Abstract:-

This paper has tried to analyse rupee deprecation effect on Indian foreign trade, and explains the rupee's direction journey since the independence period, and also analysed the recent rupee deprecation, and gives the major causes behind recent rupee deprecation. In last couple of months rupee value was fluctuated and reached to 68.36 against 1US$, which is all time low in 28th august 2013. September month recorded highest average rupee value with the 63.75. The study shows that recent rupee deprecation has positive effect on the Indian foreign trade, recent rupee deprecation encourages the export sector and recorded growth in total export and import is decreased, thus India's trade balance has been recorded significant decrease. This has analysed with the help of simple regression method, where the R square value is 0.798, for exports and 0.717, for imports which clear that there is a positive relation between the recent rupee deprecation and India's foreign trade.

Kadam Ajit
Ph.D Research Scholar Department of Study in Economics, Karnatak University Dharwad.

RECENT RUPEE DEPRECIATION IMPACT ON INDIA'S TRADE BALANCE

Kadam Ajit and H. H. Uliveppa
Ph.D Research Scholar Department of Study in Economics, Karnatak University Dharwad.
Professor of Economics, Department of Study in Economics, Karnatak University,Dharwad.

Keywords:

Trends of Rupee deprecation. Major causes behind recent rupee deprecation. And consequences of rupee deprecation on India's Trade Balance.

INTRODUCTION

Currency deprecation is severely affecting the economy of our country the fall in the value of Indian currency has several consequences which could have mixed effected on various sector of the Indian economy. Depreciation of rupee is the result of the number of the internal and external factors, adversely affecting the economy. Exports sectors has to be encouraged, to correct current account deficit and initiate steps to curb non-essential imports. Market Sentiments have to be improved, to stop under valuation of rupee against major foreign currencies. The rate at which one currency can be exchanged for the other is called forex rate. The rate changes on the daily basis depending on the demand and supply of each currency. If more people demand say, dollar, the value of it goes up relative to the rupee (INR), and vice-versa. A currency is said to have appreciated against the other currency when we had to pay less units of former currency in exchange of one unit of the latter. Similarly, a currency is said to have depreciated against the other currency when we had to pay more unit of former currency in exchange the letter.

Currency depreciation is the loss of value of a country's currency which respect to one or more foreign reference currencies system, it is most often used for the unofficial increase of the exchange rate due to market forces, thought sometimes it apposite an increase of value of currency, is called currency appreciation.

TRENDS OF RUPEE DEPRECATION

The exchange rate of a currency has always been a topic of discussion as it indicates a number of things ranging from condition of the economy a country to the policies that economy has followed over the time. Technically, rupee is presently under volatile trend, in the foreign exchange market which has led to several debates, and discussions in the economy, recently rupee value fallen to 68.36 against the US$ in August 28th, which is the all time low exchange rate, the Indian currency has witnessed a roller coaster journey since independence, many geographical and economic developments have affected it's movement in the last 66 years. Here is a brief look into trends of the Indian rupee journey since 1947. Before going deeper into the most recent trends, let us look at how the rupee was performed in the past.

Table 1: Trends in Rupee Value against $ USD since 1947

Year	Rupee value against $ USD	Year	Rupee value against $ USD
1947	1.00	1980	7.89
1950	4.79	1985	12.34
1955	4.79	1990	17.50
1960	4.77	2000	32.43
1965	4.78	2005	45.00
1970	7.56	2010	45.28
1975	8.41	2013	58.62

Source: RBI

Above table 1 shows trends of the Indian rupee journey since the independence where we can find that after India achieved independence in 1947, the exchange rate was 1$=1 INR, but to come out from the backward economy, Five Year Plans were introduced in 1951 to fulfil the its requirements, government started to external borrowing, this required the devaluation of the rupee .The consecutive wars one with China in 1962 and another one with Pakistan in 1965, resulted in a huge deficit on the Indian's budgets. This was reinforced India borrowed mainly from the US and under pressure from the US to continue providing further aid the rupee had we devalued against dollar so rupee stood at $=Rs 7.57 the end of 1966.

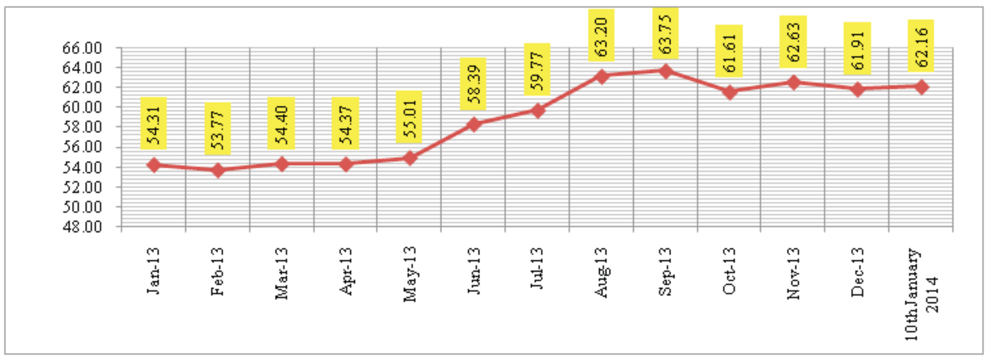
From 1975 to 1985, Indian rupee was devalued due to oil price hike started in early 70's lower domestic production, license raj and development activities. Hence 1USD=12.36. During the 1990-91 1991 year was the historical year in the Indian economy in this year Indian economy came into the stress country was suffer from the high inflation, low growth rate and the foreign reserves where one point of time foreign currency assets dipped below $1 billion covering barely two weeks of imports, in this conflicted condition rupee value was depreciated to 23.1 in July.

