

## Downfall of Indian Rupee

**Mains:** *GS II – Effect of Policies and Politics of Developed and Developing Countries on India's interests.*

*GS III – Effects of Liberalization on the Economy*

### Why in News?

Recently, The Indian rupee has been in the news recently for its sharp depreciation against the dollar.

### What is the strength of Indian rupee globally?

- **Indian rupee** – The Indian currency is called *the Indian Rupee (INR)*.
- One Rupee consists of 100 Paise.
- The symbol of the Indian Rupee is ₹.
- The design resembles both the Devanagari letter "₹" (ra) and the Latin capital letter "R".
- **Exchange rate** – An exchange rate is a relative price of one currency expressed in terms of another currency or group of currencies.
  - **For example**, if the US Dollar is stronger than the Indian Rupee, it implies that value of the US Dollar is higher w.r.t. the Indian Rupee.
- **Determinants of exchange rate** – It is influenced by a wide range of factors, including
  - Interest rates
  - Inflation rates
  - Trade balances
  - Economic growth prospects
  - Geopolitical events, and government policies.
- **Current status**

Indian Rupee	1.00 INR	inv. 1.00 INR
US Dollar	0.011418	87.582318
Euro	0.009788	102.161862
British Pound	0.008478	117.951750
Australian Dollar	0.017502	57.137906

## What are factors for downfall of rupee?

- **Indo-Pakistan conflict** - Operation Sindoor, carried out by India in the first week of May, dragged the rupee below 85.
- **Iran-Israel war** - It triggered a sudden spike in the Crude Oil price.
- Brent Crude oil spiked about 15% from around \$68 to \$78 in just one week.

***Brent crude** is a specific type of light, sweet crude oil, and it's also a major global benchmark for oil prices.*

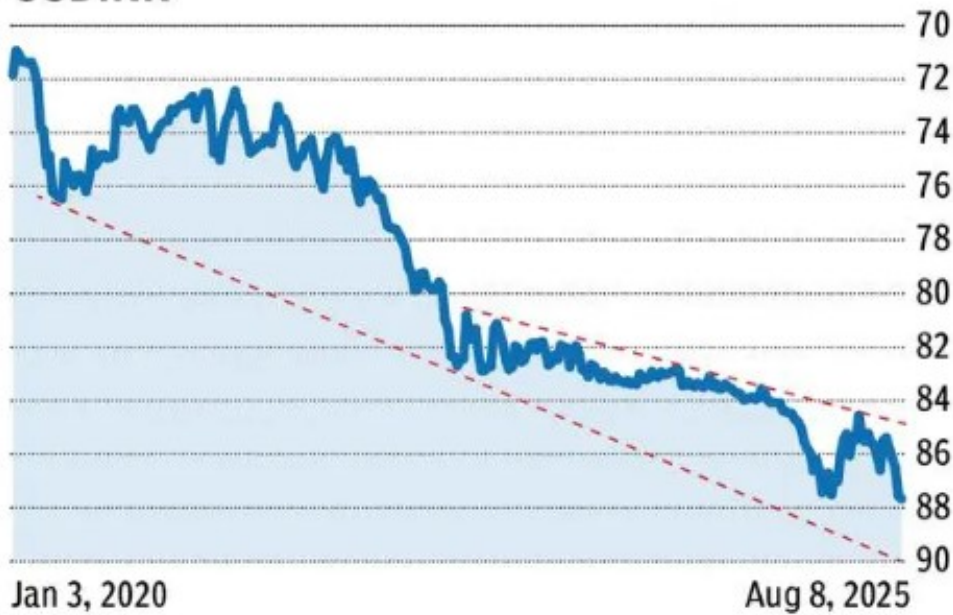
*It's primarily sourced from the North Sea oilfields and is widely traded because it's easy to refine into gasoline and diesel.*

- This sharp rise in oil price knocked the rupee down by 2% from around 85.4 to 86.9 against the dollar.
- **Outflows of foreign money** - The foreign portfolio investors (FPIs) pulling out money, has also been one of the major contributors for the rupee weakness.

***Foreign portfolio investors** are those who are holding financial assets, such as stocks and bonds, in another country to diversify their portfolios.*

- The foreign portfolio investors (FPIs) drew out \$2.05 billion from the equity segment in July.
- This pulled down the Nifty 50, the benchmark equity index, by 3%.
- It dragged the rupee below 87 again and the currency was down 2% for the month.
- **Tariff imposition by US** - A 25% tariff on Indian imports dragged the rupee to a low of 87.80 in the final trading day of the month.

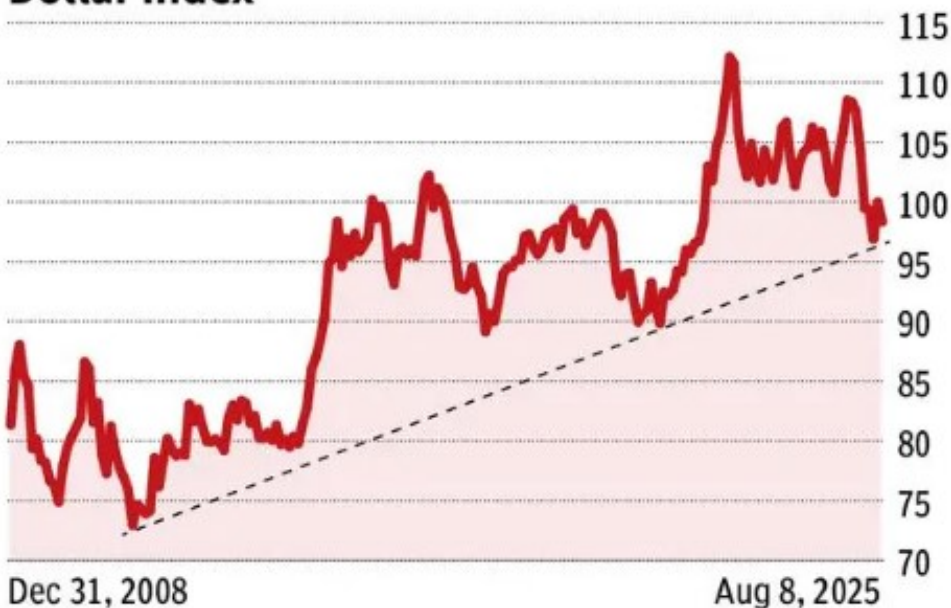
## USDINR



- **Possible dollar strength by US** – The dollar index (98.18) touched a low of 96.38 in July and has risen back well from there.
- On the charts, the region around 96 is a very strong long-term trend line support.
- So, there are good chances that the dollar index has found its bottom already.
- From a long-term perspective, if the dollar index sustains above 96, a rise to 106-108 cannot be ruled out.

***U.S. Dollar Index (USDX)**, is a tool for assessing the strength or weakness of the US dollar in relation to a basket of major currencies.*

## Dollar index



## What lies ahead?

- Promoting the consumption of locally made products over imported ones, Could reduce the demand for foreign currency.
- Cutting down on non-essential imports could help reduce the trade deficit which in turn strengthen the rupee.
- Government policies that aim to boost exports and reduce imports could have a positive impact on the rupee.

## Reference

[Business Line| Downfall of Indian Rupee](#)

