DEPRECIATION OF RUPEE IN INDIAN ECONOMY: AN ANALYSIS

Dr. Partap Singh,
Former Head (MBA), SDITM
Faculty Member of Deptt. of Management studies,
NC College of Engineering
Israna, Panipat, Haryana

ABSTRACT

From the early 1980s the International Monetary Fund (IMF) has projected devaluation as a potential solution for developing nations that are constantly spending more on imports than they earn on exports. A lower value for the home currency will raise the price for imports while making exports cheaper. Fall in value of rupee can lead to a reduction in citizens' standard of living because their purchasing power is reduced when they buy imports and when they travel abroad. It also can add to inflationary pressure. Devaluation can make interest payments on international debt more expensive if those debts are denominated in a foreign currency, and it can discourage foreign investors. The present paper aims to explore the real implications and causes of the depreciation of the rupee on the Indian economy. Moreover; it estimates that the Indian economy has more to lose and less to gain with depreciation of rupee in long run.

Key Words: Depreciation, current account deficit government deficit trade deficit.

INTRODUCTION

The exchange rate means how much one currency is worth in terms of another **currency** ($1 = Rs. 55)**.** There are two types of exchange rate - Fixed and Floating. Some countries have fixed exchange rate systems and some have floating. The fixed exchange rate doesn’t fluctuate because of government intervention while the floating exchange rate on the other hand keeps on changing constantly just like the stock market. India has a Managed Floating Exchange Rate System which means that the Indian government intervenes only if the exchange rate seems to go out of hand by increasing or reducing the money supply as the situation demands. When rupee is appreciating, it means that our currency is gaining strength and its value is increasing with respect to dollar while when rupee is depreciating, it means our currency is getting weaker & its value is falling with respect to dollar.

The main reasons for appreciation or depreciation of Rupee are: (i) Interest Rate: The interest rate differentials create demand *between* **t**wo countries. In developing countries like India interest rate prevails around 6-8% which encourage capital inflow as investors as they can get better return than what they might get in their home countries like US (with Interest rates of 1.5-3%) which lead to rupee appreciation.(ii) Inflation Rate**:** The demand for a India’s goods & services by the foreign buyers would be more when the inflation rate is lower in India compared to other countries. It may lead to higher demand for Indian currency resulting in the appreciation of the Indian currency. (iii) Forex market: There are fluctuations in exchange rate at every moment due to speculative trading in the Forex market which depends on various fundamental factors like the growth potential in the economy, interest rate differential and the inflation rate existing in different countries. In India the government purchases rupee in exchange for the

foreign currency to increase money supply in the economy resulting depreciation of the Indian currency while it purchases foreign currency in exchange for rupee to reduce the money supply in the economy resulting appreciation of the Indian currency. (iv) Export-Import**:** If a country (India) is exporting more than its imports from other countries, then this would mean higher demand for that currency (rupee) which leads to appreciation of that currency against others.
From the early 1980s the International Monetary Fund (IMF) has proposed devaluation as a potential solution for developing nations that are consistently spending more on imports than they earn on exports. Experts, who a few weeks ago predicted that the Indian currency might stabilize at 55 rupees to the dollar, now say this may happen at 60 rupees. There are mainly two ways by which currency rates are managed. Firstly, countries fix their currency against dollar. Hence the exchange rate doesn't change. Government takes action to manage any fluctuation that may happen. Secondly, countries leave it to the market to decide their exchange rate. In such a system, countries follow policy of non-interference. India doesn't have a fixed value of rupee against dollar but it also doesn't keep its currency completely floating against dollar. In India there is a system where the central bank allows rupee to fluctuate within a specified range**.** A billion dollar question is that why are investors not investing in the Indian markets, while they are shifting from European markets? The Indian economic scenario for the year 2011-12 has been snowed under by high rate of inflation, and extremely low growth in manufacturing sector. The growing effects of these factors are leading to a shift in investor sentiments towards dollar market.

