Journal of Advanced Research in Economics and Business Management
Volume 9, Issue 1 - 2022, Pg. No. 1-7
Peer Reviewed Journal

Research Article

A Study on Indian Rupee's Devaluation Relative to other Currencies

Bhavika Sharma

Associate Professor, DIT University, Makka Wala, Uttarakhand, India.

I N F O

E-mail Id:
sbhuvisharma@gmail.com

How to cite this article:
Sharma B. A Study on Indian Rupee's Devaluation Relative to other Currencies. *J Adv Res Eco Busi Mgmt* 2022; 9(1): 1-7.

Date of Submission: 2022-03-02
Date of Acceptance: 2022-03-20

A B S T R A C T

Both positive and negative effects are seen throughout the economy of India as an impact of the devaluation of the Indian currency. The Indian Rupee is said to have been devalued when its value is reduced in relation to that of other currencies. The government is responsible for devaluing currencies. First implemented in 1966, the rupee's value against the US dollar was devalued by 57 percent, from Rs. 4.76 to Rs. 7.50. When measured against the United States dollar, the value of the rupee was devalued by further 19.5 percent, from Rs.20.5 to Rs.24.5, in the year 1991. In this paper, an effort is made to evaluate the possible reasons for the devaluation of the rupee and an analysis is performed to determine the impact that currency devaluation has had on the different sectors of the country.

Have you ever noticed that the price of gold has increased significantly over the past decade? Ten years ago, the price of gold (for 10 grams) was 16320 Indian rupees, but as of the 18th of October 2020, the price of gold has increased to 52385 Indian rupees. One of the primary reasons for this is devaluation; when a country's devaluation loses rate, the inflation rate rises, which in turn causes the price of commodities to rise. This also makes imports more affordable, which is a disadvantage for Indian exporters; as a result, the primary emphasis of our research is on the factors that contributed to the devaluation of the currency and the measures that may be taken to prevent further devaluation of the currency.

Keywords: Indian Rupee's Devaluation, Indian Economy, Monetary Policy

Introduction

The term "devaluation" means to a decrease in the value of a currency in comparison to the commodities, services, or other monetary units that may be exchanged for that currency. Take, for instance, the current exchange rate between the rupee and the dollar, which is Rs 70 to 1 $. It is fixed to as a devaluation of the rupee if this exchange rate of Rs 74 per 1 dollar remains constant. Countries that either have a fully fixed exchange rate or a partially fixed exchange rate utilise this kind of monetary policy instrument. In order to address negative trade balances, a nation may choose to weaken the value of its currency. It means that exports are less expensive and more competitive in the global market, but imports are more expensive, which encourages consumers to use native goods instead of foreign ones.

Devaluation is a phrase that is distinct from depreciation due to the fact that the value of the rupee is diminished as a result of a shift in the demand for and supply of currency.

However, the government devalues the devaluation in order to enhance the country's balance of payments.

Review of Literature

According to Sumanjeet Singh (2009), as a result of continued dollar purchases by overseas banks and a generally strong dollar across the world in 2008, the value of the Indian currency fell by more than twenty percent and even broke through the important fifty mark in comparison to the US dollar. The weakening of the Indian rupee has a number of repercussions, which, together, had a complicated impact on the economy of India. While exports climbed, so did the prices of imported products, projects that required significant amounts of capital, and dollar loans taken out by corporations, all of which rose to a growth in the total amount of foreign debt. The overall rate of economic growth slowed down as a result of rising interest rates and a decline in the flow of investment from foreign institutions. This study investigates the true effects that the fall in the value of the rupee has had on the economy of India, and it demonstrates that, in the long term, the Indian economy stands to lose more than it stands to gain from a weaker rupee.

