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Depreciation of Rupee

Authors
Kanika Arora
Assistant Professor
Shri Ram College of Commerce, Delhi University
4/52 1st Floor Roop Nagar
Delhi – 110007
E-mail: *arora_kanika@ymail.com*

Abstract

The Indian currency has depreciated by more than 20 per cent since April 2008 and breached its crucial 50-level against the greenback on sustained dollar purchases by foreign banks and stronger dollar overseas. The fall in the value of Indian rupee has several consequences which could have mixed effects on Indian economy. But, mainly, there are four expected implications of falling rupee. First, it should boost exports; second, it will lead to higher cost of imported goods and make some of the capital intensive projects more expensive to execute; third, it will increase the cost of dollar loans taken by companies and increase the foreign debt and fourth, it will slow-down the overall economic growth by increasing the interest rate and dissuade flow of FIIs. This paper studies the real implications of the depreciation of the rupee on the Indian economy and shows that in the long run, the Indian economy has more to lose and less to gain with weaker rupee.

Keywords: Conversion rate, foreign exchange market, rupee devaluation

OBJECTIVES OF THE STUDY

1) To know about the trend of Indian Rupee and it exchange rate against us $ historically.
2) To understand the concept of devaluation
3) To understand the causes and the steps taken by government on the major devaluations that took place in India.
4) To study the real implications of the depreciation of the rupee on the Indian economy

INTRODUCTION

We all know that that each country has its own currency (except in Europe where a group of countries have a common currency). The rate at which we can convert one currency into another currency is known as conversion rate between different currencies. Therefore if I have Rs 1,000 with me and I wish to get US $ by surrendering the above INR, I need to go to a bank or an authorized currency dealers for this transaction. They will convert my INR into US $ at that day's rate.

Thus it becomes clear that there is a foreign exchange market where you can buy one currency in lieu of another. The rate at which this happens is called the conversion rate. This rate changes on daily basis depending upon the demand and supply of each currency.

However most of us tend to confuse when we read that there is Rupee Depreciation as it has moved from Rs 50 per US $ to Rs 55 per US $. A look at this change indicates value has increased but report reads that INR has depreciated. Undoubtedly it is confusing. Let us try to remove this confusion.

Now we will try to understand what appreciation and depreciation refer to when we read such news on daily basis. Let us assume that in case, you go to a bank and ask the bank that you intend to buy US$100, please tell me what is the amount of INR you have to pay. Bank informs you that you need to pay Rs 5410/-. This means you can buy US $ @ Rs.54.10 per dollar. This is the selling rate of the said bank for US $ for that day.

Now after one month, you go to bank and again ask the bank that you wish to buy US$ 100, and bank tells you that this time you have to pay Rs.5490. This means you have to pay more to receive the same amount of US $. In the above example, it is clear that value of INR has gone down when compared to US$. This will be known as Depreciation of Indian Rupee.

On the other hand, if the rate quoted by bank on second occasion is say Rs. 5380/-. It will be considered as appreciation of INR as this time you have to pay less amount to buy the same amount of US$.

Thus in formal terms **Depreciation** refers to “a fall in the value of the domestic currency which is caused by the demand for foreign currency exceeding its supply in the market”. In such a situation one has to pay more than before to get units of foreign currency. This fall takes place in the market on its own.

Thus on the contrary rupee is said to have **appreciated** against the other currency when we have to pay less units of former currency in exchange of one unit of the latter.

Effect on	If Rupee DEPRECIATES (For example, when US$-INR moves from Rs.50/- to Rs55/	If Rupee APPRECIATES (For example, when US$-INR moves from Rs50/- to Rs47/-
Importers	Imports become costly as for each USD we have to pay Rs5/- more IMPORT BECOMES COSTLIER	Imports become cheaper as for each USD we have to pay Rs3 less IMPORTS BECOME CHEAPER
Exporters	Exporters will have higher revenue. For exports of each Dollar, the exporter will get Rs 5 higher EXPORTERS EARN MORE	Exporters will earn lower revenue. For exports of each dollar, now the exporter will get Rs 3 less. EXPORTERS EARN LESS
Indian Tourists going abroad	For each dollar taken abroad for spending, the traveler has to pay Rs 5 more and thus his trip will become costlier TRIP IS COSTLIER	For each dollar he intends to take abroad for spending, the traveler has to pay Rs3 less and thus his trip will become cheaper. TRIP IS CHEAPER

GENERAL CAUSES FOR DEPRECIATION

Factors that can cause a nation's currency to appreciate or depreciate include:

1) Relative Product Prices - If a country's goods are relatively cheap, foreigners will want to buy those goods. In order to buy those goods, they will need to buy the nation's currency. Countries with the lowest price levels will tend to have the strongest currencies (those currencies will be appreciating).

2) Monetary Policy - Countries with expansionary (easy) monetary policies will be increasing the supply of their currencies, which will cause the currency to depreciate. Those countries with restrictive (hard) monetary policies will be decreasing the supply of their currency and the currency should appreciate. Note that exchange rates involve the currencies of two countries. If a nation's central bank is pursuing an expansionary monetary policy while its trading partners are pursuing monetary policies that are even more expansionary, the currency of that nation is expected to appreciate relative to the currencies of its trading partners.

