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DECLINE IN PURCHASING POWER OF THE INDIAN CURRENCY

Abstract: the article describes the reasons of declining of the value of India's currency. Among them are an increase in the price of the crude oil, increase in the price of imported goods, outflow of foreign currency,atmosphere of political uncertainty.Decline in purchasing power of the Indian currency affects negatively the economic development of the country.

Key words: inflation, India, currency

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СНИЖЕНИЕ ПОКУПАТЕЛЬНОЙ СПОСОБНОСТИ ИНДИЙСКОЙ ВАЛЮТЫ

Аннотация: в статье рассматриваются причины снижения стоимости валюты Индии. Среди них рост цен на сырую нефть, рост цен на импортные товары, отток иностранной валюты, атмосфера политической неопределенности. Снижение покупательной способности индийской валюты негативно сказывается на экономическом развитии страны.

Ключевые слова: инфляция, Индия, валюта

At present, the value of India's currency "rupee" is continuously falling and its value has declined by 12% between January - September 2018**.** Among the BRICS nations, after the Russian Ruble, the Indian rupee depreciated the most in this period. Now the exchange rate between the dollar and rupee is hovering around Rs.72.51= 1 dollar. Devaluation meaning: when the external value of domestic currency depreciates while the internal value remains the same, such situation is known as devaluation of the domestic currency. The basic difference the devaluation and depreciation is that, the devaluation is done by the government of the country deliberately while the depreciation takes place due to market forces i.e. demand and supply.

If you're wondering why the rupee has hit an all-time low against the dollar, thanks to the volatility in market affecting indices and individual stocks, coupled with global and domestic cues, the Indian currency has its back against the wall.The data is represented in the figure 1 shown below[1].

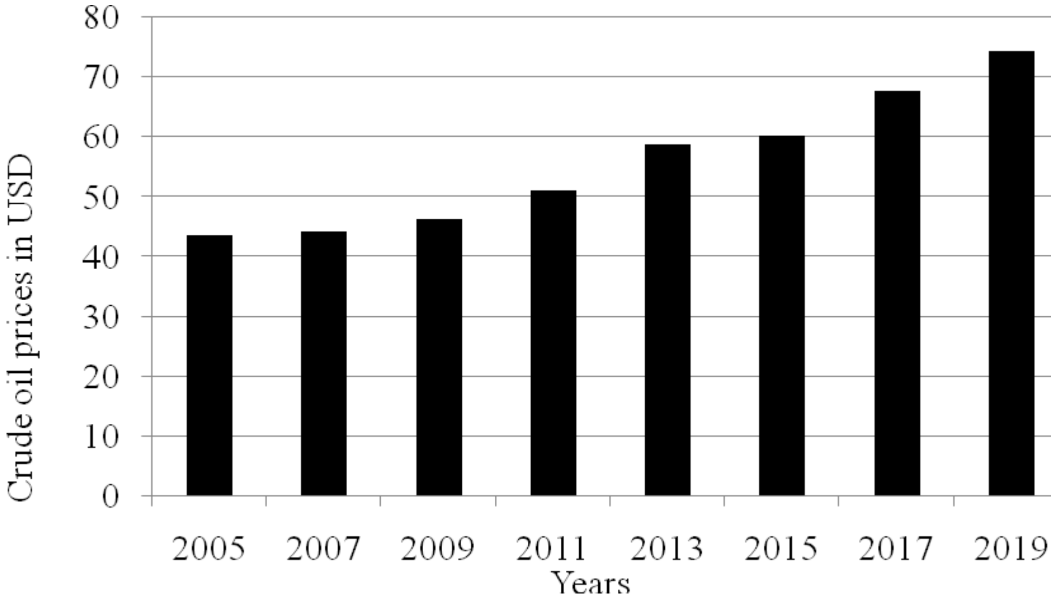

Figure 1- Exchange rate of USD in INR from 2005to 2019

Now let us understand the reason behind the depreciation of the Indian rupee against dollar currently.