According to Vinay Narang (2014), the persistent depreciation of the rupee as well as the rising level of volatility have reduced the advantages of borrowing money from other countries. The value of one rupee has been less valuable relative to one dollar during the course of the last year. Since January of 2013, the value of the rupee has decreased by more than 20 percent, making it the currency that has performed the poorest among those used in Asia. Given that India is a fundamentally import-intensive nation, as seen by the massive and ongoing current account deficits month after month, the weakening rupee will exert further pressure on domestic inflation overall, and domestic prices would increase as a result. In this paper, the possible causes of the recent drop in the depreciation of the rupee are discussed. It also discusses the various policy alternatives that may be used to assist stop the depreciation of the rupee.

According to Pratap Singh (2013), beginning in the early 1980s, the International Monetary Fund (IMF) has projected devaluation as a potential solution for developing nations that are continually spending more on imports than they earn on exports. The IMF sees this as a problem because these nations are unable to balance their trade deficits through other means. A decline in the value of the nation's currency would drive up the cost of imported imports while making the price of exported goods. When the value of the rupee drops, people's buying power decreases, which makes it more difficult for them to afford reduced imports and trips outside of the country. This may contribute to an overall decline in the quality of life in the country. Additionally, it might add to the pressure of inflation. A devaluation may make interest payments on international debt more expensive if those obligations are denominated in a foreign currency, and it might deter foreign investors from investing in the country in the first place. The purpose of this paper is to investigate the true effects that the recent depreciation of the rupee has had on the Indian economy as well as the factors that contributed to it. In addition to this, it is estimated that in the long term, a depreciation of the rupee would result in the Indian economy suffering more losses than gains.

Edwards (2000) conducted research on the dynamic relationship that exists between exchange rate regimes, capital flows, and currency crises in developing economies. The research addresses some of the most significant policy debates that arose in the aftermath of the crises that occurred in Mexico, East Asia, Russia, and Brazil. It does this by drawing on the lessons that were learnt throughout the 1990s. He draws the conclusion that free floating exchange rates may be effective and efficient given the right circumstances and regulations. This means that the money supply inside the country as well as the supply of credit to enterprises is closely related to the amount of overseas reserves that are available. Therefore, if the country receives capital inflows, there will be a rise in the supply of money and credit, which will result in a significant increase in domestic price levels.

Harberger (2003) conducted research to investigate the influence that economic growth has on the real exchange rate. He came to the conclusion that there is no consistent relationship between the real exchange rate and economic growth. The research conducted by Husain (2004) indicated that the weaker and less developed nations have limited access to foreign capital. As a result, a low rate of inflation and a greater degree of durability are related with a fixed exchange rate regime in such countries. But what they discovered was that there was no strong connection between economic success and exchange rate regime in emerging economies. They also discovered that advanced economies may achieve a sustainable and somewhat higher level of growth rate without experiencing a greater level of inflation when the exchange rate regime is flexible.

Kanika Arora (2014) conducted research to determine the true effects that a weaker rupee would have on the Indian economy. Her findings indicate that, in the long run, the Indian economy stands to lose more than it would gain from a weaker rupee. According to the findings of the research, the Indian Rupee has seen a large amount of depreciation in relation to the United States Dollar, which presents a new danger for the economy of India. This decline is a result of a number of factors, including a gloomy outlook for the global economy, increasing inflation, an expanding current account deficit, and outflows from FII. The Reserve Bank of India (RBI) has reacted with timely actions by selling dollars on occasion. However, when there is a great deal of unpredictability on a global scale, investors choose the USD as a safe haven. The Reserve Bank of India (RBI) may reduce capital restrictions to attract investments by raising the maximum that foreign Institutional Investors (FII) can invest in government and corporate debt instruments and introducing greater limitations for ECB investments. A climate that is both politically and economically stable may be created by the government.

Taylor (2001) analyses the unsuccessful implementation of liberalised policies in Argentina. He believes that Argentina has been unsuccessful in its efforts to preserve liberalised rules on capital flows and a stable currency. In the early 1990s, Argentina implemented an anti-inflation campaign that was based on the practise of freezing the exchange rate. This means that the money supply inside the country as well as the supply of credit to enterprises is closely related to the amount of overseas reserves that are available. Therefore, if the country receives capital inflows, there will be a rise in the supply of money and credit, which will result in a significant increase in domestic price levels.

