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A COMPARISON OF INDIAN CURRENCY ISSUES WITH SIMILAR PROBLEMS FACING BY OTHER COUNTRIES

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Abstract:

Currency issues are among the major concerns for developing countries, as they often face volatility, inflation, and dependency on stronger foreign currencies. In India, currency challenges include depreciation of the rupee against the US dollar, inflationary pressures, and a growing trade deficit. India has dealt with a range of currency-related problems including inflation, currency depreciation, counterfeit currency circulation, and black money. Notably, the 2016 demonetization and the recent push for digital currency and financial technology mark significant milestones in India's monetary landscape.

This research paper examines the key issues related to the Indian currency, both historical and contemporary, and compares them with similar challenges faced by other countries. The paper draws parallels with other economies such as Turkey, and Nigeria, which have experienced inflation, currency depreciation, demonetization, and transitions toward digital currencies. By analyzing these cases, the study identifies common causes, responses, and outcomes of currency crises globally. It further evaluates the effectiveness of policy interventions and the role of central banks in maintaining currency stability.

Key Words : *Indian currency, demonetization, Currency depreciation, digital Currency*

Introduction:

Currency stability is a crusial component of monetary stability it influence the importance of monetary stability derives from the significant in- dependent influence of monetary change on the subsequent course of economic activity. If money did not matter at all or were of only sec- ondary importance in affecting the flow of spending, income, and prices, monetary stability would be of little relevance. The value of a currency is fundamentally determined by the forces of supply and demand in the foreign exchange market. When the demand for a particular currency exceeds its supply, its value tends to appreciate relative to other currencies. Conversely, when the supply of a currency outpaces demand, its value tends to depreciate.

Strong economic performance, attractive interest rates, stable political conditions, and favorable trade balances can increase the demand for a currency.

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It has been a tumultuous time for the Indian rupee even as the Reserve Bank of India (RBI) continues to actively intervene in the foreign exchange market to stem its depreciation in pursuit of what it calls an 'orderly' exchange movement. The rupee hit a new all-time low of 87.35 to the U.S. dollar on April 5, 2025. Earlier this week, it came precariously close to breaching the 88-mark before a late intervention by the central bank pulled it back to 87.02. A confluence of factors continues to hurt the rupee, including sustained outflows of foreign portfolio investments from securities markets after key indices peaked in early February. Overstretched stock valuations, underwhelming corporate earnings for the October-December quarter, and a more aggressive economic stimulus from China have shifted emerging market portfolios from Mumbai to Beijing.

The Donald Trump factor has added a fresh headwind since his return to the U.S. presidency in January 2025. The dollar has strengthened, further rattling emerging market currencies, especially after Mr. Trump renewed his threat of imposing a 100% tariff on BRICS nations in response to ongoing talks around a common currency aimed at reducing reliance on the U.S. dollar in global trade. India's economic challenges remain tied to domestic factors such as tepid consumption and sluggish private investments. With the rupee under continued pressure, the country's external resilience could face new stress tests in 2025. Countries like Turkey, and Nigeria are seeing currency depreciation due to external debt burdens, inflation, and political instability.

Review of Literature:

In The Problem of the Rupee: Its Origin and Its Solution (1923), **Dr. B.R. Ambedkar** critically examined the issues surrounding the Indian rupee during the British colonial period. He traced the root of the rupee's instability to its reliance on silver, which led to frequent fluctuations in its value due to changes in global silver prices. Ambedkar argued that this dependency created serious economic problems, including inflation and uncertainty in trade.

According to RBI (2023), the Indian rupee (INR) has shown relative stability but remains vulnerable to external shocks such as rising global crude oil prices, US monetary policy tightening, and geopolitical tensions. Patra & Ray (2022) note that capital outflows due to interest rate differentials and rising import bills contribute to rupee depreciation.

A study by Lt. Rajender Singha and Dr. Krishan Lal Grover explores the effects of rupee depreciation on India's economy, particularly in relation to crude oil imports. The research highlights how currency fluctuations influence trade balances and economic stability.

