IRACST – International Journal of Commerce, Business and Management (IJCBM), ISSN: 2319–2828
Vol. 3, No. 1, February 2014

Currency depreciation - causes and its impact on indian economy

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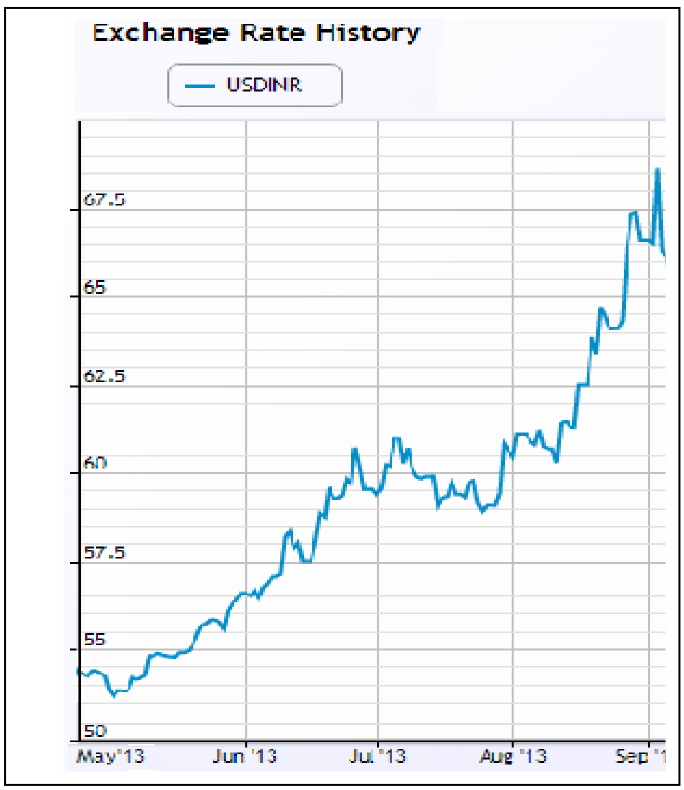
***Abstract*—Rupee depreciation has been the hot subject in current economic scenario. We are experiencing a tough time with rupee depreciation every day. Current economic context created anxious moments to various industrial sectors in India. On 1st Dec, 2013 the value of Indian rupee stood at 62.44. The experts in the field perceived the situation in different manners. Some considered it as highly depressed and threatening environment; some others considered it as an opportunity in disguise. There are various positive and negative impacts which are being predicted by experts in the fields. Rupee depreciation, no doubt it will affect upper and lower sectors of the economy. This spectacular decline of rupee value will loss India's confidence in its growth prospect too. RBI and government is taking various measures with the objective of making a stabilized floor for Indian rupee. Mr. Raguram Rajan, RBI Governor, has shown reflections of hope in the present crisis. This paper tries to explore the causes and impact of rupee depreciation on the Indian economy and also tries to review various measures taken by RBI and Government to get over the present crisis.**

Keywords- Rupee depreciation; CAD; FIIs; fiscal deficit; forex reserve; inflation;

I. INTRODUCTION

Recently every Indian economic and political discussions toss around the subject of the upsetting news of rupee depreciation and its effects, both long term and short term on Indian economic context. Indian rupee has experienced considerable depreciation of value in recent times and that has affected even the bottom lines of Indian economic scenario. Currency depreciation, as the name suggests refers to fall in value of one currency with respect to another. That is one US dollar can buy 45 INR today, and can buy 60 INR tomorrow. INR would have depreciated by 33percent. The value of rupee had weakened about 16% this financial year. Since the start of the month November 2013, it has fall on 2.3%. The rupee had weakened to around 63 on Thursday Nov 21st after the minutes from the US Federal Reserve's October meeting. In the meeting they decided to cut off its stimulus program in the coming months. On Sunday, 1st Dec 2013, the rupee ended at 62.44. The economic affairs secretary Aravind Mayram suggested that the main reason for the rupee fall is due to the demand for dollar by the state run oil companies. Another major reason is the release of October Federal Open Market Committee (FOMC) minutes, in which the policy holders were considering to cutting off its stimulus program in the coming months. The international Financial Corporation (IFC), a member of the World Bank group on 20th Wednesday issued Rs.1000Crore (around$160 Million) to Global Indian rupee bond to strengthen the country's capital market. On Nov 22nd Friday the 10- year bench mark government bond yield inched up and ended at 8.99 compared to previous close 8.85%. Many experts had pointed out various reasons for the currency depreciation. The below graph shows the movement of Indian rupee in terms of US dollars during the year 2013. There has been a drastic fall in the rupee value 2011 onwards and still continues



Source: www.dollars2rupees.com/charts

II. CAUSES OF CURRENCY DEPRECIATION

As the Indian currency is sharply depreciated against dollar, as well as against other world currencies, it is imperative to understand the factors contributing its fall in the global market. Some of the major factors of currency depreciation are discussed below.