Luis-Felipe Zanna (2006) told Fighting against currency depreciation, macroeconomic instability, and sudden stops also in this paper, they showed that, in the aftermath of a currency crisis, a government that adjusts the nominal interest rate in response to domestic currency depreciation can induce aggregate instability in the economy by generating self-fulfilling endogenous cycles. This can lead to a sudden stop in economic activity.

Research Methodology

Secondary sources were collected in order to compile the data required for this research. Due to the research of this research being a descriptive study, qualitative data was chosen to be used. The requirements of the study guide the gathering of the sources collected for the study. The official data are collected from the websites of government organisations and government institutions, publications, and abstracts from books and research papers. The sources include journals and the conclusions of previous researchers. The research includes studies from the United States of America, the United Kingdom, and India. The study was carried out in Bangalore, which is located in the state of Karnataka in India.

Data Analysis and Interpretation

Objectives of Devaluation

- The purpose of devaluation is to have a more favourable balance of payments
- Devaluation is done in order to boost the amount of goods exports
- Devaluation is done with the purpose of decreasing imports

History of Rupee

On August 15, 1947, India achieved its independence from British rule. During that time period, the value of the Indian rupee was comparable to that of the United States dollar, and it was pegged to the British pound. According to the data shown in the table, in the year 1947 the value of one rupee was equivalent to one dollar. But the value of the rupee is gradually declining as a result of a variety of reasons.

Historical Indian Rupee Rate

Table 1

Year (INR vs. US $)	Exchange Rate
1947	1.00
1948	4.79
1965	4.79
1966	7.57
1971	8.39
1985	12.0
1991	17.9
1993	31.7
2000	45.0
2013	60.0
2016	67.63

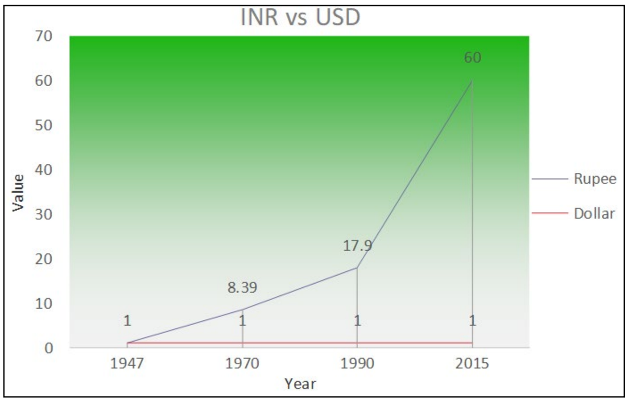

Figure 1

1966 Financial Crises

Beginning in the 1950s, India has been plagued with a negative balance of payment. The enormous trade imbalance, the war between India and Pakistan, and the drought in 1965 were the primary reasons that led to the devaluation. As a result, India devalued its currency for the first time in 1966 in an effort to reduce the country's large trade imbalance. And Lal Bahadur Shastri is the one who implements this devaluation in June of 1966.

1991 Financial Crises

Between the years 1985 and 1990, India was experiencing significant economic difficulties. In 1991, India was dealing with a significant deficit in the government's budget. In order for the government to reduce the deficit in the budget, they devalued its currency by 18 to 19 percent. The massive gross budget imbalance, persistent inflation, and sustained increases in oil prices are the primary contributors to the devaluation.

Causes of Devaluation 17

An excessively high fiscal deficit-An excessively high fiscal deficit is often regarded as the primary reason for currency devaluation. The gap between the amount of money the government brings in and the amount of money it spends is known as the fiscal deficit. In the event of a high fiscal deficit, the government may choose to finance the deficit using its foreign reserve. As a consequence of this, the reserves have reduced. And because of this issue, the government is encouraged to lower the value of its currency.

