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# The Great Rupee Fall Narrative

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## The Great Rupee Fall Narrative

By Prof. Rahul Singh

New Delhi, Sep 13, 2018: Since 1947 to 1991, the Indian rupee depreciated to 17.00 from INR 1.00. From 1991 to the year 2000, it depreciated (with devaluation also) to INR 45.00 and then to 63.00 from the year 2001 to 2013. With the BJP government, it has reached INR 71.00 recently. Also that India has moved from partial floating exchange rate system, since 1975, to floating exchange rate system, since 1993, which means RBI has a limited role, since RBI is responsible for the currency demand and supply management, and the government has no direct role in managing the currency rate. A strong currency does not guarantee high prosperity and a weak currency does not doom your economy, however in the limits and not extremes. The influence of government is possible through the policy changes in FDI investment or convincing RBI to float forex to ease the rupee.

Government is on an attack by the opposition for not controlling the fall of currency. It is a good opposition. However blaming the government for all domestic challenges of poverty, increased petrol prices, increasing inflation because of currency depreciation is a rejected hypothesis without testing. The changes in the currency value are influenced by the rising oil prices, concerns of several emerging markets, and boost in the US economy also causing the USD flow to us and changing the demand-supply mood. The larger question is – Should RBI capture and reverse the fall?

AYE's are the party in the government and NAY's are the political party in opposition. Both have their political thoughts dialogue on the rupee fall.

#### FIVE NAYS -

1. The government has failed in capturing the currency fall. This is directly affecting the economy. India never had this crisis.
2. Fall in rupee will make imports expensive so a major chunk of the industry will suffer. India is going to fall in its economic outcome again.
3. Current account deficit will rise and India will lose its currency deposit in order to fill it, further weakening of the economy.
4. It will affect the foreign investors and we expect to lose on the investors due to fall.
5. It is the worst currency fall in the Asian countries, reflecting the worst performance of Prime Minister Modi.

Arguments by the 'NAYS' assumed that the fall in the currency value is only hazardous to the economy and there is no good possible in depreciation. The 70 percent of the fall in the rupee value in its life has fallen during the regime of Congress government since 1947, including depreciation and devaluation. The 'NAYS' are only political and do not articulate the economic reasons.

#### FIVE AYES -

1. The government does not capture the currency fall in floating rate system. If the government intervenes, it will breach of the economic governance in the country. However, there are different ways to influence it through policy inputs.
2. This is the time when India can build the domestic market since the barriers for the foreign players are high. Indian industries will benefit due to price variance caused by the high prices of the imported products. Fundamentals can be strong and are in favor of the Indian companies. The fall is a positive indication as it will export competitiveness of the Indian goods and services, which was being hurt due to an overvalued currency and we have been worried on lowered export numbers in past. This will especially be beneficial to IT/ITES companies.

3. It is true that the current account deficit will rise but the government has worked to have very high foreign reserves. In fact, India is one of the top 5 globally in forex reserves. This comforts India in meeting some of the eventualities without foreign risk exposure. Recent MOODY analysis finds that India is quite strong in its fundamentals with high domestic funding base and has a low dependency on foreign currency, it has only about 4 percent of the foreign debt. For a while, the deficit can be financed by the foreign direct investment portfolio.
4. The fundamentals are already showing results and the last week of August 2018 has brought about 550 million USD in fresh forex reserves taking the reserve again more than 401 billion USD.
5. The currency fall is highest in the Asian countries. Although USD pressure varies for all nations, India is safe with high reserves. As a country with one of the highest oil demand, it is difficult to manage all pressures in international markets as well as in the domestic market.

In nutshell, India has a chance to rebuild on the domestic competitiveness which it had lost to the international trade pressure especially China. Trade war by the USA will continue to safeguard itself by the Chinese pressures, bringing an opportunity for Indian business to strengthen the market presence. More so, it also offers the opportunity to review its, government, actions and finance the citizen's additional cost by reserves. India has an opportunity in the improving economic numbers on industrial manufacturing, GDP growth rate, foreign reserves, foreign direct investment, doing business rating and the credit rating by agencies like Moody.

AYEs have a chance to win in a political debate with NYEs. People of the country should not suffer in the political calculations. It seems AYE's have a larger question to address, Let's not miss the bus for unprivileged, no compromises for their development.

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