall of the rupee is concerned and those who decried the UPA then are now in power and are engaged in straining every nerve to put up defence against depreciating rupee. Some analysts have attributed such a steep fall in rupee to external developments like rising crude oil prices, US-China trade spar, strengthening of the US dollar as a sequel to a robust economic recovery in the US followed by hike in interest rates in the US thereby making investments in the US more attractive thus resulting in outflow of funds from emerging markets, including India.

Some critics opine that a fall in the currency affects the common man in terms of hike in fuel prices, imported goods, and goods produced within the country with imported raw materials. Concurrently, a weak currency can also be catalyst for boosting exports, but export earnings cannot fill the gap created by imports in India's case. Current slide in the rupee may be good news for exporters because their products may become more competitive. Besides, individuals receiving funds from abroad stand to benefit. Also, the Indian software companies, which bill their clients in foreign currency, tend to gain too. Some experts disagree with the proposition that a falling rupee is an opportunity for boosting exports and point out that a weaker rupee vis-à-vis the US dollar is an effete and inadequate driver to boost exports because India's exports are more in sync with global imports or international demand trends rather than a weak currency.

While arguing that some degree of depreciation in line with other international currencies is called for to keep India's exports strong, these experts also draw attention to declining trends in India's exports, especially in the ready-made garment sector and Washington's move of challenging India's export subsidy regime at the WTO, thereby making it cumbersome for the government to dole out more sops for exports and the net outcome is bleak prospects. Besides, GST-led interruptions, coupled with a weakening of major currencies across emerging economies, have constrained exporters' ability to benefit on a weaker rupee. Any further increase in crude prices and deterioration in US-China trade talks can further lead to fall in the rupee.

— BK