CURRENT SCENARIO

It is recognized that cumulative effect of several national and international factors, including the Eurozone crisis, for the devaluation of the Indian rupee, which hit a record low of 56.40 against the dollar this week. There are multiple reasons which are responsible for the fluctuation in the value of the rupee. The volatility in the oil prices and the uncertainty in Europe have resulted in a situation where many agents are putting their surplus in America which is considered a safe haven at present. Back in the country, the reduction in exports and increase in imports, and the fiscal deficit has increased as also current account deficit which also have played their part. It has been observed that the decrease in demand of Indian goods in European market for the decline in exports and economic recovery at the moment is poor and fragile. It is hoped for a flow in foreign institutional investment (FII) and foreign direct investment (FDI), the government has been taking necessary steps at the opportune time for attracting investments.
Daily News & Analysis(May 23, 2012) Continuing free-fall for the sixth day in a row, rupee crashed below the psychological level of 56 against US dollar to yet another all time low on heavy demand for the American currency from importers, especially oil refiners, amid foreign fund outflows and weak equities. At the Interbank Foreign Exchange (Forex) market, the domestic unit recorded its steepest fall ever by dipping below the crucial levels of Rs55 and Rs56 per dollar within a span of two days, forex dealers said. After a lower start at 55.82, the rupee continued its downward journey by losing 74 paise at 56.13 at 1350 hrs. Strong dollar demand from importers pulled rupee down to a record low of 56.13, placing the domestic currency, which has lost over 12% since March this year. Forex dealers said the American currency remained in demand even as the Reserve Bank imposed restrictions of forward contracts by banks and arbitrage trading. They said capital outflow of foreign funds from falling markets

remained a major driver behind the rupee's fall as dollar surges because investors are finding the American currency a safer bet amid concerns that Greece might exit euro-zone.

The table 1 exhibits that the greatest decline in the value of rupee was in 1992 while the highest growth in the value of rupee in the year 1978. Except the year 1977-80, 2003, 2004, 2005, and 2010; the decline in the value of rupee was recorded in each year.

MAJOR REASONS BEHIND FALL IN THE VALUE OF INDIAN RUPEE

The value of a currency depends on factors that affect the economy such as imports and exports, inflation, employment, interest rate, growth rate, trade deficit, performance of equity markets, foreign exchange reserves, macroeconomic policies, foreign investment inflows, banking capital, commodities prices and geopolitical conditions. Income levels influence currencies through consumer spending. When incomes increase, people spend more. Higher demand for imported goods increases demand for foreign currencies and, thus, weakens the local currency.

Mounting Current Account Deficit: Current account deficit indicates the status on trade between a country and the rest of the world. Any deficit in current account shows that a country's total imports of goods, services and transfers is greater than the country's total export of goods, services and transfers. This situation makes a country a net debtor to the rest of the world. In such situation, a country has to buy more foreign currency to meet its need within the country. It leads to increase in the demand for the foreign currency and increased demand of foreign currency which further lead to increase the value of foreign currency while reducing the value of that currency of that country. The deficit was registered $74bn during the year in 2011-12 which was $46bn in the year 2010-11. It was a huge jump. It also recorded continue higher at $ 77bn.The foreign exchange reserves of India have dropped from a peak of $320bn in September 2011 to $290bn now. However, a considerable current account deficit is not necessarily a bad thing for certain developing counties which may run a current account deficit in the short term to increase local productivity and exports in the future.

Interest Rates: The factor is the difference in interest rates between countries. The variation in interest rates affects the value of currency of a country. If there are higher rates of interest in a country, it will give the opportunities of higher return to the investors which will attract foreign capital in the country. Thus, the higher interest rates increase the value of currency in a country and vice-versa.