A. Demand and Supply rule

Demand and supply rule means if there is more demand of dollars in the currency market and is not adequately matched by the supply, other things remaining equal, the rupee price of dollar will go up or the rupee will depreciate. Demand for dollars may be created by importers requiring more dollars to pay for their imports, foreign institutional investors withdrawing their investments, and taking dollars outside India, etc. On the other hand, supply is created by exporters bringing in more dollars from their revenues, NRI'S remitting more funds, FII's bringing more dollar in India to spur their investments.

B. Improving the strength of US economy

Improving the strength of the US economy or dollar gaining strength against other currencies is considered as another reason for the crisis. That is Reserve Banks of Euro zone and Japan printing excessive money due to which their currency is being devalued. On the other hand, US Fed has shown signs to end their stimulus. (Stimulus is a plan by central bank to counter a weak economy, by taking various actions like lowering interest rates, increase govt. spending, and quantitative easing etc.) This side effect includes weakening currency. Hence helps to make US Dollar stronger against other currencies

C. Increased price of oil

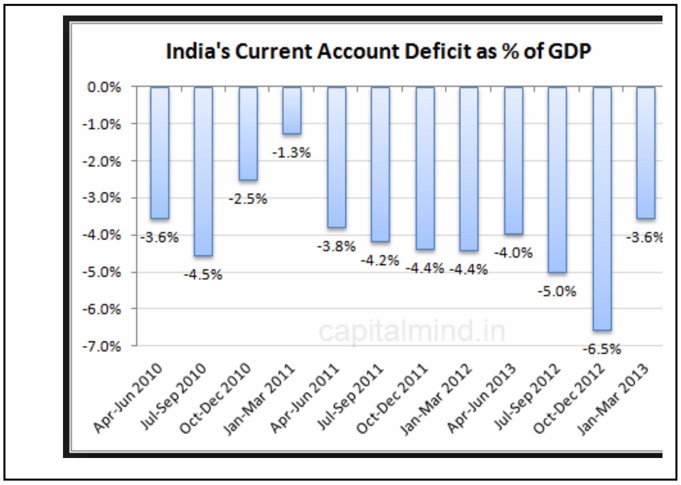
Increased prices and demand for Oil is another reason for rupee fall. India has to import Bulk of its oil requirements to satisfy its local demand which is increasing every year. The domestic demand for oil is increasing which causes the price of the oil to increase in the international market. The demand for dollar increases as we have to make payments to our suppliers in dollars. This increase in demand for dollar weakens the rupee. 55% of the India's oil import is used for Transportation of goods and people and 50%of that or 27% of the total is used for transporting the 1.8 Indians who owns cars. Indian crude oil imports during October, 2013 is valued at US $ 15217.6 million which was 1.7 percent higher than oil imports valued at US $ 14957.7 million in the corresponding period last year. Oil import in India is stood at 169319.3 US $ million in the current financial year 2012-2013. In the previous year 2011-2012 it stood at 154967.6 million US $. While analyzing data relating to oil import from the year 2001-02 to 2012-2013, it shows an increasing trend. With the increasing price of oil in the international markets, India has to pay an increased amount of dollars to import the same quantity of oil. Furthermore with the increase in the quantity of oil import into India, a further pressure is imposed on the demand of dollars to pay our suppliers from whom we import oil. This increase in demand for dollars depreciates the rupee further.

Oil import to India (US $ million)	
Year	***(US $ million)***
2012-13	**169319.3**
2011-12	**154967.6**
2010-11	**105964.4**
2009-10	**87135.9**
2008-09	**93671.7**
2007-08	**79644.5**
2006-07	**56945.3**
2005-06	**43963.1**
2004-05	**29844.1**
2003-04	**20569.5**
2002-03	**17639.5**
2001-02	**14000.3**

