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Original Research Article

DEVALUATION OF INDIAN RUPEE: ITS DYNAMICS AND WAY FORWARD

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Abstract:

The paper examines the primary causes contributing to the depreciation of the Indian rupee from the year 2014-15 to 2023-24 and provides solutions for reducing its adverse effects on the economy. As currency depreciation can have a substantial impact on a country's economic stability, trade balance, foreign investment, and inflation rates. The study takes into account a number of macroeconomic indicators, such as the foreign exchange rate, Foreign Direct Investment (FDI), Foreign Institutional Investments (FII), Inflation rate, Gross Domestic Product (GDP), and Trade dynamics (export and import). This paper attempts to explore the benefits and fluctuations in the value of the rupee against the dollar, for which trend analysis and correlation have been used, which illustrates the relationship with currency depreciation. The findings are meant to help develop solutions for currency stability and economic growth in the future, for which secondary data has been used.

Keywords: *Currency, Dollar, Rupee, Inflation, Gross Domestic Product (GDP), Foreign Direct investment (FDI), Export, Import, Exchange rate*

Introduction:

Currency devaluation is the natural reduction in a currency's value. Since 1934, the Reserve Bank of India (RBI) has managed the issuance of the Indian Rupee (INR). The Indian rupee's value has changed over time due to a variety of reasons, including foreign exchange rates, economic crises, and political instability, among others. Currency devaluation, according to Keynes, stimulates economic growth by increasing net exports, aggregate demand, and output via the multiplier effect. India has seen two significant financial crises and two subsequent devaluations of the rupee in 1966 and 1991. The US dollar has never been worth the same as the Indian rupee. The factor that causes the Indian rupee to depreciate recently is due to the constant outflow of foreign capital. The increased demand for dollars has weakened the rupee. India is only the fourth economy in the world to reach $700 billion in reserves, following China, Japan, and Switzerland. India's high inflation rates diminish the purchasing power of the rupee and make the Indian rupee less competitive in the global market. This Research paper aims to analyse the impact of currency devaluation on India’s economic growth by examining key factors like GDP growth, Inflation rates, foreign exchange rates, Export and import Dynamics. These factors are important to stabilize the economy and promote sustainable growth.

Objective of the Study:

1. Analyse the impact of Rupee devaluation on India’s economic growth.
2. Evaluate the effect of currency devaluation on the factors like Gross Domestic Product (GDP), Inflation, Foreign Exchange Rate, Trade Balance, Foreign Direct Investment (FDI) and Foreign Institutional Investments (FII).
3. Suggest the way forward to manage currency volatility to achieve economic stability.

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Review of Literature:

Dr. Varsha Agarwal, Sahil kanunga, Siddhi Jain, Dhurv kanariya (2020): The Researcher carried out research on Devaluation of Indian Rupee Against Other Currencies, which focuses into the causes, effects, and policy implications of the Indian rupee's devaluation. The authors present a historical review, stressing two key periods of devaluation in 1966 and 1991 as a result of trade imbalances, rising inflation, and political instability. The study investigates both the advantages and disadvantages of devaluation on the Indian economy. On a positive note, the devaluation has boosted agricultural exports and foreign direct investment inflows while improving the current account balance. However, it has had a negative influence on infrastructure development, real estate, and foreign investment. This paper provides recommendations for policy for India to stabilize its currency value. The authors suggest government and RBI actions, such as releasing capital regulations and maintaining a stable economy, to reduce the negative effects of devaluation and promote long-term economic growth.

Amit Vikram MA and Aniruddha Das (2013): The research paper "Rupee Depreciation and Its Impact with Reference to India" analyses the factors that contribute to the depreciation of the Indian rupee and its economic consequences. The authors present a historical review of rupee depreciation, focusing on key financial crises and the economic implications. The study focuses on the macroeconomic effects of rupee depreciation, such as rising inflation, increased import costs, and higher borrowing costs for firms that rely on external commercial borrowings. The authors suggest that despite government interventions, both domestic and global variables signal ongoing pressure on the rupee, necessitating policy measures by the RBI and the government to stabilize the currency.