Budget Deficit as Percentage of Total Government Expenditure

The gap between a country's imports and exports is what economists refer to as the "current account deficit." Because of this disparity between income and spending, the value of the rupee is kept under constant pressure to decline. The current account deficit for the year 1990 comes in at $9.7 billion dollars US. The greater current account deficit (CAD) stimulates demand for the dollar, which is the reason for the devaluation of the rupee.

Table 2

Year	Overall Deficit	Primary Deficit	Interest Payments
1960	21.05	12.37	8.68
1965-1970	25.75	16.46	9.29
1970-1975	23.14	14.17	8.97
1975-1980	22.62	14.07	8.55
1980-1985	30.23	20.34	9.89
1985	32.13	20.57	11.56
1986	35.06	23.21	11.85
1987	33.49	20.34	13.15

Source: "Foundations of India's Political Economy, pp. 192"

Inflation in the 1980s Inflation is defined as a persistent and generally upward trend in prices. From 1966 through 1980, there is no change in the value of the rupee. After this point, however, the value of money will begin to decline. In addition, this reduces the effectiveness of money as a buying tool. As a result of this, there is a decrease in demand for the items, and this is the root reason of the.

Inflation in India

During the Indo-Pakistani war in 1965, the United States and other nations that were friends with Pakistan cut off their financial assistance to India. As a result of this reason, the value of the rupee devalued by 57% in the year 1966.

Table 3

Year	Inflation
1988	9.4%
1989	6.2%
1990	9.0%
1991	13.9%
1992	11.8%
1993	6.4%
1994	10.2%
1995	10.2%

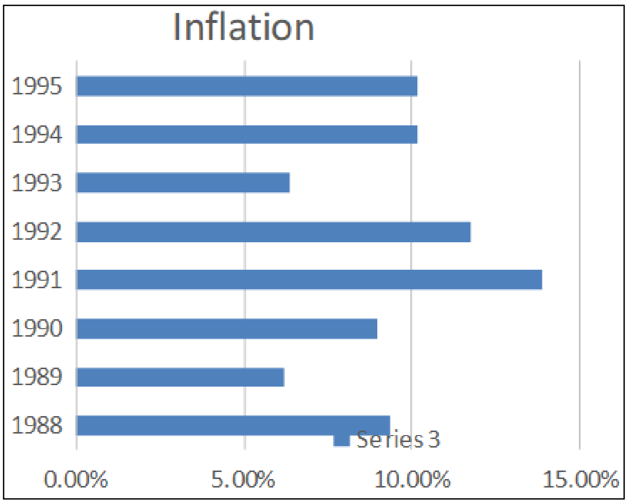

Figure 2

The Drought of 1965-1966 During the years 1965-1966, India was hit hard by a natural disaster known as the drought, which resulted in a rise in the cost of many items. Therefore, it is imperative that the government lowers the value of the currency.

Trade deficit India has been struggling with the issue of a significant trade deficit since the 1950s. Therefore, in 1966, India devalued the value of its currency. However, the deficit in the balance of trade increased once again in 1990, reaching a total of $9.44 billion US dollars. As a result of this deficit, India devalue its currency once again in the year 1991.

The Gulf War is also causing difficulties for India. This is due to the Gulf War. Because of this, the price of oil continues to rise. As a result, India has a greater level of imports. The government is engaging in devaluation as a means of maintaining control over the situation.

Table 4

Year	Exports	Imports	Deficit
1950	947	1025	78
1951	1106	1379	273
1952	873	1002	129
1953	813	855	42
1954	918	998	80
1955	922	1024	102
1956	977	1423	446
1957	1001	1633	632
1958	903	1424	521
1959	1008	1515	507
1960	997	1768	771
1961	1033	1718	685
1962	1069	1783	714
1963	1241	1927	686
1964	1282	2126	844
1965	1264	2194	930
1966	1153	2078	925
1967	1193	2008	815
1968	1354	1909	555
1969	1409	1567	158
1970	1524	1624	100

Spending on Defense: In 1965/1966, spending on defence accounted for 24.06 percent of total expenditure, which is a relatively high percentage. Therefore, there is another another component that contributes to the overall value of currency.