Source: www.rbi.org.in

D. Wider Current Account Deficit

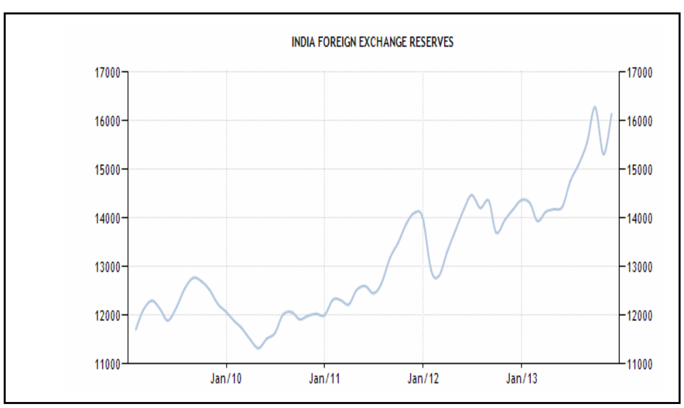
Wider Current Account Deficit (CAD) can be regarded as another reason for currency fall. A current account deficit occurs when a country is importing more goods and services than that is exporting. India's current account deficit has exploded 1125% since 2007 going from $8billion to$ 90 billion. In other words India is importing $ 90 billion more than it is exporting. India had a deficit on its current account nearly $90billion which is 5% of GDP in the year 2012-2013. This wider current account deficit usually creates demand for dollar which may result in rupee depreciation. The deficit can be bridged either by using country's forex reserves or from capital inflows. The CAD has touched a record high of 5.4% of GDP in July –Sept quarter of this year. India's current account gap narrowed sharply to USD 5.2 billion, or 1.2 per cent of GDP, in the July-September quarter of 2013-14 on the back of turnaround in exports and decline in gold imports. Both the government and RBI are expecting the CAD to be below USD 56 billion in the current fiscal compared to the record high of USD 88.2 billion, or 4.8 per cent of the GDP last fiscal. Besides, pick up in exports, the steps taken by the Reserve Bank and the government has resulted in a sharp decline in gold imports, which was one of the main contributors to high CAD last year. The government has taken several steps, including hike in gold import duty to 10 per cent and restrictions on import of gold bars and medallions, to restrict CAD. It has also taken measures to boost exports, taking advantage of depreciating rupee



Source: www.capitalmind.in

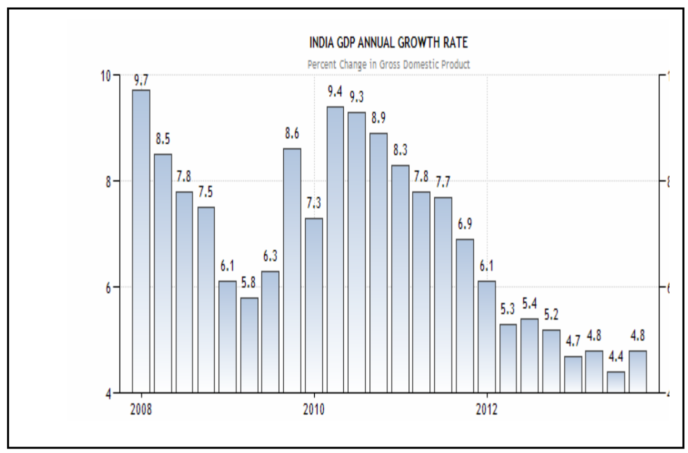
E. Low forex reserve

Low forex reserve is another reason for currency depreciation. India's forex reserves have declined in recent months. In the year 2007 India had $300 billion in foreign exchange reserves. It could cover its current account deficit 37.5 times over. Currently India's foreign exchange reserves have gone down to $275 billion; it can cover only its current account deficit 3 times. India's forex reserves are sufficient only to cover imports of 7 months. India's forex reserve down by $ 17.23 billion y-o-y and as on Sept 6 it stood at $274.81 billion. On a week on week basis the reserves show a dip of just $685 million. Now the reserves had fallen by a massive $2.2billion. The main reason for this fall is due to heavy dollar sales by RBI to protect the rupee. On Nov 9th the forex reserve again dipped to$ 1.65 billion due to the dip in value of gold in reserves. If reserves are declining in such a manner, RBI can't intervene aggressively in currency markets. Moreover most of the countries traded with India only accept foreign currencies in return. Foreign Exchange Reserves in India increased to 16138.40 INR Billion in November of 2013 from 15309.80 INR Billion in October of 2013. Foreign Exchange Reserves in India is reported by the Reserve Bank of India. From 1990 until 2013, India Foreign Exchange Reserves averaged 5048.0 INR Billion reaching an all time high of 16275.3 INR Billion in September of 2013 and a record low of 23.9 INR Billion in June of 1991. In India, Foreign Exchange Reserves are the foreign assets held or controlled by the country central bank. Source: www.capitalmind.in