Objectives:

- To analyze the key causes and impact of currency depreciation in India and comparable economies such as Turkey and Nigeria.
- To examine the role of monetary and fiscal policy responses in addressing currency depreciation and instability.
- To draw comparative insights and policy lessons from the experiences of these countries in dealing with currency crises.

Research Methodology:

This study emphasizes quality research and is based on secondary data collection, utilizing books, academic papers, government reports, and financial articles to gather relevant information on currency fluctuations, exchange rates, and monetary policies. The literature review includes an analysis of the historical evolution of these issues, with a particular focus on India's currency challenges in comparison to global economies facing similar circumstances.

Evolution of Indian Currency Since 1947

Since independence in 1947, the Indian Rupee has seen a steady depreciation against the US Dollar due to economic crises, global events, and policy changes. Initially pegged at ₹1 = $1, the rupee was devalued In 1966 to ₹7.50 amid a balance of payments crisis. By the 1980s, it reached ₹12, and after the 1991 economic reforms, it became partially convertible, crossing ₹31 by 1993. Continued global and domestic pressures saw it weaken further—to ₹45 in 2000, ₹75 in 2020, and approximately ₹86.04 by April 2025.

1 USD to INR from 1947 to 2024

Year	Exchange Rates (1 USD to 1 INR)
1947	1
1990	17.02
2010	46.02
2020	74.31
2024	83.28

India:

India's currency challenges stem from several key factors, including a persistent trade deficit driven by high imports of crude oil and gold, capital outflows during global uncertainty, and inflation that erodes the rupee's purchasing power. External pressures such as a strong US dollar, rising oil prices, and geopolitical tensions further weaken the currency. Additionally, a high fiscal deficit and growing public debt undermine investor confidence. The impact of these issues is significant: imports become more expensive, leading to imported inflation; foreign education and travel costs rise; and external debt repayments become costlier. Businesses face increased input costs, and the RBI's intervention to stabilize the rupee puts pressure on foreign exchange reserves. Altogether, these factors negatively affect economic growth by reducing investor confidence and slowing capital formation.

Turkey:

Turkey's currency issues are linked to unorthodox monetary policies, such as maintaining low interest rates despite high inflation. This approach weakens investor trust and accelerates depreciation. The lira's instability leads to imported inflation, reduced foreign reserves, and economic uncertainty.The Turkish government faces the dual challenge of restoring political stability and implementing effective economic reforms to regain investor confidence. While the CBRT has taken steps to support the lira, including significant reserve sales, sustained recovery will likely depend on broader structural reforms and a commitment to transparent, rule-based governance.The USD/TRY exchange rate reached a peak of 38.04 on April 8, 2025, reflecting a 7.31% increase in the U.S. dollar's value compared to the lira since the beginning of the year.

Nigeria:

Nigeria's dependency on oil exports makes its currency vulnerable to global oil price fluctuations. Limited foreign reserves and foreign exchange restrictions further strain the naira. The impacts include inflation, reduced economic diversification, and challenges in funding imports.As of April 15, 2025, the exchange rate for 1 US Dollar (USD) is approximately ₦1,620 Nigerian Naira (NGN) in street trading.

The two major factors that severely affected Nigeria's currency are limited foreign reserves and stringent foreign exchange controls.

Comparative Insights:

India, Turkey, and Nigeria face currency challenges stemming from both domestic and external factors, but the nature and intensity of these issues vary significantly. India's currency depreciation is largely driven by structural factors such as a persistent trade deficit due to high imports of crude oil and gold, inflationary pressures, and capital outflows during global uncertainty. Despite these challenges, India maintains relatively conventional monetary policies, and the Reserve Bank of India (RBI) actively manages interest rates and foreign exchange reserves to stabilize the rupee. In contrast, Turkey's currency issues are primarily the result of unorthodox economic policies—most notably, keeping interest rates low despite soaring inflation. This approach has led to a loss of investor confidence, severe lira depreciation, and a rapid depletion of foreign reserves. Nigeria, on the other hand, suffers from an overdependence on oil exports, making the naira highly vulnerable to fluctuations in global oil prices. Limited foreign reserves and strict foreign exchange controls have further exacerbated inflation and hindered import activity. While India's policy stability offers some cushioning, Turkey and Nigeria's inconsistent or rigid responses have intensified their currency crises. Overall, effective monetary policy, economic diversification, and investor confidence emerge as critical factors in managing currency stability across these nations.