During the 1993 Rupee was let free to flow with the market force. The exchange rate was freed to determine by the market. With provisions of intervention by the monitory authorities, the situation of extreme volatility of Rupee exchange rate with USD was 31.31. 2008's global economics crisis gradual further deprecated into 49.

RECENT TRENDS IN RUPEE DEPRECATION

Last year (2013) was the remarkable year in the subject of rupee deprecation. In mid of the 2013, Indian rupee came into stress, rupee value was goes on fallen and reached to 68.36. against US$ in 28th august which is the all time low exchange rate in Indian exchange history,

Chart 1: Recent Trends in Indian Rupee



Source: RBI (Rupee Value in terms of Average per Month)

Due to several reasons like high, rising for the USD demand, CAD, trade deficit, poor infrastructure, Indian rupee come into the tress and started falling in the rupee value In the beginning of the 2013 year around 55 average in up to May but in the mid of the year in the month of Jun rupee value was depreciated into 58.39%, rupee was reached to 68.36 in 28th august which is all time low exchange rate in the foreign exchange market in the history of Indian economy , September month recorded highest average rupee value with the 63.75. Hence 2013 year was remarkable year in the case of rupee deprecation in global economy.

MAJOR REASONS BEHIND THE FALL IN THE VALUE OF INDIAN RUPEE

It is essential to know why rupee is depreciating against USD rupee is under volatile pressures due to combination of number of India specific economic factors and sudden emergence of new international scenario. Some of the main Indian based economic factors are namely.
Demand and Supply of Home currency and USD.
The economic theory gave the reason behind the change in the exchange rates the price of something rises if the demand of dollar rise more than increase in the supply of dollars the prices of dollars will rise this is the general reason behind the rise in the dollar against the rupee.
Widening / Burgeoning Current Account Deficit.

Current Account indicates the status on trade between a country and the rest of the world. Current Account Deficit (CAD) is the difference between the imports and exports of goods and services of the country, any deficit in current account shows that a country's total imports of goods, services and transfers is greater than country's total exports 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 needs, in the case of India its current account deficit was touched to 4.8 per cent of GDP, hence to fulfil the CAD a country has to buy more foreign currency to meet its needs, which leads to further increase the demand for the foreign currency, hence rupee value decrease

Outflow of the Foreign Capital.

Foreign institutional investors (FIIS) withdrawing their investments and taking the dollars out side India, thus creating a shortage of dollar supply, which is also increase the demand for the Dollar.

Monetary Policy

Policy perception of lack of clarity on the policy front is also fanning speculative demand where in the Reserve Bank of India (RBI) on one day said it will tighten liquidity and on yet another said it will inject $1 billion in the market.

Oil importing.

Oil is the one of principle commodity in our imports it was 108 US$ in 2012-13, for barrel, hence due to increase in the oil price demand for the dollar increase, further this leads to fall in rupee value.

Low Forex Reserves

India's foreign exchange reserve is enough to cover imports of only seven months. The forex reserves have declined in the recent months. Due to low reserves, the RBI can't intervene aggressively in the currency market.

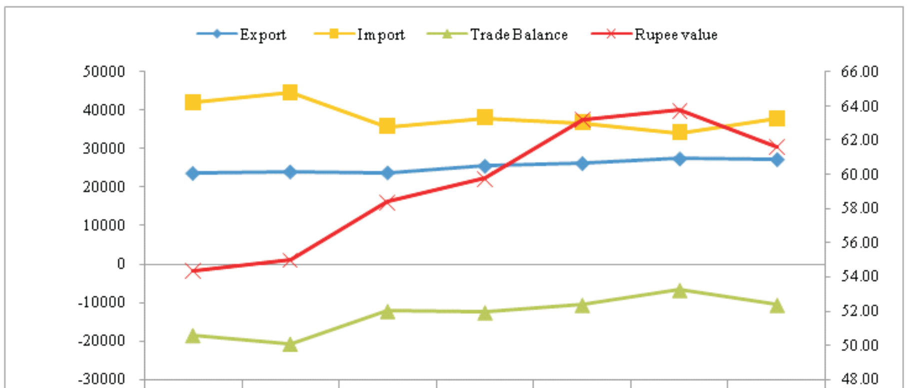
Low growth rate

India's gross domestic product (GDP) growth fall to a decade's low of 5 per cent in 2012-13. The situation is unlikely to improve much this year, hence foreign investor pilling money out form the Indian markets due to slow growth

Consequences of Rupee Deprecation on Indian Trade Balance

There were several consequences of the falling Indian rupee with mixed effect on the Indian economy positive and as well as negative effect on the economy. Devaluation is the one of the important policy package according to one estimate, during 1980-84 about 35 per cent IMF conditionally included devaluation in the name of liberalisation and reforms of exchange rate arrangement. Chart 2 shows the exports and imports of India during the recent year 2013. It seems that import bill is getting reduced in the recent months, whereas exports are increasing. But still our import bill is higher than the export bill in all months, due to which India's balance of trade is turning out to be deficit in recent years. In the September month the Balance of trade deficit is lowered at $ 6691 million. The imports have declined by 7.1 per cent. However, in October, the imports have increased by 10.8 percent, making Balance of trade higher at $ 10556 million.