Inflation: Inflation is a process of persistent rise in general price level. A country that has a consistently lower inflation rate, value of its currency will rise as it increases the purchasing power in comparison to other countries. A fall in purchasing power due to inflation reduces consumption, hurting industries. Imports also become costlier. Exporters, of course, earn more in terms of local currency.

Corruption and Political Instability: Under Congress government regime, a series of corruptions cases are being observed which has reduced confidence among investors. The central government has failed to implement effective economic reforms during its tenure. A lot of agitation (especially Anna Hazare’s compaign) was made which were common in world media. It creates unrest among the investors. There is a lack of firm initiative by government on issues like allowing FDI in retail. Recent debacles such as 2G have further rendered the Indian market unattractive to a certain extent. Therefore, there is a need of political reforms in India so that positive attitude can be created among investors.

Mounting Demand of Dollar: The following forces increased the demand of dollar in previous year to now. Due to instability in European markets, investors are considering dollars as a safe haven for their investments in the longer run. In an atmosphere of fear of sovereign defaults, banking crises and a return to recession, the dollar, which was expected to weaken because of economic circumstances in the United States and was indeed drifting downwards, is suddenly gaining in strength.

A host of alternative assets—oil, gold and metals among them—which were targets of a bull run previously are all of a sudden being dumped in favour of the dollar. The rupee and other currencies, it is argued, suffer on account of this. But uncertainty has been with us for long, and those assessing the dollar’s recent rise do recognise the role of speculative investors in competing asset markets. So it is quite possible that speculation played a role in India’s liberalised currency market too. This led to an increased demand for dollars vis-à-vis the supply for rupee and thus the depreciation

The drop in rupee can be mainly credited to the speculations prevailing in the markets. Due to a sharp increase in the dollar rates, importers unexpectedly started panting for dollars in order to hedge their position. It has led to an increased demand for dollars. Alternatively exporters kept on holding their dollar reserves, speculating that the rupee will fall further in future. This interchange between the two forces further fuelled the demand for dollars while sequestering its supply from the market. This further led to the fall in rupee.

Finally, there has been shift of FII’s (Foreign institutional investors) from the Indian markets during the current financial year 2011. As per a recent report, the share of India’s FII in the developing markets has decreased considerably from 19.2 % in 2010 to 3.8% in the year 2011. They are taking their investments out of the Indian markets which have led to an increased demand for dollars, further leading to a spiraling rupee.

High Government Deficit: In previous years a government's total expenditures has exceeded continue the revenue that it generates (excluding money from borrowings) and was registered nearly 10 percent of GDP. The highest deficit has lead to lost faith in the Indian economy.

Mounting Trade Deficit: **I**ndia's trade deficit in the 2011-12 fiscal years is seen at USD 185 billion, higher than a revised estimate, mainly on a surge in crude oil prices. India imports nearly 80% of its crude oil needs. A $1 per barrel decrease in crude price reduces the country's deficit by $900m at existing import volumes. Similarly, in last month India's trade deficit for the 2011-12 financial year that ended on March 31 would likely touch USD 175-180 billion from an earlier estimate of USD 160 billion. April-March exports have crossed USD 300 billion while imports during the period were seen at USD 485 billion. Due to India imports more goods (in value terms) than it exports, it results in a huge imbalance in trade which leads to too demand of foreign currency and reduce the value of Indian rupee.

Outflows of Foreign Capital: This is burning issue in Indian economy at present. Due to global uncertainty and various economy crises like Europe Sovereign debt problems, investors are considering dollars as a safe haven for their investments in the longer run. This led to an increased demand for dollars vis-à-vis the supply for rupee and thus the depreciation. It created safety feeling among the investors. Therefore, they quickly pulling out the money from Indian market and investing in any other safe investment like Gold or US dollar.

