



Depreciation in Rupee

 drishtias.com/printpdf/depreciation-in-rupee

Why in News

Recently, the **Indian Rupee depreciated to a nine-month low** of 75.4 against the USD, it is **one of the biggest losers among the emerging market currencies.**

Over the last three weeks **since 22nd March 2021**, Rupee has **lost 4.2%** against the USD.

Currency movement against USD

	Mar 22	Mar 22	Change Since Mar 22
Turkish New Lira	7.80	8.14	4.36
Indian Rupee	72.38	75.42	4.20
Brazilian Real*	5.51	5.73	3.99
Russian Ruble	74.77	77.20	3.25
Thai Baht	30.87	31.59	2.33

Key Points

- **Reasons for the Decline:**
 - **Rising Covid Cases:**

Rising **Covid-19** cases have emerged as a key concern. As several states are now considering more stringent **lockdown** measures, market participants are **concerned over delay in the recovery of the economy**, which was hit hard in 2020-21 by the **pandemic**.
 - **Strengthening of USD:**

The strengthening of USD in line with expectations of **better growth in the US economy**, has also put pressure on the Rupee.
 - **Reserve Bank of India's (RBIs) G-SAP:**
 - **RBI's** announcement of **Government Securities Acquisition Programme (G-SAP)** programme to infuse liquidity has also put additional pressure on the Rupee.
 - This is being read as a sort of **quantitative easing policy** the global central banks had followed, in which the RBI will **support the government's elevated borrowing programme** through infusion of liquidity.
 - **Decreasing FPI Investments:**

Another factor that is putting additional pressure is the **decreasing support of the Foreign Portfolio Investors (FPIs)**, who pumped huge inflows into Indian equity markets between October 2020 and February 2021.

While the FPIs invested a net of Rs. **1.94 lakh crore between October 2020 and February 2021** (in the Indian markets), in the month of **April 2021 they have pulled out a net of Rs 2,263 crore** (till date).
- **Impact of Depreciating Rupee:**
 - **Losers:**
 - People **Importing** from outside.
 - People seeking **foreign education**.
 - People **travelling abroad**.
 - People **investing abroad**.
 - People seeking **medical treatment abroad** etc.
 - **Gainers:**
 - People **exporting** from India.
 - People receiving **remittances** from **Non Resident Indian (NRI)**.
 - Foreign tourists as **travel to India** gets cheaper.

Currency Depreciation

- Currency depreciation is a **fall in the value of a currency** in a **floating exchange rate system**.
 - In a floating exchange rate system, **market forces (based on demand and supply of a currency) determine the value of a currency**.

- Rupee depreciation means that **rupee has become less valuable** with respect to dollar.
 - It means that the rupee is now weaker than what it used to be earlier.
 - **For example:** USD 1 used to equal to Rs. 70, now USD 1 is equal to Rs. 76, implying that the rupee has depreciated relative to the dollar i.e. it takes more rupees to purchase a dollar.
- Some of the factors that influence the value of a currency:
 - **Inflation**
 - Interest rates
 - **Trade deficit**
 - Macroeconomic policies
 - **Equity market**
- Currency **depreciation increases a country's export activity** as its products and services become cheaper to buy.
- The **RBI intervenes** in the currency market **to support the rupee as a weak domestic unit can increase a country's import bill.**
- There are a **variety of methods** by which RBI intervenes:
 - It can intervene **directly in the currency market by buying and selling dollars.**
 - If the RBI wishes to increase the rupee value, then it can sell dollars and when it needs to bring down rupee value, it can buy dollars.
 - The central bank can also **influence the value of rupee** by the way of **monetary policy.**
 - RBI can adjust the **repo rate** (the rate at which RBI lends to banks) and the liquidity ratio (the portion of money banks are required to invest in government bonds) to control rupee.

Source: IE