F. Lower growth

Lower growth is another reason for currency depreciation. That is due to the low growth foreign institutional investors were pulling off money from India. India's GDP growth rate dropped to 4.4% for the first quarter of the financial year which was much lower compared to 4.8 % in the previous year. In the first quarter of 2012-2013, the growth was 5.4%. At the end of 2011 real growth rate of GDP was approximately 7.8%. In 2010 it was almost 10.1%. In 2009 it was close to 6.8%. The Per capita (PPP) GDP of India is approximately 3700 us DOLLARS which places India in the 163rd position from the Global perspective. In 2010 the per capita GDP of India stood at almost a $3800. In the previous year it was stood at $ 3200. The overall GDP growth in India has slow down from 8.4% in FY 2011 to 6.5 in fy-2012. Lower GDP with high inflation, record high CAD and record high Indian rupee depreciation will further worsen the India's Macroeconomic condition. The Gross Domestic Product (GDP) in India expanded 4.80 percent in the third quarter of 2013 over the same quarter of the previous year. From 1951 until 2013, India GDP Annual Growth Rate averaged 5.8 Percent reaching an all time high of 10.2 Percent in December of 1988 and a record low of -5.2 Percent in December of 1979



Source: http://www.tradingeconomics.com/india/foreign-exchange-reserves

G. High demand for gold

Increased demand for Gold or increased import of gold is considered as another reason for the crisis. In India there is a tradition to wear gold and diamond ornaments for the auspicious occasions. So there is more requirements for these but are not abundantly available in India. So India has to import these at huge price. When the rupee value gets depreciating, the percentage for each dollar increases making the demand increase. In India, Gold import rose to 23.5 tons in October from 11.64 tons in September. Gold import in July and August stood at 47.75 tons and 3.38 tons respectively. In 2012-2013 fiscal, gold import stood at 845 tones. According to Vipin Sharma, Director of world Gold Council (WGC), India's gold import this year expected to drop near 800 tons compared to last year's 967 tons. In the mid of October the gold import tariff was raised to $574.20 per ten grams and silver $1097.30 per ten grams. This factor caused gold demand dip. India's yellow metal reached a record of 1067 tons in the 2011-2012 fiscal. Country imported 969 tons gold in 2010-2011 fiscal year and 850 tons in 2009-2010. India produces around two tons of gold a year against the imports 900 tons. Country accounts for nearly one-third of the import bill rising from $4.1billion in 2001-2002 to $ 61.5 billion in 2010-2011 fiscal year. That is gold import was one of the reasons that pushed CAD to a record high of 4.8% of GDP OR $88.2billion in the previous year. In order to control this, Government hiked import duty to 10%. Gold is the second highest contributor to India's import bill after petroleum products. Gold import in the year 2012-13 stood at 50 US billion dollars. The same was at 56 billion Us dollars in the year 2011-12.In the current financial year, 2012-2013, in order to curb gold import, Government has taken various measures like increasing import duty to 10%, and restricted the import of gold meant for domestic consumption etc. These policies helped to reduce the import of gold in the country.

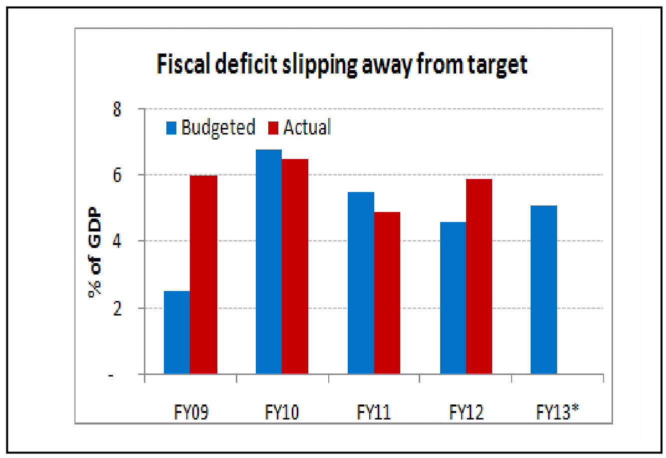
Yearly Gold import (US $ million)	
Year	***(US $ million)***
2012-13	**50**
2011-12	**56**
2010-11	**40**
2009-10	**28**
2008-09	**22.8**
2007-08	**16.7**

Monthly Gold import (US $ million)	
Year	***(US $ million)***
2013 Oct	**1086.12**
2013 Sep	**657.77**
2013 Aug	**738.62**
2013 July	**2466.80**
2013 Jun	**1912.78**
2013 May	**7723.73**
2013 Apr	**6768.57**
2013 Mar	**3147.49**
2013 Feb	**5472.16**
2013 Jan	**7194.19**