3) Inflation Rate Differences - Inflation (deflation) is associated with currency depreciation (appreciation). Suppose the price level increases by 40% in the U.S., while the price levels of its trading partners remain relatively stable. U.S. goods will seem very expensive to foreigners, while U.S. citizens will increase their purchase of relatively cheap foreign goods. The U.S. dollar will depreciate as a result. If the U.S. inflation rate is lower than that of its trading partners, the U.S. dollar is expected to appreciate. Note that exchange rate adjustments permit nations with relatively high inflation rates to maintain trade relations with countries that have low inflation rates.

4) Income Changes - Suppose that the income of a major trading partner with the U.S., such as Great Britain, greatly increases. Greater domestic income is associated with an increased consumption of imported goods. As British consumers purchase more US goods the quantity of U.S. dollars demanded would exceed the quantity supplied and the U.S. dollar will appreciate.

LITERATURE REVIEW

The Indian rupee, which was at par with the American currency at the time of independence in 1947, hit a record low of 68.80 against the dollar recently. This means the Indian currency has depreciated by almost 68 times against the greenback in the past 66 years.

Let us now see "the history depreciation of rupee" and the "recent causes behind depreciation of Indian rupee" one by one.

(A) THE HISTORY

1947-1967

The Indian currency has witnessed a roller-coaster journey since independence. Many geopolitical and economic developments have affected its movement in the last 66 years. Here is a broader look at the Indian rupee's journey since 1947:

- India got freedom from British rule on Aug 15, 1947. At that time the Indian rupee was linked to the British pound and its value was at par with the American dollar. There were no foreign borrowings on India's balance sheet.

- To finance welfare and development activities, especially with the introduction of the Five-Year Plan in 1951, the government started external borrowings. The demand for the borrowings introduced the concept of rupee devaluation in the Indian economy

- After independence, India chose to adopt a fixed rate currency regime in which the governments try to maintain their currency value constant against one another. Here the government decides the worth of its currency in terms of either a fixed weight of gold or fixed amount of another currency. The sudden shift in its regime to liberalize the policies led to the fall of rupee. Thus the rupee was pegged at 4.79 against a dollar between 1948 and 1966.

- The increase in the rupees leads to decrease in the dollars. The budget crisis in the government have given rise to large supply of rupee in the market increasing inflation which tended to increase the prices of our economy compared to that of the world, increasing the imports. This increases the current account deficit leading to balance of payments crisis and rupee depreciation.

- The external factors to be noted are the wars with China and Pakistan in 1962 and 1965 respectively. The countries favorable to Pakistan withdrew their support for India. The wars made the government of India to spend most of the budget towards the war which accelerated inflation. There was a foreign aid available to meet the needs but it was never greater than the deficits but it helped the rupee to stand stable at least until 1966. After 1966, the foreign aid was withdrawn demanding the liberalization of the Indian economy. Thus the government was forced to devalue the currency to 7.57 against the dollar.

- The severe drought in 1966 was another important factor that led to the scarcity of budget increasing the prices and devaluation of the currency.

1967-2000

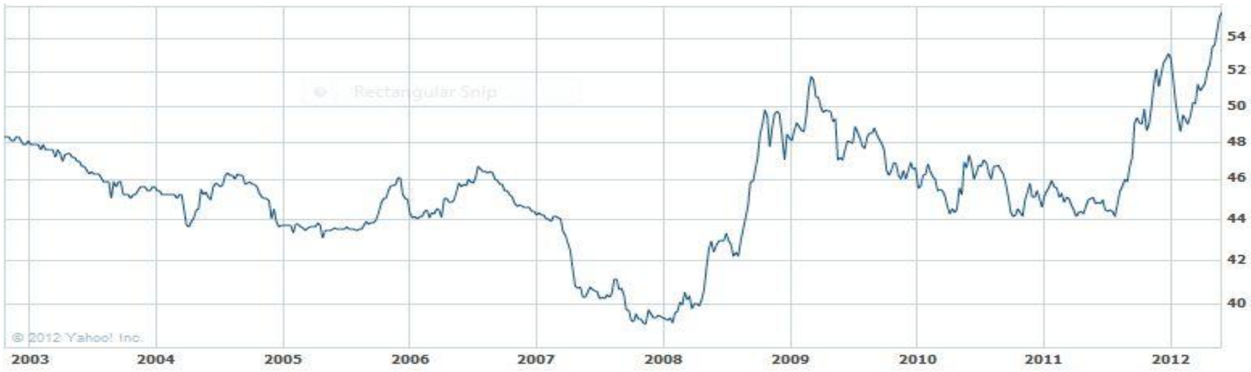
- The rupee's link with the British currency was broken in 1971 and it was linked directly to the US dollar.