Foreign Institutional Investors (FIIs) have been selling across markets and pulling out money, their outflow was highest from India in 2011, compared with BRIC peers (Brazil, Russia, India and China) and other emerging markets. According to data compiled by EPFR Global, FIIs withdrew over $4 billion from India in 2011; against an inflow of $1.35 billion in 2010.Emerging European countries and China are other markets where FII outflows during 2011 were significant at $3.7 billion, followed by Brazil that saw $2.35-billion being pulled out. Foreign equity funds have been withdrawing from these markets consequently since last seven weeks.

Lower Inflows of Foreign Capital: India remained unable to attract enough foreign capital as well as money from non-resident citizens to make up for the trade deficit. The total of both direct and portfolio investment inflows into India, RBI figures exhibit that they stood at $62 billion in financial year 2007-08, dropped to $28 billion during the year of global crisis 2008-09, and then bounced back to $70.1 billion in 2009-10, $64.4 billion in 2010-11 and close to $60 billion during the first 11 months (April-February) of 2011-12. If aggregate investment flows are seen as influencing the value of the rupee, the depreciation of the rupee in crisis year 2008/09, from less than Rs 40 to the dollar to Rs 52 to the dollar, is explained well by the figures, which point to a significant decline in the volume of capital inflows into the country during that period. The following appreciation of the currency to a level of about Rs 44 to the dollar by late 2010 is also in keeping with the increased foreign exchange inflow that the revival of foreign investment resulted in. Foreign investors have doubt regarding India's commitment to economic reforms, retrospective taxes, and policy paralysis within the government have forced foreign investors to either postpone their investment decisions, or take money out of Indian stock markets. Thus, it result was fall in the value of rupee.

Oil Prices: (Business Line April 30, 2012) International oil prices have risen harshly in recent months because of the political uncertainties in West Asia. That price increase has not yet impacted the Indian people because the election season that concluded only recently forced the government to hold back on increasing the domestic prices of petrol and diesel.

But with this round of elections over, there are powerful forces within the government pushing for an adjustment of domestic oil prices to bring them on a par with international prices. If that is done, the increase would be substantial. Rupee prices would have to be increased not only to take account of the increase in the dollar price of oil, but also the depreciation of the rupee relative to the dollar. The hike would be substantial. Oil imports are where a weak rupee hurts India the most. At $155.6 billion, oil accounted for nearly 32 per cent of total imports ($488.6 billion) in 2011/12. A weak rupee increases the import bill and cancels out the benefit of any decline in global crude prices. Unfortunately, investors do pay attention to ratings, including speculative investors. Having exposed itself excessively to such investors, India's government does have reason to fear further downgrades and further volatility.

Rupee Speculation: It refers to the flow of funds (or capital) from one country to another in order to earn a short-term profit on interest rate differences and/or anticipated exchange rate shifts. These can move very quickly in and out of markets, potentially leading to market instability.

RBI is unable to manage its exchange rate, and reduce the adverse impact on its currency; they may enter the market in a big way to sell the rupee. As a result, the rupee may devalue more than it should. Portfolio inflows stood at $27 billion in financial year 2007-08, a negative $14 billion during the year of global crisis 2008-09(an outflow in that year), and then rose to $32.4 billion in 2009-10 and $31.5 billion in 2010/11. But, these short-term flows knocked down again to $18 billion during the first 11 months (April-February) of 2011-12. These variations in foreign capital state the fall in the value of rupee.

IMPACT ON ECONOMY

There are many losers in the domestic economy. Importers of capital goods, raw material, intermediates and components would be hit hard. India's already high and persistent inflation could be aggravated, and those directly or indirectly consuming imported products varying from food articles to petroleum products would be adversely affected by rupee price increases. Finally, corporate who rushed to the international financial market to borrow funds because of lower interest rates abroad must be counting their losses. The rupee's depreciation is, therefore, a matter for concern.

