Falling rupee value

What is the issue?

- The rupee has had a sharp depreciation in its value versus the dollar in the past one month after a prolonged period of relative stability.
- It has weakened by a little over 4% since mid-July 2019 and nudged the 72 marks to a dollar before retracing its steps.

How this fall should be viewed?

- The fall has to be seen in the context of the overall weakness in currencies of emerging markets and Asia in August 2019.
- The Turkish liras, Brazilian real, South Africa's rand, the Mexican peso have all uniformly lost value versus the dollar.
- The Argentine peso lost the most, but this has more to do with the Argentine economy's woes.

What was the trigger?

- The trigger for the fall was China's devaluation of the yuan to below the 7 per dollar level for the first time in more than a decade.
- The last time that the yuan was seen below the 7 per dollar mark was during the global financial crisis in 2008.
- The yuan's devaluation is itself a part of the complex trade war that Beijing is now waging with the US whose President has labelled China a currency manipulator.
- Emerging market currencies have also been depressed more since the bond yield curve inverted in the U.S. last week when yields on 10-year bonds fell below the two-year note signalling the market's fear of a recession in the U.S. economy.
- While there's no data to support such fears as of now, the trade spat with China seems to be giving the jitters to the market.

- The fall in the rupee is also influenced by the **overall economic slowdown** and the **sell-out in the equity markets** in the last two months leading to capital withdrawal by foreign portfolio investors.
- The **capital outflow** particularly has hit the currency's valuation.

Why this fall isn't worrisome?

- The fall is no cause for alarm as yet because there is stability on the external account with the current account deficit at a comfortable 0.7% in the quarter ended March 2019.
- Export growth is depressed but the forex reserves are at a high level of $430 billion. In fact, the fall will make India's exporters competitive.
- Economists often complain that the rupee is over-valued in terms of the Real Effective Exchange Rate (REER) making exports uncompetitive.
- But, the Reserve Bank of India does not appear to have intervened in support of the rupee, signalling that it is not uncomfortable with the fall.
- The central bank can be relied upon to enter the market if things get too depressing for the currency.
- The Finance Minister's announcements recently are sure to perk up the markets and the rupee may yet bounce back.
- But, eventually, in an environment where other major emerging market currencies are depreciating, the rupee cannot be an outlier.

Source: The Hindu

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