Rajendra Singh and Krishnan Lal Grover (2022): The research paper "Rupee Depreciation: Its Impact on the Indian Economy" examines the reasons and consequences of the Indian rupee's depreciation against the US dollar, notably between 2021 and 2022. It emphasizes crucial variables such as rising crude oil imports, increasing current account deficits, rising inflation, and increased foreign capital outflows. The depreciation makes Indian exports more competitive in the global market, but it also increases import costs, causing inflationary pressures. The article also analyses policy ideas for managing currency depreciation and mitigating its negative effects. It advises that the Reserve Bank of India (RBI) intervene by selling foreign exchange reserves to stabilize the rupee. To increase capital inflows, the government should also prioritize expanding export-oriented businesses, reducing reliance on imported goods, and attracting foreign investment.

Research Methodology:

We analysed the data from the year 2014–2015 to 2023–2024 using reports from the Reserve Bank of India (RBI), the Ministry of Statistics and Programme Implementation (MoSPI), the Centre for Monitoring Indian Economy (CMIE), and the Press Information Bureau (PIB). Our analysis covered variables such as Gross Domestic Product (GDP), Foreign Direct Investment (FDI), Foreign Institutional Investment (FII), Trade Balance, the Wholesale Price Index (WPI), and the Consumer Price Index (CPI). We employed correlation methodology, trend analysis, and simple data tabulation for data analysis.

1. Trend Analysis:

The process of trend analysis entails gathering data from several time frames and placing it on a horizontal line for further examination. This study aims to identify patterns in the provided data that can be used to take appropriate action. To identify trends and fluctuations in the depreciation of the Indian Rupee, this study

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examines economic indicators such as GDP, Inflation, Export, Import, FDI and FII.

2. Correlation Analysis

Correlation Analysis is a statistical method for figuring out the direction and degree of a relationship between two or more variables. A statistical correlation analysis is used to evaluate the factors such as GDP, Inflation, Export, Import, FDI, and FII that has the most impact on the Rupee Devaluation.

$$r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{[n\sum X^2 - (\sum X)^2][n\sum Y^2 - ((\sum Y)^2]}}$$

X (Independent Variable): Macroeconomic factors such as GDP, inflation, trade balance, exports, imports, and FDI, FII

Y (Dependent Variable): Rupee Exchange Rate (currency depreciation)

Interpretation and Data Analysis:

Table 1: Economic Indicators

YEARS	EXCHANGE RATE	GDP	FDI	FII	WPI	CPI	EXPORT	IMPORT	TRADE BALANCE
2014-15	60.95	7.4	45.15	110244	1.26	5.83	3,10,130.10	4,47,602.10	-1,37,472.00
2015-16	66.79	8.0	55.56	-4882	-3.65	4.91	2,62,202.60	3,80,430.50	-1,18,227.90
2016-17	67.63	8.3	60.22	58326	1.73	4.52	2,75,663.80	3,84,210.10	-1,08,546.30
2017-18	64.94	6.8	60.97	26587	2.92	3.59	3,03,570.90	4,65,637.50	-1,62,066.50
2018-19	70.64	6.5	62.0	16307	4.28	3.41	3,30,194.00	5,14,333.20	-1,84,139.10
2019-20	72.15	3.9	74.39	6125	1.68	4.77	3,13,184.80	4,74,175.30	-1,60,990.40
2020-21	74.31	-5.8	81.97	274032	1.29	6.16	2,90,976.20	3,92,986.20	-1,02,010.00
2021-22	75.45	9.7	83.6	-140010	13	5.51	4,22,305.60	6,13,630.50	-1,91,324.90
2022-23	81.62	7.0	71.36	-37632	9.41	6.65	4,50,553.60	7,15,327.40	-2,64,773.70
2023-24	83.15	8.2	70.95	208211	-0.73	5.36	4,37,124.30	6,78,347.90	-2,41,223.60