ENCOURAGE EXPORT AND DISCOURAGE EXPORT: Fall in the value of rupee makes exports cheaper and imports expensive. The various sectors like petroleum and petroleum products, engineering goods drugs and pharmaceuticals – which have import inputs of as much as 75-77 percent, 19-21 percent and 17-19 percent , respectively (As per report of Associated Chambers of Commerce and Industry of India) lead to a strict dent on their income due to fall in the value of rupee. The reason is that they would have to pay more for the imported raw materials which would decrease their profit margins. On other hand, the falling rupee value makes Indian domestic goods and services cheaper for foreign buyers. So, it may increase in demand of Indian goods and services. It may lead to greater revenue generations. Indian industries like textiles, IT, hotels and tourism can generate income by exporting their products or services due to depreciating rupee and they can increase their profit margin. The foreign tourists can enjoy cost effective scenario in India. It may lead to increase the business of hotel, tours and travel companies.

IMPACT ON FOREIGN INVESTORS: When foreign investors invest in Indian stock market, they make a loss if it depreciates and may earn profit if rupee appreciates. Suppose, a foreign investor Invests $4, 00,000 in the Indian stock market and at an exchange rate of $1 = Rs. 50. So, the amount invested is Rs 2 crore. Suppose, after one year, even if the value of investment doesn't appreciate the foreign investor can earn a profit if the exchange rate has changed to $1 = Rs. 55 (Rupee depreciation). If the investor sells his investment and converts the currency, he would get $ 3, 63,636. So, he would lose $ 36364 as a loss due rupee depreciation. So, they are not being interested in Indian economy as they have lost their confidence due to it.

HIGHER INFLATION: Increase in import prices of essential commodities such as crude oil, fertilizer, pulses, edible oils, coal and other industrial raw materials are bound to increase the prices of the final goods. Thereby making it costlier for the consumers and hence inflation might be pushed up further.

INCREASE IN COST OF BORROWING: The fall in value of rupee harshly affects the cost of borrowings for the corporate world. In domestic and global markets, interest rate differentials encourage the corporate world to raise money through foreign markets. However, a falling value of rupee has reversed the benefits of doing so. It has increased the cost of dollar loans taken by companies and increased the foreign debt. Increase in Interest rate and increase in Dissatisfaction among Foreign Institutional Investors (FIIs): Depreciating rupee will slow-down the overall economic growth by increasing the interest rate and discourages flow of FIIs. Foreign Institutional Investors (FIIs) have been selling across markets and pulling out money, their outflow was highest from India in 2011, compared with BRIC peers (Brazil, Russia, India and China) and other emerging markets. According to data compiled by EPFR Global, FIIs withdrew over $4 billion from India in 2011; against an inflow of $1.35 billion in 2010.Emerging European countries and China are other markets where FII outflows during 2011 were significant at $3.7 billion, followed by Brazil that saw $2.35-billion being pulled out. Foreign equity funds have been withdrawing from these markets consequently since last seven weeks.

INCREASE IN FISCAL BURDEN: The central government fiscal burden might increase as the hike in the prices of imported crude oil and fertilizer might call for a higher subsidy provision to be made for these commodities.

INCREASE IN THE IMPORT BILL: A fall in the value of Indian rupee results in higher import costs for India. In December 2011, rupee cost of imports has increased to Rs. 65999 crore in December 2011 from Rs.29959.2 core on account of fall in rupee. Due to rupee depreciation import bills in the below two situations differ by Rs. 36039.8 crore (as shown in table 1.1). It was observed from table 1.1 that Crude Oil was depreciating over the period of time. Dollar price of Crude have declined while exchange rate was depreciating. But, due to depreciation of currency domestic price of crude oil became more expensive.

Table1. 2 exhibits that Import bill of crude oil increased by Rs. 5676.7 crore when exchange rate was varying during the respective month while Import bill of crude oil decreased by Rs. 4405.9 crore when exchange rate was fixed during the respective month. Thus, Import value in terms of international currency has declined in December as compared to April 2011 and in terms of domestic currency import costs of Crude oil have increased.

IMPACT ON IMPORTERS AND PRICES OF GOODS: Fall in value of rupee has increased their payment burden.