In India, both monetary and fiscal policies play pivotal roles in ensuring currency stability. In India monetary policy used tools like inflation targeting, exchange rate management, Liquidity management to mange the currency stability

Initiative taken by India Turkey and Nigeria to tackle the Indian currency issues :

India's Initiatives:

Local Currency Settlement System: India and Nigeria have agreed to implement a local currency settlement system to facilitate trade using the Indian Rupee and Nigerian Naira, reducing dependency on foreign currencies like the US dollar.

Monetary Policy Adjustments: The Reserve Bank of India (RBI) has actively managed inflation and exchange rate fluctuations through interest rate adjustments and forex reserve interventions.

Unified Payments Interface (UPI) Expansion: India has promoted digital payment systems like UPI to enhance financial stability and reduce reliance on cash transactions.

Turkey's Initiatives: Currency Stabilization Measures: Turkey has implemented monetary policies to control inflation and stabilize the Turkish Lira, including interest rate hikes and foreign exchange interventions.

Trade Agreements: Turkey has sought bilateral trade agreements to strengthen its currency position and reduce external economic pressures.

Nigeria's Initiatives:

Local Currency Trade Agreements: Nigeria has partnered with India to finalize a local currency settlement system, allowing trade transactions in Naira and Rupees instead of relying on the US dollar.

Economic Diversification: Nigeria has focused on reducing dependency on oil exports by promoting sectors like agriculture, manufacturing, and technology to stabilize its currency.

Findings:

- Currency stability significantly affects a country's broader economic health. Fluctuations in currency value directly influence inflation, trade balances, foreign investments, and public confidence in financial systems.
- The Indian rupee has consistently weakened against the US dollar, particularly hitting an all-time low of ₹87.35 in April 2025. This trend is driven by trade deficits, capital outflows, global economic uncertainties, and domestic economic sluggishness.
- Factors such as the strengthening US dollar, geopolitical instability, and economic policy shifts in countries like the US and China have intensified pressures on emerging market currencies, including the rupee.
- India experiences depreciation from trade imbalances, inflation, and capital flight, though it maintains relatively better control through proactive interventions.
- India's use of tools such as inflation targeting, interest rate adjustments, and forex reserve utilization by the RBI has helped mitigate more

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severe depreciation effects. Similarly, Nigeria and Turkey have employed measures like local currency trade agreements, interest rate changes, and forex controls.

- The Reserve Bank of India plays a central role in stabilizing the rupee through exchange rate management and intervention strategies, ensuring an "orderly" market movement even in times of volatility.

Suggestions:

- Strengthening domestic manufacturing through export incentives and targeted industrial policies can help reduce the trade deficit. Simultaneously, curbing non-essential imports can support local industries and enhance self-reliance.
- While efforts to reduce dependency on imported crude oil through investments in renewable energy sources are already underway, there is a need to scale these initiatives more broadly across sectors and regions to achieve significant and sustained impact.
- Increasing foreign direct investment (FDI) in key sectors to bring in stable foreign capital.
- Negotiating **trade agreements** with emerging economies to promote rupee-based transactions.

Conclusion: India faces challenges from currency depreciation, though less severe than in Turkey or Nigeria. Effective use of both monetary and fiscal policies has helped manage the situation. Learning from countries that curbed past inflation through sound policies can further strengthen India's currency stability.By analyzing global trends and adopting best practices from successful monetary frameworks, India can navigate future currency challenges and build a more **resilient and adaptive financial ecosystem**. Maintaining a stable currency will not only protect India's economic interests but also bolster investor confidence and trade opportunities on an international scale.

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