

## Rupee Depreciation

### Why in news?

The Indian rupee's exchange rate against the US dollar has breached the 85 mark.

### What is exchange rate?

- **Exchange rate** - The value of currency relative to another currency and the number of units of one currency that exchanges for a unit of another.
- **Forex market** - A foreign exchange market is a market in which different currencies are bought and sold.
- Foreign exchange markets arise because various countries have different monetary systems and require different currencies to buy goods, services and financial assets.
- In this market, each currency is treated like a commodity itself.
- **Not a physical place**- Forex market is an electronically linked network of big banks, dealers and foreign exchange brokers who are all the time bringing buyers and sellers together.

*The biggest FEM centre is London.*

*Society of Worldwide International Financial Telecommunications (SWIFT) is a satellite-based communications network to facilitate forex market messaging services.*

- **Appreciation** - A currency appreciates with respect to another when its value rises in terms of the other.
- **Depreciation** - A currency depreciates with respect to another when its value falls in terms of the other.
- **Exchange rate determinant** - The relative value of one currency against another depends on which is demanded more.
  - If Indians demand more US dollar than Americans demand the Indian rupee, the exchange rate will tilt in favour of the US dollar.

*Foreign Exchange Dealers Association of India (FEDAI) was set up in 1958 as an Association of banks dealing in foreign exchange in India (typically called Authorised Dealers - ADs) as a self-regulatory body.*

## Rupees needed to buy other currencies

The higher one goes on this chart, the more rupees Indians need to buy a unit of another currency.

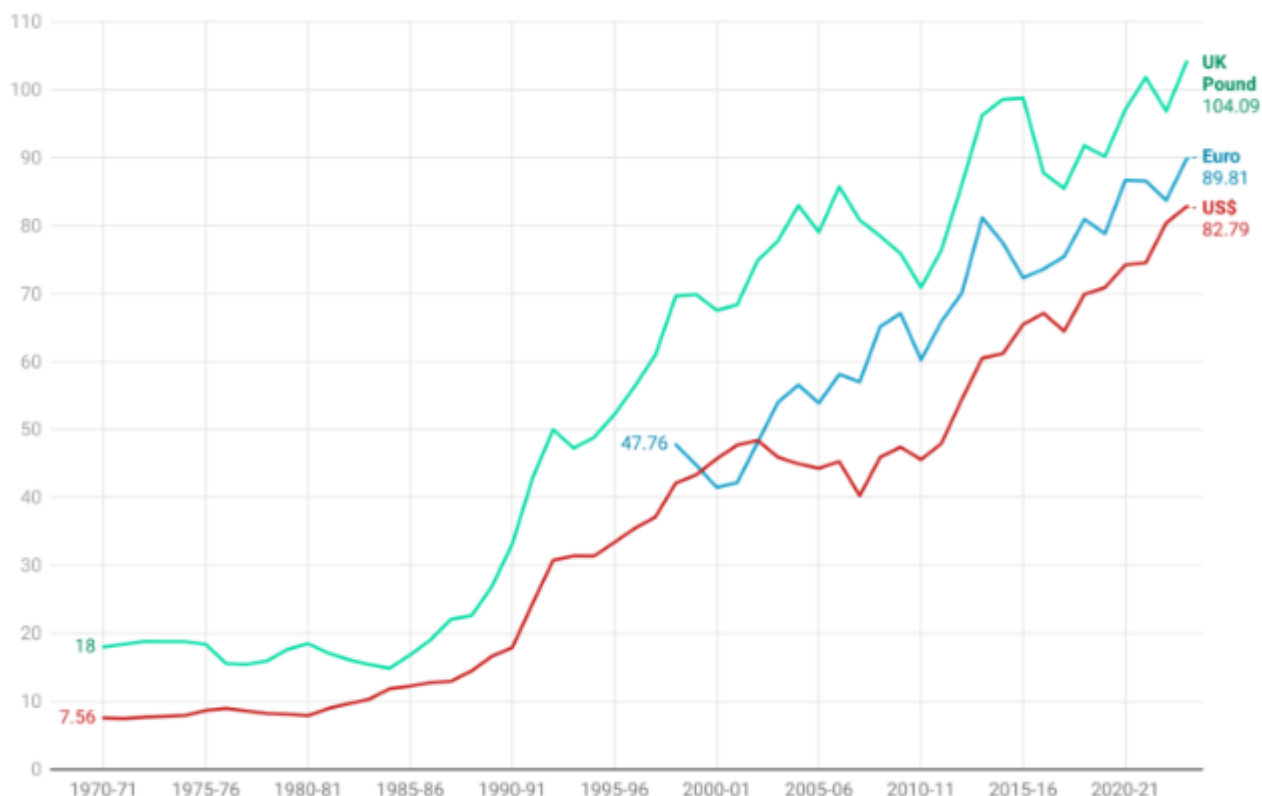
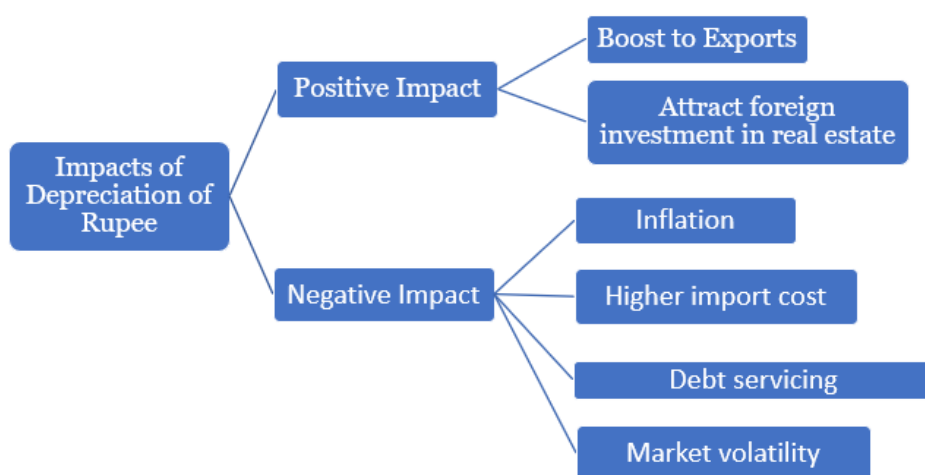
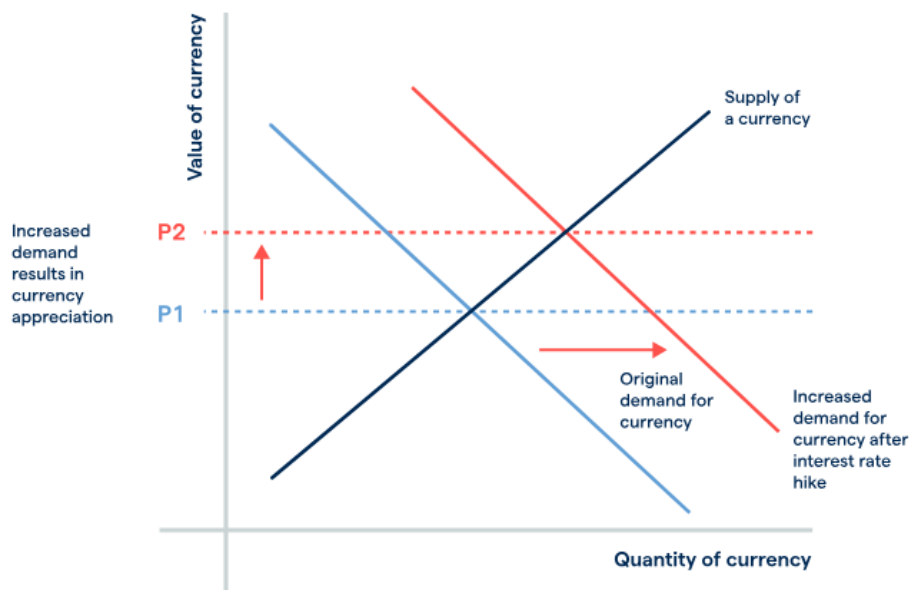