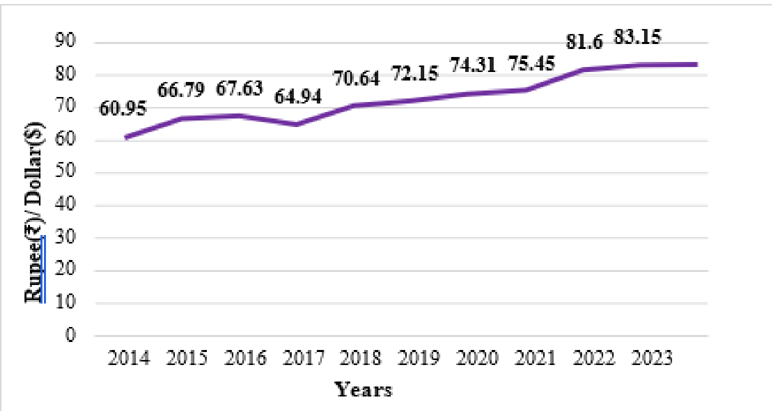
Source: *Compiled from RBI, Annual Report of 2014-2024*

RBI, Handbook of Statistics on Indian Economy 2014-2024

Ministry of Statistics and Programme Implementation (MoSPI) 2014-2024 Press Information Bureau (PIB) Report 2014–2015 to 2023–2024

Centre for Monitoring Indian Economy (CMIE) Report 2023-24

Figure 1: Foreign Exchange Rate



Source: Created by the Authors from table 1

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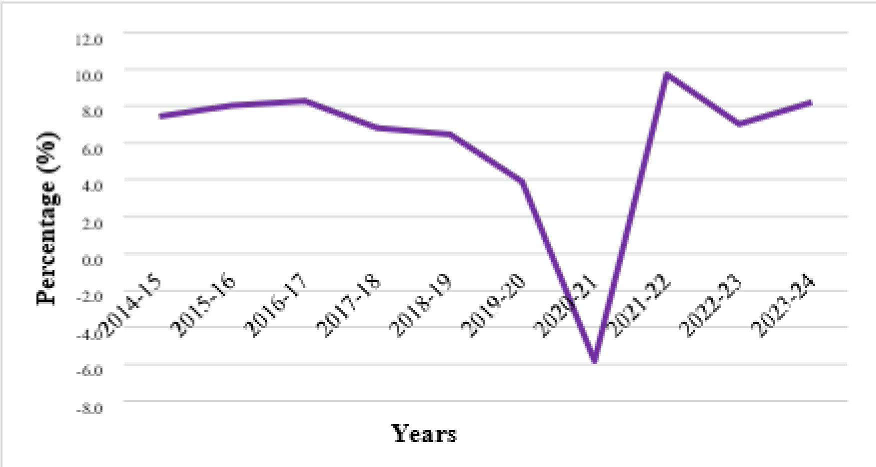
The exchange rate data from 2014 to 2023 has been illustrated in Figure 1 which show a steady decline of the Indian Rupee (INR) against the US dollar. Previously (2014-2017), the rupee varied between ₹60.95 and ₹67.63, indicating moderate steadiness. However, from 2018, the rupee has steadily weakened, crossing ₹70 in 2018 and reaching ₹74.31 in 2020 as a result of global trade uncertainty and economic slowdowns. The rupee depreciated further, hitting ₹ 81.62 in 2022 and ₹83.15 in 2023. By 2024, the rupee had reached its lowest point of ₹84.91, demonstrating the combined impact of internal and international economic forces.

Figure 2: Gross Domestic Product (GDP)



Source: Created by the Authors from table 1

The Figure 2 depicts India's GDP growth rate from 2014–15 to 2023–24. The COVID-19 pandemic and Spike in Inflation rate had caused a severe decrease in GDP (-5.8%) in 2020–21

which affected the economic activity of India. But after the pandemic, the economy recovered well, by expanding to 9.7% in 2021–2022. This sudden increase was caused by the low base effect, increased consumer demand and government investments which helped the economy to recover.

