



## 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 22<sup>nd</sup> 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
<b>Indian Rupee</b>	<b>72.38</b>	<b>75.42</b>	<b>4.20</b>
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](#)**

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