Source: RBI.org.in

H. High fiscal deficit

High fiscal deficit can be regarded as another reason for this crisis. It is the difference between Govt. receipt and Govt. spending, touched to 4.12 lack cores in April- Sept 2013. The Government fiscal deficit in the first six month of the current fiscal reached 76% of the budget estimate of Rs. 5.42 lack crore. During the first seven months of this fiscal year, the deficit reached84.4%of the full-year budgeted target compared with 71.6 last year. In the past five years the average was 67.5%. The financial minister Chidambaram said that Government was targeting to bring down fiscal deficit to4.8%of GDP in the year 2013-2014.international monetary fund (IMF)said that India's fiscal deficit is expected to increase top8.5% of the GDP this financial year, due to the downward revision in GDP growth ,rupee depreciation ,and higher global oil prices. The higher fiscal deficit could lead to speculative attacks on currency. In case of high deficit Govt. may use foreign currency reserve to finance the deficit. This lead to lowering of reserves and if there is speculation of currency, the govt. may not have adequate reserve to protect the fixed value of currency. This prompts the govt. to devalue the currency. Though Fiscal deficit have no direct bearing on foreign markets, play a role in crisis.



Source: http://www.equitymaster.com/5minWrapUp/charts/

I. Dollar gaining strength against other currencies

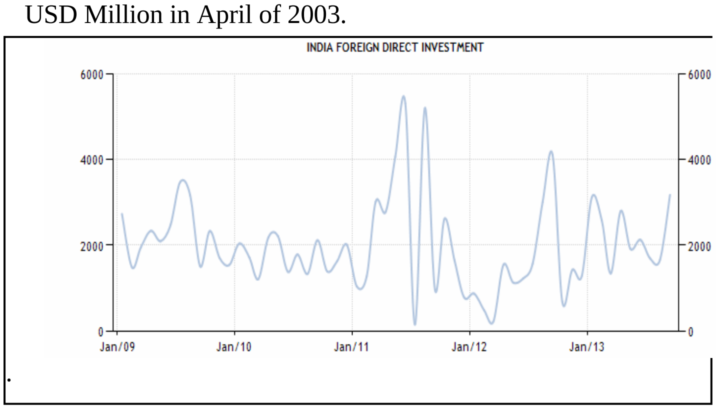
Dollar gaining strength against other currencies is considered as another reason. The US Federal Bank's Chairman Mr. Ben Bernanke introduced the unwinding bond purchase program in the US. The US had been printing money to bolster the economy. Now with the revival of the economy the Chairman plans to unwind the program. This statement led to unrest in the US economy and US investors started withdrawing money from the overseas markets. With the increase in demand for dollar, the prices of dollar in the global market rose and price of all currencies weakened against dollar, among which rupee also affected.

J. Great volatility of stock market

Great volatility in stock market also regarded as another reason for the currency devaluation. Our equity market is volatile for some time now. Equity means the investments in Indian companies made by foreign institutional investors. Indian stock market is mainly dominated by overseas investors. But as the Us federal Bank start scaling back t monetary stimulus that has kept interest rate ultras low and sent investors to developed market in search for high return. In the fiscal year ended March 31 2013 foreign direct investment in India fell to 2% according to ministry of commerce and industry. The stock market has dropped to 10% in the month of June, July, and August 2013. This volatile environment of Indian equity stock market increased the dilemma of FIIS as to whether they should invest the money in further or even to withdraw what they have invested. As per a report from Business today, international investors are pulled out their money to the extent of 44,162 cores during June 2013 and touched an all time high. Indian stock market remained volatile in the month of Sept due to the unexpected hike in interest rate by RBI in the month of Sept 2013. Overseas investors pumped in over Rs. 110000 crores ($1.7 billion) in the Indian stock market. The BSE bench mark lost 383 points in the month of Sept 2013 after the RBI monetary policy review. The sensex had surged 684.48points to an almost 3 year high after the US fed reserve refrained from easing its stimulus programme.

K. Withdrawal by investors

Withdrawal by investors affects the rupee to decline in value .The economic slowdown of many industries, in the Indian environment, the market's weakness for the government to implement public policies are increasingly disappointed. Global giants like Arcelor Mithal and Posco decided to withdraw their investments and Posco planned for a steel plant in Karnataka with an estimated investment of Rs. 30000 cores and Arcelor Mithal intended a steel plant in Odisha worth around Rs. 52000crores.The withdrawal by foreign investors in different sectors shows that policy changes made by India is too small and too late. When the economic growth of the country slowed down the Government is difficult to make corresponding change in policy .The federal policy had created sobering effects as the investors are entice back to advanced economies such as the US, where growth is recovering. As an outcome of Government policy to attract FDI, Foreign Direct Investment in India increased to 3177 USD Million in September of 2013 from 1661 USD Million in August of 2013. Foreign Direct Investment in India averaged 951.16 USD Million from 1995 until 2013, reaching an all time high of 5670 USD Million in February of 2008 and a record low of 58 USD Million in April of 2003.