Dollar price of - impact of rupee depreciation on Crude oil imports suggests: Crude Oil Price has declined while exchange rate was depreciating. Depreciation of currency, domestic price of crude oil has become more costly. The importers have-Expenditure on power and fuel for industry has increased and they have to pay an additional Rs. 489.8 per barrel to import the same quantity of Crude Oil.

Table 1.3 states that the global prices of Crude Oil in November 2011 were lower than in April 2011. But, the importers have to pay an additional Rs. 489.8 per barrel to import the same quantity of Crude Oil.

THE IMPACT OF RUPEE DEPRECIATION ON THERMAL COAL IMPORTS SUGGESTS: Benefit of falling commodity prices is not being transferred to the industry due Rupee depreciation coupled with inflexible tariff-of rupee depreciation. The structure means that the power companies will have to suffer huge losses. Importer has to pay an additional Rs. 684.6 per tonne to import the same quantity of coal.

Table 1.4 states that the global prices of Thermal Coal in November 2011 were lower than in April 2011. But, the importers have to pay an additional Rs. 684.60 per tonnes to import the same quantity of thermal coal.

THE IMPACT OF RUPEE DEPRECIATION ON FERTILIZER IMPORTS SUGGESTS: been an increase in the global prices of DAP fertilizer. The depreciation of rupee has¬ Continuous increase in¬further aggravated the cost pressures on the industry. The prices of imported fertilizer can also adversely impact the subsidy burden of the government.

Table (1.5 & 1.6) states that an increase in the global prices of DAP fertilizer has been witnessed between the months of May 2011 to November 2011.The combined effect of a depreciation rupee and an increase in dollar prices of DAP fertilizer has meant that the importer has to pay an additional Rs. 3658.3 per mt to import the same quantity of coal. The effect of rupee depreciation becomes more evident when we see that had the rupee stayed at May 2011's level then the additional amount the importer would have to pay would have been Rs. 945 per mt. Therefore, due to rupee depreciation the importers burden has increased by Rs.2713.3 per mt.

IMPACT ON COMPANIES AND CONSUMERS

A depreciating rupee makes import of Crude oil more expensive which directly leads to an increase in the operating expense of the companies. Thereby hitting their profit margins. For the consumers, a constant rise in import prices of crude oil would mean a Increase in petrol & diesel prices.

IMPACT OF RUPEE DEPRECIATION ON POWER GENERATING COMPANIES: A sharp decline in the value of the rupee is bound to affect the power generation capability of power plants that are heavily dependent upon imported coal for electricity generation. This would mean an increase in the level of energy deficit in the country. Moreover, a fall witnessed in power generation capacity is likely to have an adverse affect on all the three sectors of the economy namely agriculture, industry and services. Another dimension to the rupee depreciation episode is that not only has the expenditure on imports increased but this coupled with an inflexible tariff structure means that the power companies are going to suffer huge losses(see table 1.3 & 1.4)

IMPACT ON FERTILIZER INDUSTRY: With the Indian currency depreciating and an increase in the price of DAP (fertilizer) in international markets the import prices of fertilizer have increased and fertilizer makers have come under pressure. In such a scenario the Indian fertilizer makers have been trying hard to renegotiate the rates with their suppliers so that they can abstain from passing on the price burden to the consumers. In addition the fear of a demand contraction as well as the competition prevailing is acting as a deterrent for the fertilizer companies from raising their prices. A continuous increase in the prices of imported fertilizer can also adversely impact the subsidy burden of the government Table (1.5 & 1.6).

"Each 1% movement in the Rupee against the US Dollar has an impact of approximately 50 basis points on operating margins" – Infosys Annual Report (x). Devaluation can lead to a reduction in citizens' standard of living as their purchasing power is reduced both when they buy imports and when they travel abroad.

