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?

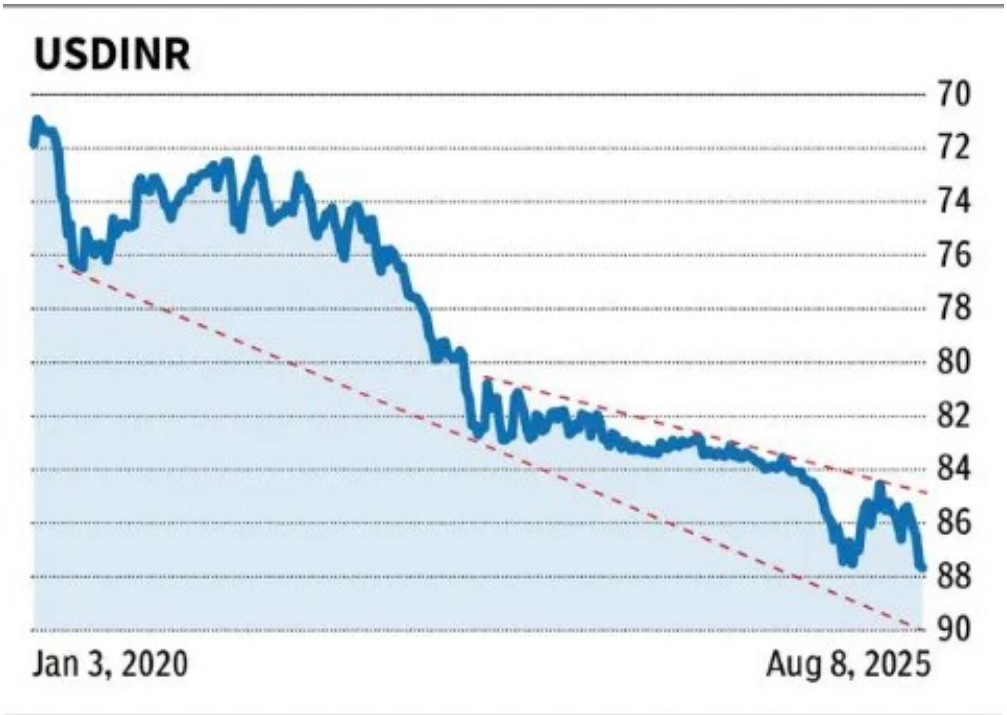
- **Indo-Pakistan conflict** – Operation Sindoor, carried out by India in the first week of May, dragged the rupee below 85.
- **Iran-Israel war** – It triggered a sudden spike in the Crude Oil price.
- *Brent Crude oil* spiked about 15% from around $68 to $78 in just one week.

> ***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.

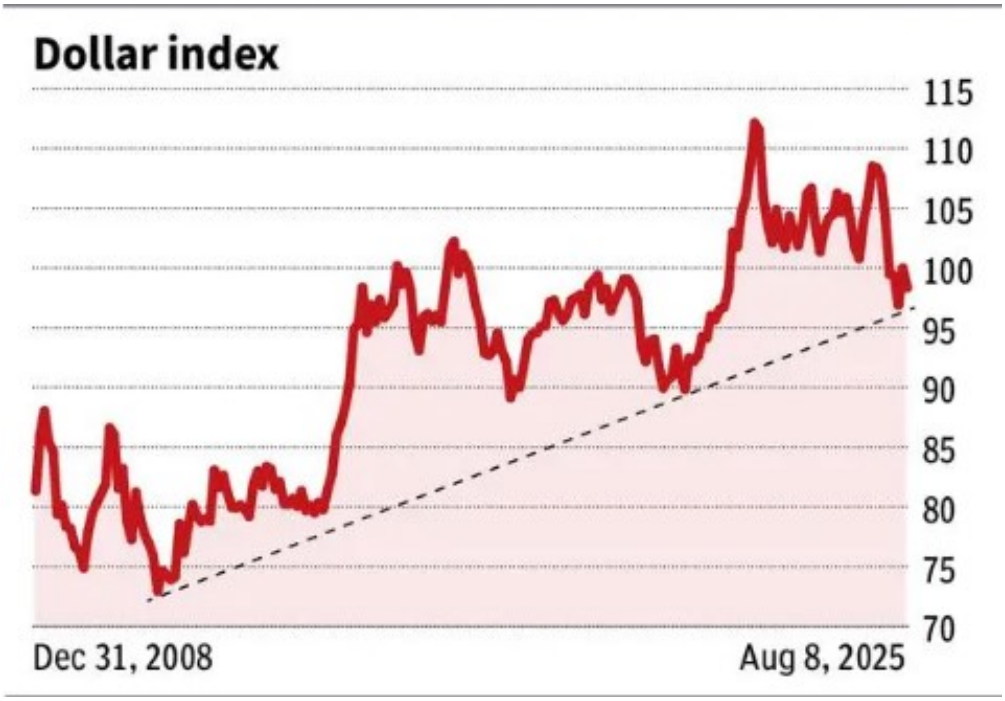
> ***Foreign portfolio investors*** *are those who are holding financial assets, such as stocks and bonds, in another country to diversify their portfolios.*

- 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.



- **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.*



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

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