Source: http://www.tradingeconomics.com/india/foreign-exchange-reserves

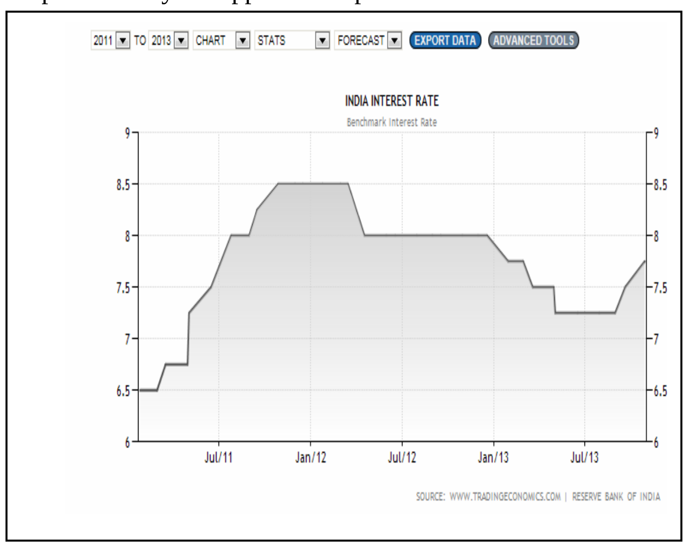
L. Lack of clarity in policy reforms

Lack of clarity in policy reforms is another reason for depreciation of currency. Perception of lack of clarity on the policy front is also fanning speculative demand wherein RBI on one day said it will tighten liquidity and on yet another said it will inject $1billion in the market. Then Key reforms like Direct Tax Code (DTC) and Goods and Service Tax(GST) have been in the pipeline for years. The government announced FDI in Retail, but had to hold back amidst huge furor from both opposition and allies.

M. Interest rate difference

Interest rate difference is another factor, that is higher interest rate generally attract foreign investment but due to slowdown in growth there is increasing pressure on RBI to decrease policy rates. Under such conditions investors stay away from Indian market. This effects capital account flows to India and put a decreasing pressure on rupee.

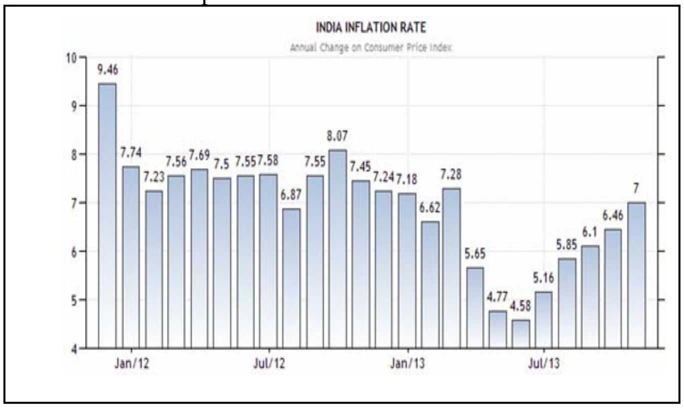
The Reserve Bank of India has raised its policy repo rate (to 7.75%) for the second consecutive month by 25 basis points to fight high inflation and rolled back an emergency measure put in place in July to support the rupee



Source: http://www.tradingeconomics.com/india/foreign-exchange-reserves

N. Higher inflation

Indian economy is experiencing higher inflation which will decrease purchasing power of rupee against other currencies. This will lead to rupee depreciation. Over the last 24 calendar months India's money supply grew at around 29% while its GDP grew at a much lower pace. This essentially means that more rupees were printed than required which causes a rise in inflation. India is experiencing high inflation above 8% for all most years. If inflation becomes higher it leads to overall worsening of economic prospects and capital outflows and eventual depreciation of currency. The inflation rate is based on consumer price index(CPI) The index is a measure of the average price which consumers spend on a market-based basket of goods and the services. The inflation rate in India was recorded at 7 percent in October of 2013.



Source: http://www.tradingeconomics.com/india/foreign-exchange-reserve

O. Capital controls

Capital controls is another factor affecting rupee value. The decision by the RBI and Govt. to impose temporary restrictions on capital flows has not gone down well with the markets, and it will affect domestic companies from investing abroad as well as foreign firms from pumping money in to India. When there is capital inflows in to the country the demand for currency increases leading to currency appreciation. Capital out flows causes the country's currency to depreciate as supply of it's currency decreases and demand for foreign currency increases.