Chart 2: Trends in India's Balance of Trade in recent year 2013



	April	May	June	July	August	September	October
Export	23584	23969	23723	25499	26213	27453	27271
Import	42046	44673	35880	38017	36763	34144	37827
Trade Balance	-18462	-20704	-12158	-12518	-10550	-6691	-10556
Rupee value	54.38	55.01	58.40	59.78	63.21	63.75	61.62

Source: RBI

We hypothesize that due to depreciation in our rupee value, the exports increase significantly and our imports decline significantly. In this perspective, the influence of the exchange rate of the rupee on the India's trade vis-a-vis exports and imports are empirically tested using Simple Regression Model, whose results are summarized in Table 2

Table 2: Regression Results

	Exports	Imports
R Square	0.798	0.717
Adjusted R Square	0.758	0.661
Standard Error	817.085	2129.584
Slope Co-efficient	396.539	-827.686
Intercept Co-efficient	1814.032	87682.824
P value	0.0067	0.0162

Note: Dependant Variables are Exports and Imports;
Independent Variable is the Exchange Rate of the Rupee in Dollars

The following interpretation can be derived from the Table 2. The R Square value denotes the goodness of fit of the regression model. Therefore with regard to Exports and Depreciation, the R square is 0.798, which means that 79 percent of the variation in the exports can be explained with the depreciation of rupee. Similarly with regards to imports, it can be said that 71% of the variation in imports is accounted due to depreciation of rupee.

The P value indicates the significance of the regression model. The Depreciation and Export Regression model is highly significant at 1% level as the value 0.0067 is less than 0.01, where as the Depreciation and Import Regression model is significant at 5% level as the value 0.0162 is less than 0.05.

The Regression Equation for Exports and Depreciation model is $Y = 396.539 X + 1814.032$. The value of slope co-efficient is positive and it means that due to depreciation of Indian rupee, exports increase by 396.5 units. Likewise for imports, the regression equation will be $Y = -827.686 X + 87682.824$. The value of the slope co-efficient is negative indicating that due to depreciation of Indian rupee, the imports decline by 827.686 units.

FINDINGS.

In 2013 average rupee value has gone to lowest i.e 54.31 in January, and highest was 63.75 in September
In 2013 rupee value depreciated all time low at 68.36 in August 28.
CAD, Oil price, increasing demand for USD, low growth rate of our economy, these are the major reason behind rupee deprecation
There is a positive relationship between rupee value and India's import and negative relationship between import
The recent rupee depreciation has positively effected on Indian foreign trade.
Indian exports and imports are recorded growth due to resent rupee deprecation
India's trade deficit recorded improvement in recent days.

CONCLUSION

From the above the analysis we find that rupee deprecation may promote exports and can reduce imports bill by which trade balance can be reduced, but rupee deprecation will observably affect on the other sector of the economy. The fall in the value of rupee not only hurt national growth, but also will bring new problems and risks, it will increase subsidies debt burdens, it will increase subsidies bill on oil and fertilizer, it may causes for inflation, it may reduce foreign exchange reserve, and so on. To promote exports sector and to reduce imports bill the devolution or deprecation is not only the way for this, to increase the rupee value, to boost the export sector and to reduce the import bill we need to promote our agriculture production. Secondly need to give modern touch to our industrial production, which instant of importing goods we have produce such type of goods in domestic. Thirdly need to attract more FDI to nation, and in the part of import have to take some serious steps to reduce import bill on unproductive goods such as custom duty should be increase on gold, silver importing luxuries goods.

REFERENCES

1.RBI Monthly Bulletin (January 2014) On India's Foreign Trade: H1 of 2013-14 (April-September)
2.Sarkar Prabirjit. (Jun 1992) Rupee Depreciation and India's External Trade and Payments Since 1971. Economic and Political Weekly
3.Sarkar Prabirjit (1994) Exchange Rate and Balance of Trade, Economic and Political Weekly, Jun
4.Singh Sumanjeet.(2009) Deprecation of The Indian Currency Implications for the Indian Economy, World Affairs Summer Vol 13 No 2.
5.Sarkar Prabirjit.(1997) Foreign Trade and Real Exchange Rate Behaviour, 1980-96 Economic and Political Weekly May.1997.
6.Sarkar Prabirjit (1993) Indian Economy since 1991 Trade, Price and Exchange Rate Behaviour, Economic and Political Weekly May 20, 1995.
7.The Economic Times.
8.www.rbi.org.co.in