Increase in the price of the crude oil.As we all know that India produces just 20% crude oil of her requirement and rest is imported from the other countries like Iraq, Saudi Arabia, Iran and other gulf countries. Crude oil is the biggest contributor in the import bill of India. According to the January report from energy and consultancy firm Wood Mackenzie; The daily fuel demand of India is expected to more than double to 190,000 barrels in 2019, up from last year's 93,000 barrels. As the demand of crude oil is increasing the bill of oil import is also increasing.Data published by Petroleum Planning and Analysis cell (PPAC) points India's total crude oil import bill in the current financial year(2019- 2020) is expected to jump 24% to $109 from $88 billion last fiscal year. Economic survey 2018 estimates that if the price of crude oil increases 10 dollar per barrel then the GDP of India decreases up to 0.2-0.3%. So increase in demand of crude oil will be followed by the increasing import bill in the form of payment of more dollars to oil exporting countries. Hence the demand of dollar will increase in the Indian market which will reduce the value of Indian rupee .Crude oil prices shown in the table 1.

Table 1- Crude oil prices in India from 2015 to 2019

Year	Crude oil prices (in USD)
2015	53.32
2016	43.74
2017	54.15
2018	71.19
2019	74.52

Beginning of trade war between USA and China.The US President Donald Trump has initiated the trade war with China and European countries and India and these countries also retaliated in the same way. So due to this war the price of the imported commodities will go up which will further increase the outflow of dollar from the Indian market. As we know that Indian import bill is always greater than its export bill. It means that the trade war will adversely affect the India market and India will also experience the outflow of US dollar from its domestic market [4].

Increasing Trade Deficit of India. A situation, in which the import bill of a country exceeds its export bill, is called trade deficit.Indian merchandise trade deficit of $157 billion in 2017-2018 was the widest since 2012-2013, the country had reported a merchandise trade deficit of $190 billion. Trade deficit was around $118 billion in the FY 2016. It's simple mean is outflow of foreign currency is more from

Indian market as compared to inflow of foreign currency. As per law of demand, if the demand of a commodity increases, its price also follows it. In the same way; when more and more foreign currency i.e. dollar goes out of Indian market, its domestic price increases and price of Indian rupee decreases. The gap between exports and imports stood at $17.13 billion, compared with $14.61 billion in the same month last year, according to a release from the Ministry of Commerce. The trade gap had hit a five-year high of $17.4 billion in August. ICRA Ltd.'s Principal Economist AditiNayar said that seasonal trends drove an uptick in the trade deficit. India's imports rose 17.6 percent shown in the table below trade deficits.

Table2- Trade deficit during financial years 2012-2018 in India

Financial Year	Trade Deficit (In billion USD)
2012	-183.24
2013	-190.33
2014	-135.8
2015	-137.73
2016	-118.7
2017	-108.55
2018	-156.83

Outflow of foreign currency.It is worth to mention that when the foreign investors find other attractive markets in the other parts of the world; they pull out their invested money by selling the equity shares. But they demands the most respected currency or easily accepted money i.e. dollar. So in such situation the demand of dollar increases which further increases its price. The table below shows the outflow of Indian money in international market[5].

Foreign Portfolio Investors (FPIs)have pulled out nearly INR 48,000 Crore from Indian capital markets in the first six months of 2018, making it the fastest outflow in a decade.FPIs withdrew a net sum of INR 6,430 Crore from equities besides INR 41,433 Crore from the debt markets during January-June period of the year, taking the total outflow to INR 47,836 Crore[6].

Atmosphere of Political Uncertainty**.** As per many surveys done by the media houses, the popularity of the current NDA government is decreasing which is creating the atmosphere of the uncertainty among the foreign investors. Major point of uncertainty is that whether the current NDA government will retain the power atcentre or not. If the new government comes in the power and changes the FDI and other policies then the money of investors will trap. So the foreign investors are pulling out their money from the Indian market to invest in those markets which can provide them secured return. This is the reason that the demand of dollar is increasing and the price of Indian rupee is falling. Hence on the basis of the combined impact of the above mentioned reasons the exchange rate between the dollar and India rupee is touching its lowest point.

In the conclusion it can be hoped that if the RBI and government of India puts combined efforts in this directions then depreciation trend in the Indian currency can be checked.

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