Chart: Udit Misra • Source: CMIE • Created with Datawrapper

## What factors determine the demand for rupee vis a vis dollar?

- **Trade of goods** - If India imports more goods from the US than what it exports to the US, then the demand for US dollar will outstrip the demand for Indian rupee.
- This, in turn, will make the US dollar gain strength against the rupee and its exchange rate versus the rupee will appreciate.
- **Trade in services** - If Indians buy more US services like tourism than Americans buy Indian services, then again, demand for dollar will outstrip the demand for rupee, and rupee will weaken.
- **Investments** - If Americans invest in India more than Indians invest in the US, then the demand for rupee will outstrip the dollar and rupee will appreciate against the dollar.
- **Global developments** - Conservative trade and protectionist measures of countries also affect trade and consequent currency demand.
- **Interest rate differences** - Higher interest rates tend to attract foreign investment, increasing the demand for and value of the home country's currency.
- **Inflation differences** - Higher inflation affects the real return value of investments made in domestic markets, thus discouraging investments.



### What can be done to improve the Rupee value?

- Actively intervention by the RBI to curb the rupee's depreciation by selling dollars and conducting dollar/rupee swaps.
- Adjusting interest rates to control inflation and stabilize the currency.
- While the RBI's actions may provide short-term relief, it is vital that the government actively consider all measures, both fiscal and monetary, to bolster economic growth and stabilise the currency.
- Creating Policies to attract foreign direct investment (FDI) and portfolio investment.
- Long-term currency stability will depend on structural economic reforms and a return of favourable sentiment in the global markets.

### Reference

[The Indian Express | Fall of Rupee](#)



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