ROLE OF RBI AND DEPRECIATION OF RUPEE

RBI has however reacted with timely interventions by selling dollars intermittently to broken sharp fall in the currency. The outflow of dollar reserves from RBI makes mandatory its interventions due to the decreasing foreign exchange reserves. The foreign exchange reserves of India in December 2011 stood at 270 billion USD. Recently RBI has intervened with key policy initiatives such as intervening in the forward contracts policy. As per new RBI policy the cancelled forward contracts cannot be rebooked. Exporters in order to gather in more profits, were booking forward contracts, then cancelling the contracts, and again rebooking at better rate. This led to a further depreciation in rupee and fuelled speculations. Besides, RBI occasionally put trading limits for the banks in the foreign exchange market in order to broken the speculative forces.

The Reserve Bank of India intervened in the market to take into custody the fall of rupee as it crossed the 55 per dollar limit Monday. It has issued notification that the positions in the exchanges (both Futures and Options) cannot be offset by undertaking positions in the OTC market and vice-versa. The positions initiated in the exchanges shall be liquidated or closed in the exchanges only.

Further, the position limit for the trading member AD Category-I bank in the exchanges for trading Currency Futures and Options shall be US$ 100 million or 15 per cent of the outstanding open interest, whichever is lower. It also advised the banks dealing in foreign currency to bring down their trading limits by June's end. The rupee gained in the morning trade and was at 54.60 against the dollar but tumbled to an all-time low of 55.35 against the dollar in the afternoon session. Apart from the strong dollar globally, the foreign fund outflow and India's trade deficit also dragged the rupee down.

CONCLUSIONS

Under WTO regime Indian Rupee is daily hitting new all-time lows against the US Dollar, mainly due to Europe's debt crisis. Devaluation can be seen as an attractive solution to unemployment when other options, like increased public spending, are ruled out due to high public debt, or when a country has a balance of payments deficit which devaluation would help correct. A reason for preferring devaluation common among emerging economies is that maintaining a relatively low exchange rate helps them build up their foreign exchange reserves, which can protect them against future financial crises. Since India's Imports are more than its exports (70% Import – 30% Export).Therefore, a depreciating rupee is always harmful for the overall economy.

A country that sells more goods and services in overseas markets than it buys from them has a trade surplus. This means more foreign currency comes into the country than what is paid for imports. This strengthens the local currency. In practice, however, once the fall began, it persisted in the absence of central bank intervention. This was possibly because, besides the factors noted above, the dollar became a target for 33speculators, who were expecting the rupee to depreciate and therefore holding on to dollars or buying into it for subsequent sale at a profit. It is only when the RBI finally turned proactive and intervened in the market did the dollar's rise vis-à-vis the rupee halt and marginally reverse itself. Imports of unnecessary items such as gold, there are needed to be restricted in India. Management of foreign capital flows has been one of the foremost challenges for Indian policy makers in the last decade. Having opened up to overseas capital, India has long wrestled with how to minimize its impact on the rupee's exchange rate and interest rates. It is concluded that the fall in the value of Indian rupee has some consequences which could have mixed effects on Indian economy.

Table 1: Showing Movement in Indian Rupee Rate (INR) – At a Glance

Year	INR/USD	Year	INR/USD	Year	INR/USD
1973	7.67	1986	12.60(02.11)	1999	43.12(04.33)
1974	8.03(4.69)	1987	12.95(02.78)	2000	45.00(04.36)
1975	8.41(4.73)	1988	13.91(07.41)	2001	47.23(04.96)
1976	8.97(6.66)	1989	16.21(16.53)	2002	48.62(02.94)
1977	8.77(-02.29)	1990	17.50(07.96)	2003	46.60(-04.15)
1978	8.20(-06.50)	1991	22.72(09.82)	2004	45.28(-02.83)
1979	8.16(-00.49)	1992	28.14(23.86)	2005	44.01(-02.80)
1980	7.89(-03.31)	1993	31.26(11.09)	2006	45.17(02.64)
1981	8.68(11.02)	1994	31.39(02.50)	2007	41.20(-03.47)
1982	9.48(07.00)	1995	32.43(03.31)	2008	43.41(05.39)
1983	10.11(06.65)	1996	35.52(09.52)	2009	48.32(11.31)
1984	11.36(01.25)	1997	36.36(02.36)	2010	45.65(-05.52)
1985	12.34(08.63)	1998	41.33(13.67)	2011	52.22(14.39)
				2012(sept,14)	55.74(06.74)