Another political reason for the devaluation of the rupee is the country's economic political and economic situation. Prior to the devaluation in 1966, there were three different Prime Ministers of India in as many years: Nehru, Shastri, and Indira. Different PM have different tactics. Therefore, as a result of this situation, the government is encouraged to devalue its currency in 1966 and 1991.

Increasing imports During the fiscal year 1965-1966, India had a gain in exports of up to 20 percent while experiencing an increase in imports of up to 131.3 percent. Therefore, in order to boost exports while simultaneously reducing imports, the Indian government has devalued its currency.

Volume of Trade (1950-51 to 1990-91)

PRO's of Devaluation on Economy

Less expensive exports A devaluation of the currency will make exports less expensive to international buyers, which will increase their competitiveness. The devaluation of the rupee will result in an increase in the cost of imported goods, including higher prices for gasoline, food, and raw materials. This will reduce in a decrease in the need for imports.

Table 5

Year	Exports	Imports
1950-51	606	608
1960-61	642	1122
1970-71	1535	1634
1980-81	6711	12549
1990-91	32553	43198

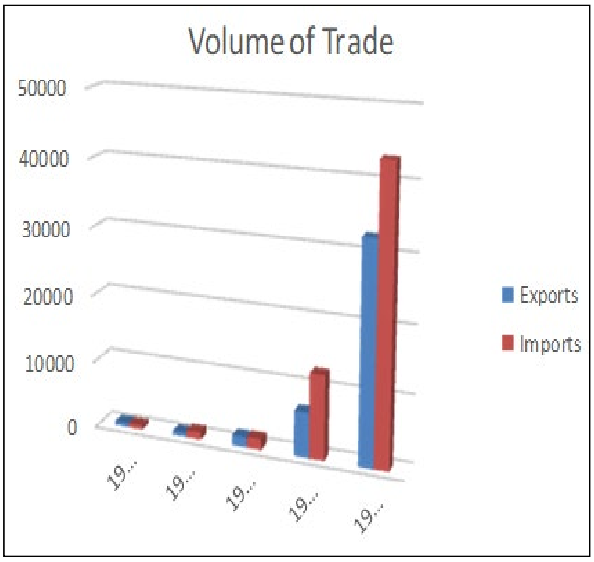

Figure 3

- An increase in the current account deficit the current account deficit is the difference between a country's exports and imports The devaluation is causing a decline in imports while simultaneously encouraging an increase in exports. These circumstances reduce about a narrowing of the current account deficit
- Impact on agriculture The depreciation of the rupee has a favourable impact on the agricultural sector. India is the country that produces the most wheat on a global scale. As a result, a decrease in the value of the rupee results in an increase in the profit increased by Indian wheat exporters. In a similar vein, the export of sugar, rice, cotton, and edible oil, among other commodities, also increases
- Effects on Inflows of Foreign Direct Investment Following the Devaluation of the Currency, there is an Increase in the Amount of Foreign Direct Investment That Is Received. The figure shows that after the devaluation of the rupee in 1991, the amount of Foreign Direct Inflow (FDI) increased from 409 crores to 64,193 crores

Inflow of FDI in India: Period 1991 to 2015

Table 5

Years (Rs. In Crores)	FDI inflow in India
1991-92	409
1992-93	1094
1993-94	2018
1994-95	4312
1995-96	6916
1996-97	9654
1997-98	13, 548
1998-99	1, 2343
1999-00	10, 311
2000-01	10, 733
2001-02	18, 654
2002-03	12, 871
2003-04	10, 064
2003-04	14, 653
2005-06	24, 584
2006-07	56,390
2007-08	98,642
2008-09	142,829
2009-10	123,120
2010-11	97,320
2011-12	165,146
2012-13	121,907
2013-14	147,518
2014-15	64,193