During the 11-year period 1992–2003, capital inflows to India were at an annual average of US $ 8.6 billion. During the 5-year period 2003–08, there was a sharp increase in capital inflows to an annual average of US $ 45 billion. During the 3-year period of 2008–11, net capital inflows moderated to an annual average of US $ 39 billion

III. Impact of Rupee Depreciation on Indian Economy

Strong demand of US currency from importers and banks, continuous capital outflows, widening current account deficit and dollar strength against other currencies overseas amid expectation that the federal reserve will soon tapper its bond buying program has put pressure on the rupee. Whether the currency would find its stable level or will continue to slide further remains a tricky question. Let us have a look at how depreciation of rupee affects Indian economy. The currency depreciation will benefit the export oriented sectors such as IT sector, textile, pharmaceuticals, gems and jewelers, power and fertilizers. That is, a weak rupee will make Indian produce more competitive in global markets which will be fruitful for India's exports. The depreciating rupee will bring delight to the exporters as goods exported abroad will fetch dollars which in return will translate into more rupees. A sharply declining rupee triggers inflation, broaden the current account deficit, hits investor sentiment and creates burden for the organization with high exposure to foreign debt.

Buying import materials become very costly. Crude, which is priced in dollars, is India's biggest import item and depreciating rupee increases the cost of imports. The companies depending on imported raw materials will see a sharp impact on their bottom line. A weak rupee also exposes companies with unhedged overseas loans. A weak rupee will create extra stress on oil marketing companies (OMC) and this will surely be passed on the consumers as the companies allowed doing so after the deregulation of petrol and partial deregulation of diesel. If OMC increases fuel prices, there will be a substantial increase in overall cost of production which will trigger inflation.

Travelling abroad will be costlier as Indians will have to pay more Rupees to buy Dollars for overseas trips. Those who plan to go for US for foreign education have to spend more amounts due to the sharp fall in rupee. Then with the every single fall of rupee a burden of 9000 cores is created on the govt. in the form of subsidy. This has caused fiscal deficit to increase. At the industry level the cost of borrowing has been increased for the companies which have taken foreign loans. The increased liability has burdened companies which now resort to retrenchment to cut down expenditure. This has led to unemployment in the economy.

The continuous depreciation in rupee will increase inflation of the country. In such situation RBI will have very less room to cut policy rates. No cut in policy rate will add to the borrower's woes who are eagerly waiting to get rid of high loan regime. The adverse effects of rupee depreciation are likely to be offset by gains in export performance, according to a latest India development report released by the World Bank in New Delhi on Oct 16, 2013. The report says that although export did not respond to the rupee depreciation in June, export performance recovered strongly in July and August. During two months, merchandise exports grew at an 18 month high of 12.3 percent year on year. According to Martin Rama, chief economist for the south Asia region, it is an opportunity for India. A bumper agriculture output is expected which will have a positive impact on GDP growth, according to the report, till Sep 2013, India had been 5% higher rainfall than normal. This encouraged farmers to increase total zone area by 5% year on year for the kharif cropping season.

Most IT companies derive upwards of half of their revenue from US; a weaker currency is good news for them. On average, one percent point depreciation in the rupee translates in to 30-50 bps gain in operating Margins for IT companies. The pharmacy sector will buy and large benefit from the rupee slide as a majority in the industry is net exporters. The weakening of rupee put severe strain on automobile industry. As the automobile companies are importing components from foreign countries. Some companies have to pay high royalty to their parent firms. This will raise price of automobiles. Rupee depreciation has a major impact on aviation sector. In case of airlines the rupee depreciation has significant impact as their dollar revenue is less while most of their expenses are in dollars. The rupee depreciation against US dollars has created a challenging environment for Indian logistic sector. This is because of the increased cost of operation for both international shipping companies and the domestic transportation companies, and increased the cost of end users (manufacturing and shipping companies) within the country. Rupee depreciation against US dollars would lead to increase in fuel costs, thus resulting in higher operational costs for cargo transporters. The challenges of logistics end users are primarily in the case of international shipments since importers and exporters need to pay the shipping charges in US dollars and hence, additional amount has to be paid for the same shipments, making international trade less profitable for the companies. The power sector is negatively affected by rupee depreciation. The power firms are dependent on imports of the fuel to keep their plants running. A depreciated rupee will affect margins either by raising fuel costs or by making economies of running the plant on imported coal unviable.