Source: www. forecastchart.com

Table 1.1: Showing Impact of Fall in rupee on Import bill

Case A: Import bill valuation using prevailing exchange rates for the respective months		Case B: Import bill valuation using April 2011exchange rates for the respective months	
Month	Month Value of Import (Rs. Crore)	Month	Month Value of Import (Rs. Crore)
April 2011 December 2011	160536.6 226535	April 2011 December 2011	160536.6 190495.8
Increase in Import Bill	65999.0	Increase in Import Bill	29959.2

Note: Exchange rate during the April (44.4) and December (52.8)
Source: ASSOCHAM's calculation

Table 1.2: Showing Impact of rupee depreciation on Import bill of Crude Oil

Case A: Import bill valuation using prevailing exchange rates for the respective months		Case B: Import bill valuation using April 2011exchange rates for the respective months	
Month	Month Value of Import (Rs. Crore)	Month	Month Value of Import (Rs. Crore)
April 2011 December 2011	57700 63376.7	April 2011 December 2011	57700.00 53294.10
Increase in Import Bill	5676.70	Decrease in Import Bill	4405.9

Note: Exchange rate during the April (44.4) and December (52.8)
Source: ASSOCHAM's calculation

Table 1.3: Impact of Rupee Depreciation on Crude Oil Price

Commodity	Period	Price($)	Exchange Rate	Price Rs
Crude Oil (bb)	April 2011 November 2011	118.46 109.03	44.4 52.7	5256.1 5745.9
Difference		9.43	8.3	489.8

Source: ASSOCHAM's calculation

Note: Computation is made by taking same quantity of crude oil

Table 1.4 Impact of Rupee Depreciation on Thermal Coal Price

Commodity	Period	Price($)	Exchange Rate	Price Rs
Thermal Coal (Tonnes)	April 2011 November 2011	127.6 121.90	45.0 52.7	5739.50 64.24.10
Difference		9.43	8.3	684.60

Source: ASSOCHAM's calculation

Note: Computation is made by taking same quantity of crude oil

Table 1.5: Impact of Rupee Depreciation on DAP Fertilizer Price at prevailing Exchange Rates

Commodity	Period	Price $/mt	Exchange Rate	Price Rs
Fertilizers (Tonnes)	May 2011 October 2011	610 631	45.0 52.7	27450 64.24.10
Difference		21	4.3	3658.3

Source: ASSOCHAM's calculation

Table 1.6: Impact of Rupee Depreciation on DAP Fertilizer Price at

Commodity	Period	Price $/mt	Exchange Rate	Price Rs
Fertilizers (Tonnes)	April 2011 November 2011	610 631	45.0 45.0	27450 28395
Difference		21	0.0	945

Source: ASSOCHAM's calculation

REFERENCES

1. Gakhar, Kamlesh.2007. Foreign direct investment in India1947 to 2007 policies, outlook and trends, and outlook, New century publication, New Delhi, India.
2. K. Johnson .2010. The effects of devaluation of rupee on economy. International Innovative Journal of Finance, Vol. 7, p. 45-56
3. Sharma Konak.2006.Reforming the retail sector. Yojana, July, P.41-44 Economic Survey, 2011-11
4. Newspapers:

   The Economics Time, August –September, 2012
   The Business Line, July- September, 2012
   The Hindu, Septermber, 2012
   The Tribune, August-Septmber, 2012