Figure 3: Foreign Direct Investment

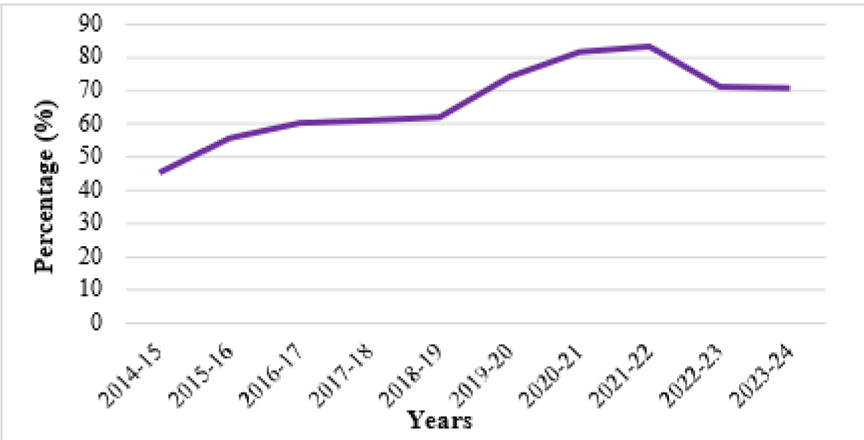


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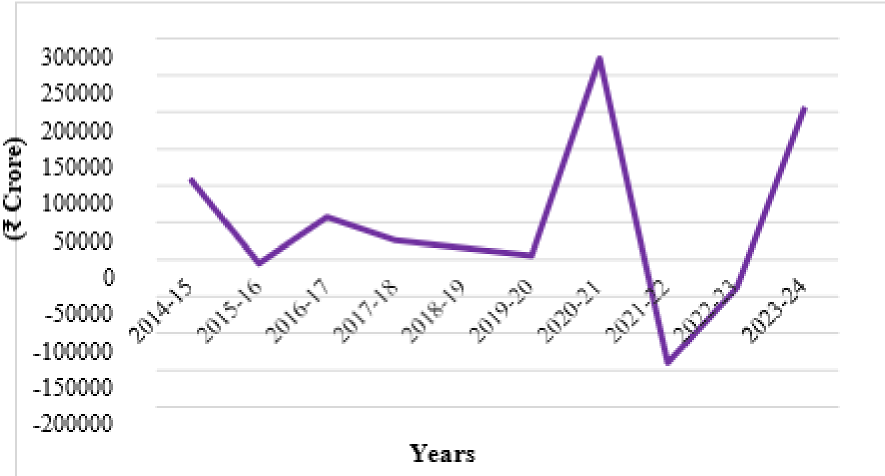
Figure 3 presents Foreign Direct Investment (FDI) numbers from 2020 to 2023 that show a downward trend. In 2020, FDI peaked at $84.84 billion, due to high investor confidence and economic reforms. However, in 2021, it fell somewhat to $82.0 billion, and by 2022 and 2023, it had fallen even lower to $71.36 billion and $70.95 billion. In 2023, FDI declined substantially because the number of foreign investors withdrew out of India and Indian companies invested more in growing their businesses abroad than in bringing capital into India.

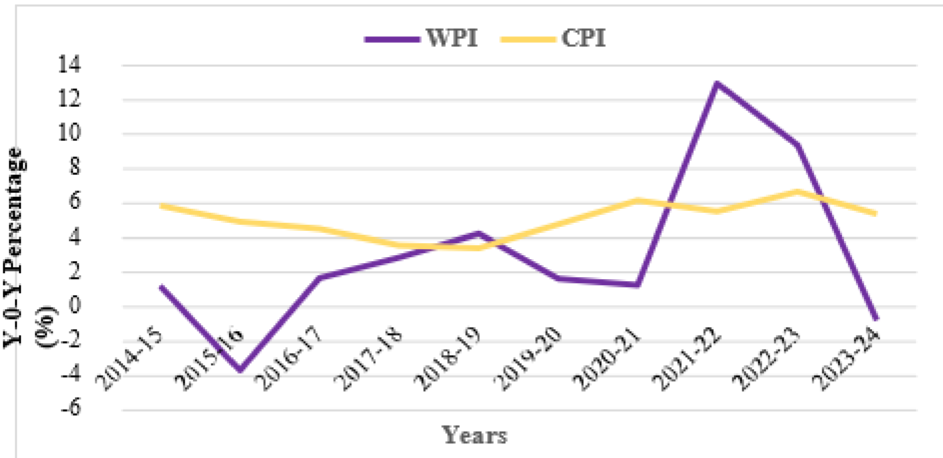
Figure 4: Foreign Institutional Investment