Source: Various issues of SIA Publication

CON's of Devaluation on Economy

- The impact on the average person would be that they would have to carry a heavier load as a result of the devaluation of their currency. For instance, the prices of gasoline, imported products, and tuition fees at colleges in other countries, as well as a number of other things, have increased, and travel has gotten more expensive
- The falling value of the rupee has a detrimental effect on the country's infrastructure industry. It does this by increasing up the price of construction equipment as well as the cost of raw materials such as steel and cement. This, in turn, drives up the cost of the projects
- The effect of a devalued currency on the real estate market is that it drives up the cost of projects by increasing up the prices of raw materials, transportation, the import of construction equipment, salaries and salary of labour, and other factors
- The value of a currency that has been devalued results in a loss for foreign investors because of the impact this has on the value of their investors
- The devaluation of the rupee will only have a growth on economic growth in the near term, and this effect will only be economic. However, this has a dampening impact on economic growth over the longer term. As a loss of the currency devaluation, both local and international investors have lost faith in the market. A drop in investment will have an adverse effect on economic growth over the long term
- The impact of a devaluation on inflation is that it causes a rise in the price of products. This is because imports become more costly while exports become less expensive as a result of the devaluation. Therefore, higher amounts of money are paid for the same things that were previously purchased for lower amounts of money before the devaluation. Consequently, this circumstance increased to a rise in inflation

Conclusion

The findings of this study article contribute to an understanding of the factors that led to a decrease in the devaluation of the rupee. Nearly every nation on Earth has, at some point in history, engaged in the practise of deliberately undervaluing its currency in order to pursue certain economic goals. Therefore, India devalued its currency in 1966 and again in 1991. The primary objectives were to achieve economic stability, an improvement in the unfavourable balance of trade, and an increase in both the total national income and the income per capita. Devaluation, on the other hand, has repercussions for a large number of parties, both in a favourable and a bad way. The devaluation of the rupee was lowered as a result of this step taken by the government and the RBI. Because of this, it can be stated that a devaluation is a beneficial step for the boost of the economy for the short term as the current trade (deficit) will be decreased, one may export more, and more foreign direct investment can be increased as more money will inflow. However, over the long term, a devaluation of the currency will not be beneficial because it will lead to an increase in prices, which in turn will lead to an increase in inflation, which will lead to an increase in prices for things like fuel, and it will also lead to a reduction in confidence among foreign investors.

References

1. Singh S. World Affairs. *The Journal of International* 2009;13(2): 148-165.
2. Narang V. Indian Rupee vs. Dollar: A Deep Insight.

International Journal of Innovative Research and Development 2014*;* 3(1): 383-390.

3. Singh P. Depreciation of Rupee in Indian Economy: An Analysis. *International Journal of Innovations in Engineering and Technology* 2013; 2(4): 332.
4. S Sumanjeet. Emergence of payment systems in the age of electronic commerce: The state of art. *Global Journal of International Business Research* 2009.
5. V Narang. Indian Rupee vs. Dollar: A Deep Insight. *International Journal of Innovative Research and Development* 2014; 3(1): 383-390
6. Singh P. Depreciation of Rupee in Indian Economy: An Analysis. *International Journal of Innovations in Engineering and Technology* 2013; 2(4): 332-344
7. Arnold C. Harberger, Some Evidence on the International Price Mechanism. *Journal of Political Economy* 1957; 65(6).
8. Taylor L. Argentina: A Poster Child for Failure of Liberalized Policies. *Challenge* 2001; 44(6): 28-44.
9. Felipe ZL. Fighting Against Currency Depreciation, Macroeconomic Instability, and Sudden Stops FRB International Finance Discussion Paper No. 848, 2006. Available at SSRN: https://ssrn.com/abstract=875369 or http://dx.doi.org/10.2139/ssrn.875369.