This rupee depreciation is also an opportunity for NRIs, as the rupee has fell, RBI deregulated interest rates on NRI deposit. In response banks have increased rates on such deposits. The increase in NR Deposit rates, the rupee depreciation against Dollar and tax benefits under DTA (double taxation avoidance agreement) agreements are a once in a life time opportunity for NRIs. The value of US dollar has been rising over time since the US Federal Reserve has announced quantitative easing. This has hit not only the emerging markets and assets of India but also other countries like Thailand, Brazil and Indonesia. Just as in other countries, the FII (foreign institutional investors) have also started withdrawing their investments in Indian bond market. With the growing concern for, increasing risks in the global environment, massive redemptions through global exchange traded funds are taking place. This has further initiated the selling by the FII in the equity market of India leading to depreciation in the rupee. As a whole we can say that though weakening rupee is a reason for someone's smile it is a threat for the countries over all fiscal health and increase the CAD heavily

IV. Measures taken by RBI and Government

A number of measures have been taken by the RBI AND Government to tackle the situation. First of all RBI will provide dollars directly to state oil companies in attempt to support the rupee that has slumped over 20% this year. State-run oil companies had biggest demand for dollar in the markets – worth $ 400 Million to 500 Million daily- and RBI directing them to a special window to reduce pressure on the rupee. The government decided to issue quasi-sovereign bonds to bring more inflows into the country. RBI decided to sell Rs 22000 crore bonds every week to check the volatility in the forex market .The government has hiked import duty on gold and silver to 10% to restrict the imports. RBI has tightened the norms for gold import. Credit availability of gold import has also been tightened. RBI has reduced the amount of dollar resident Indians can take out of the country from $200000 to $ 75000 in a financial year. Indian companies have to get RBI permission if they want to invest any amount beyond their Net worth abroad. PSU oil companies were allowed to raise additional funds to the limit of $4 billion- through External commercial Borrowings (ECBS). To attract NRI deposits, RBI liberalize deposit schemes and some banks raise rates for overseas Indians. To attract NRIs, the RBI has exempted this deposits from cash reserve ratio and statutory liquid ratio requirements. RBI tightened liquidity to reduce availability of rupee in the banking system to reduce rupee volatility. The govt. has banned the duty free import of flat screen TVs to reduce the flow of foreign currency out of the country. RBI received 10.1 billion under the special concessional window for swapping foreign currency nonresident (banks) deposits and overseas foreign currency borrowings. On Sep 4, 2013 RBI Governor Raghuram Rajan announced opening of a swap window facility to encourage banks to lure NRI funds. Under this facility, banks are permitted to swap fresh FCNR (B) Dollar funds, mobilized for minimum tenure of 3 years. RBI also relaxed norms for banks and allow them to raise capital abroad to the tune of 100 % of their tier 1 (equity) capital.

The Govt. also plans to increase the cap of FDI in various sectors like insurance and retail to attract foreign investors. The conditions which were imposed on wall mart to enter to India have now been withdrawn by the Government. Then as soon as wallmart enter into India it will bring directly the required FDI. Central bank restricted bank's borrowings through liquidity adjustment facility (LAF) to the tune of 1% of the total deposits or Rs 75000 crore. RBI raised interest rate of Marginal standing facility (MSF) BY 100 bps to 10.25% as against9.25 % currently.RBI increased bond yield to m7.35%. The 10-year (2023) bond yield is moving around 7.50-7.60%. The Government also plans to take some hard decisions to trim wasteful expenditure and curb the import of nonessential items to deal with stressed economic situations. Thus a proper system should be implemented by the ministry and should keep check on it. The currency depreciation should be systematically tackled by the Government or else it will soon cause Indian economy to breakdown.

V. Conclusion

The currency depreciation is extremely worrying all because of the devastating impact it will have on India's economic fundamentals that have been pushed to the brink by global factors. The Government should make available the bonds to the non residential investors which will also increase the inflow of Dollars in to the country. In order to overcome this crisis, govt. should take steps to boost export intensive sectors and also try to develop import substituting industry which helps India to less dependent on imports. More export incentive should be provided to boost export trade in the country. Another thing to control currency depreciation is to formulate policies and restrictions on gold import to reduce domestic demand for gold. RBI Should sell forex reserves and buy rupees in an immediate actions in order to arrest the further decline in the value of rupees. RBI should hike the interest rates in order to reduce supply of money in the economy. They should attract more foreign institutional investors to the country. CAD is a major reason for the present scenario. So the major solution to tackle the current problem is to reduce CAD through reducing imports of petroleum and gold. India's public finance rating agency expects the rupee to appreciate to Rs 59-61 to the dollar by the end of fy-14. The agency expects that the policy measures taken by RBI, redemption of capital inflows, and passage of economic reform bill will help to pick up the economic growth momentum from the third quarter of fy_14.

Import substitution and export substitution measures can be effectively adopted. Now it is time the central bank and Government should work hand in hand and find out policy measures to stabilize the alarming scenario. A further cut in SLR to ease liquidity to save rupee and also import duty hike in gold and other related material will be helpful to fight against the crisis. RBI can buy bonds to ease liquidity in the market. The situation is more challenging for Indian economy, but we should hope for the best and should try to contribute the most to get back Indian economy in the driving seat to achieve financial super power in the world in coming decades.

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