Source: Created by the Authors from table 1

Figure 4 depicts that in India, FII was largely positive from 2014-15 to 2023-24, with the exception of 2015-16, 2021-22, and 2022-23 Strong company earnings, policy support, and market recovery drove the largest inflows in 2020–21 (₹274,032 crore). Due to rising US bond yields (over 4.25%) and predictions of continuing high interest rates, which made US assets more attractive, overall outflows reached ₹-140,010 crore in 2021–2022.

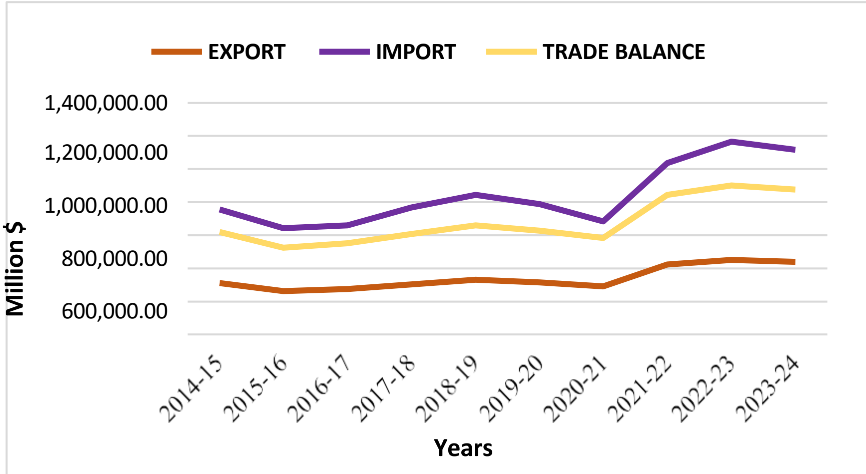
Figure 5: Inflation Rate



Source: Created by the Authors from table 1

The Figure 5 indicate the Inflation rates for India's Wholesale Price Index (WPI) and Consumer Price Index (CPI) from 2014-15 to 2023-24. While CPI surged in 2022-2023 (6.65%), WPI inflation peaked in 2021-2022 (13%), caused by disruptions in the global supply chain and increased commodity costs. While CPI stayed steady at 5.36% in 2023-2024, WPI became negative (-0.73%), indicating deflation.

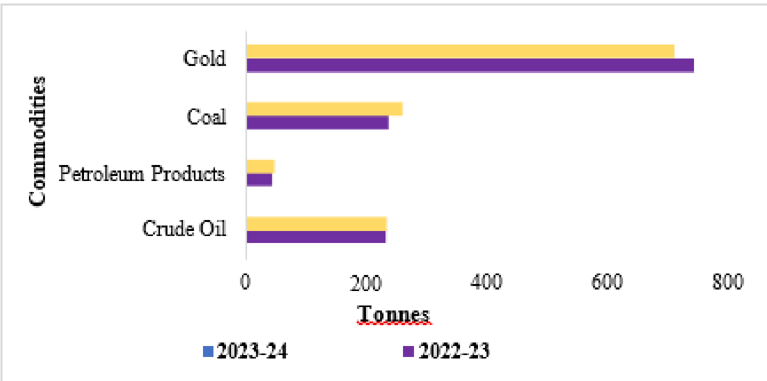
Figure 6: Trade Balance



Source: Created by the Authors from table 1

Figure 6 shows India's trade balance, imports, and exports from 2014–15 to 2023–24. Due to an increase in imports, the trade deficit (negative trade balance) reached its greatest point in 2022-2023 (₹-2,64,773.70 crore). An increasing gap caused by imports increasing more quickly than exports in recent years is due favourable exchange rates, globalization, increased consumer demand, and a growing global economy all contribute to easier access to a wide range of foreign goods.

Figure 7: Top Imports in India



Source: World Gold Council, Ministry of Petroleum and Natural Gas

The Figure 7 illustrates an increase in imports of crude oil, petroleum products, and coal in 2023-24, which may lead to currency depreciation. Higher imports increase demand for foreign currencies (such as US dollars), reducing the demand for local currency. Furthermore, the country consumed an extra 802.8 tonnes of gold in 2024, up 5 per cent from the previous year. The increase comes despite a 4 per cent decline in imports to 712.1 tonne from 744 tonnes the previous year.

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Table 2: Correlation Analysis

Correlation Analysis	*Exchange Rate*
Exchange Rate	1
GDP	-0.081370269
FDI	0.726046797
FII	0.07514905
WPI	0.352995221
CPI	0.447170322
EXPORT	0.805127175
IMPORT	0.78680823
TRADE BALANCE	-0.729526383

Source: Compiled and computed by the Authors from table 1

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Table 2 presents the correlation Analysis indicating, the Trade Balance (-0.729) seems to have the greatest adverse impact on the Rupee Exchange Rate, making it the main cause of currency devaluation. Depreciation of the Rupee results from a worsening trade balance, when imports exceed exports, which raises demand for foreign currency. High inflation (CPI: 0.447) also contributes to the currency's depreciation since rising prices diminish purchasing power and discourage foreign investment**.**

Although exports (0.805) and foreign direct investment (0.726) have a large positive relationship with the exchange rate, their effect on devaluation is less significant than that of the trade deficit. While increasing exports can somewhat overcome the negative consequences of a declining currency, FDI inflows can occasionally stabilize the Rupee. Nonetheless, inflationary pressures and the ongoing trade imbalance continue to be the main causes of Rupee depreciation, making them the main areas of attention for retaining currency stability.

Findings:

1. The trade deficit in India puts pressure on the rupee, leading to depreciation.
2. The rupee weakens when rising inflation reduces purchasing power and discourages foreign investment.
3. Although higher exports have the potential to boost the rupee, the trade deficit has a greater effect.
4. The depreciation of the Indian Rupee (INR) has been caused by events such as rise in the crude oil prices and interest rate hikes by the US Federal Reserve.
5. The currency rate sharply declined from ₹60.95 in 2014 to ₹83.15 in 2023, with a significant decrease in 2018 as a result of concerns about global trade.
6. India needs to concentrate on lowering the trade deficit, managing inflation, and increasing exports in order to stabilize the rupee.

Suggestion/Way forward:

Achieving currency stability requires a multi-faceted approach to mitigate the adverse effects of rupee depreciation on the economy.

- India should focus on encouraging FDI and maintain stable macroeconomic policies to curb inflation.
- Long-term economic stability depends on the Reserve Bank of India (RBI) and the government working together to manage currency risks, carry out structural reforms, and maintain budgetary restraint.
- Adoption of (Artificial Intelligence) AI for financial monitoring systems to detect forex fluctuations early.
- Investment in AI for trade and manufacturing to

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strengthen AI uses in domestic industries that can boost exports and reduce imports.

By implementing effective strategies, India can work towards a more resilient and stable currency, fostering long-term economic growth.

Conclusion:

The depreciation of the Indian Rupee (INR) from 2014 to 2023 was influenced by multiple global and domestic factors. The rupee fluctuations have affected most of the global economies. The Dollar has been strengthening against many currencies too. Surging crude oil prices overseas, the persistent FII outflows, and negative sentiments in the domestic equity markets etc., put a downside pressure on the rupee. India must prioritize developing its own sectors, lowering its dependence on imports, and putting strategic monetary policies into place to achieve long-term currency stability. Export expansion and FDI have helped stabilize the currency, but they haven't been enough for reducing the negative effects of a growing trade deficit.

When it comes to controlling currency volatility and enhancing economic resilience, artificial intelligence (AI) has the potential to transform the market. AI-driven financial monitoring tools are able to forecast changes, examine present currency market patterns, and alert policymakers in advance and it will help spend less time in the production process while producing more output with fewer inputs.

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