- In 1975, the Indian rupee was linked to a basket of three currencies comprising the US dollar, the Japanese yen and the German mark. The value of the Indian rupee was pegged at 8.39 against a dollar. In 1985 it was further devalued to 12 against a dollar.

- India faced a serious balance of payment crisis in 1991 and was forced to sharply devalue its currency. The country was in the grip of high inflation, low growth and the foreign reserves were not even worth to meet three weeks of imports. Under this situation, the currency was devalued to 17.90 against a dollar.

- The year 1993 is very important in Indian currency history. It was in this year when the currency was let free to flow with the market sentiments. The exchange rate was freed to be determined by the market, with provisions of intervention by the central bank under the situation of extreme volatility. In 1993, one was required to pay Rs.31.37 to get a dollar.

(B) CAUSES IN THE RECENT YEARS
FROM 2000 – TILL PRESENT



Talking about the reasons for the depreciation of rupee a series of activities has led to the current scenario, which are:

1) Basic law of economics

As per the rudimentary laws of economics if the demand for USD in India exceeds its supply then its worth will go up and that of the INR will come down in that respect. The importers are the major entities that are in need of the dollar for making their payments. Another reason is that the Foreign Institutional Investors are withdrawing their investments in the country and taking them elsewhere.

This can create a shortfall in supply of the dollar in India. In fact, of late, the FIIs have been heading to greener pastures like Singapore owing to the greater operational efficiency and lesser bureaucratic problems that have unsettled the Indian business fraternity and hampered its overall economic grow.

(2) Price of crude oil

The worth of crude oil has been a major curse for India since it has to bring in the majority of its requirement from outside the country. The demand for oil in India has been going up every year and this has led to the present situation. All over the world, the price of oil is given in dollars.

This implies that as and when the demand for oil increases in India or there is an increase in oil prices in the global market, there also arises a need for more dollars to pay the suppliers. This also results in a situation where the worth of the INR decreases significantly in comparison to the dollar.

(3) Performance of dollar with respect to other currencies

The central banks across Japan and countries in the Eurozone have been bringing out a lot of money and this has meant that both Yen and Euro have lost their value. Compared to this the US Federal Reserve is giving hints that it will end the fiscal stimulus so that the dollar becomes stronger with respect to other currencies such as the Indian Rupee at least for the time being. Till now in 2013, the US dollar index has become stronger by 1.91%.

(4) Volatility in the equity market

The equity markets in India have been volatile for a certain period of time. This has put the FIIs into a dilemma as to whether they should be investing in India or not. In recent times their investments have touched an unprecedented level and so if they pull out then the inflow will go down as well.

As per a report in Business Today, the international investors in India have withdrawn to the tune of INR 44,162 crore during June 2013 and this is a record amount. This has also created a current account deficit (CAD) that is only increasing, thus contributing significantly to the depreciation of the INR.

(5) Withdrawal of investors

Recently Arcelor Mittal and Posco decided to pull out from their projects in India. Posco did not go ahead with a steel plant worth INR 30,000 crore that was supposed to be built in Karnataka and Arcelor Mittal withdrew from setting up a steel plant in Odisha that was supposed to cost around 52,000 crore. There were lot of delays and problems related to acquiring land for the project. In fact in 2012-13 the Indian companies have spent more outside India compared to FIIs in India.

(6) Condition of import bill

India's import bill has been going up of late and most of this can be attributed to gold. This has also hampered India's efforts to arrest the slide of the INR. Gold alone takes up more than 10 per cent of India's import bill – in April 2013, 141 tons of gold were imported and it went up to 162 during May. The government took some measures that restricted gold imports to 31 tons during June but once again in the first 25 days in July the imports went up to 45 tons.

(7) Contraction of Indian economy

The various important sectors of Indian economy such as manufacturing, mining and agriculture have seen poor growth in 2013 and this has made them less appealing propositions for the investors. During June 2013, the aggregate industrial production in India reduced by 2.2 per cent and in July 2013 the RBI predicted that in the present fiscal there would be a growth of 5.5%, which was lesser than its previous prediction of 5.7%.

THE TRENDS IN RUPEE DEPRECIATION

Year	Trends in Rupee Depreciation
1947	1
1966	7.50
1980	7.86
1985	12.38
1990	17.01
1995	32.42
2000	43.50
2007	39.42
2008	48.88
2011	55.39
2013(May)	54.73
2013(August)	67

SPECIFIC REASONS FOR DEPRECIATION OF RUPEE IN 2013

The Indian rupee is in free fall against the U.S. dollar and many people predict that it will fall still further to touch 70 rupees to the dollar. The rupee has already depreciated more than 13% this year and a recent intervention by the central bank, the Reserve Bank of India (RBI), has done little to arrest the slide. Other steps such as restrictions on overseas investment by Indian companies and overseas remittances by Indians have been ineffectual. It is important to understand the reasons for the rupee depreciation in the last fiscal year so that we can formulate corrective measures

The major reasons for the plunging fate of the rupee in 2013 are:

(1) Current Account Deficit (CAD)

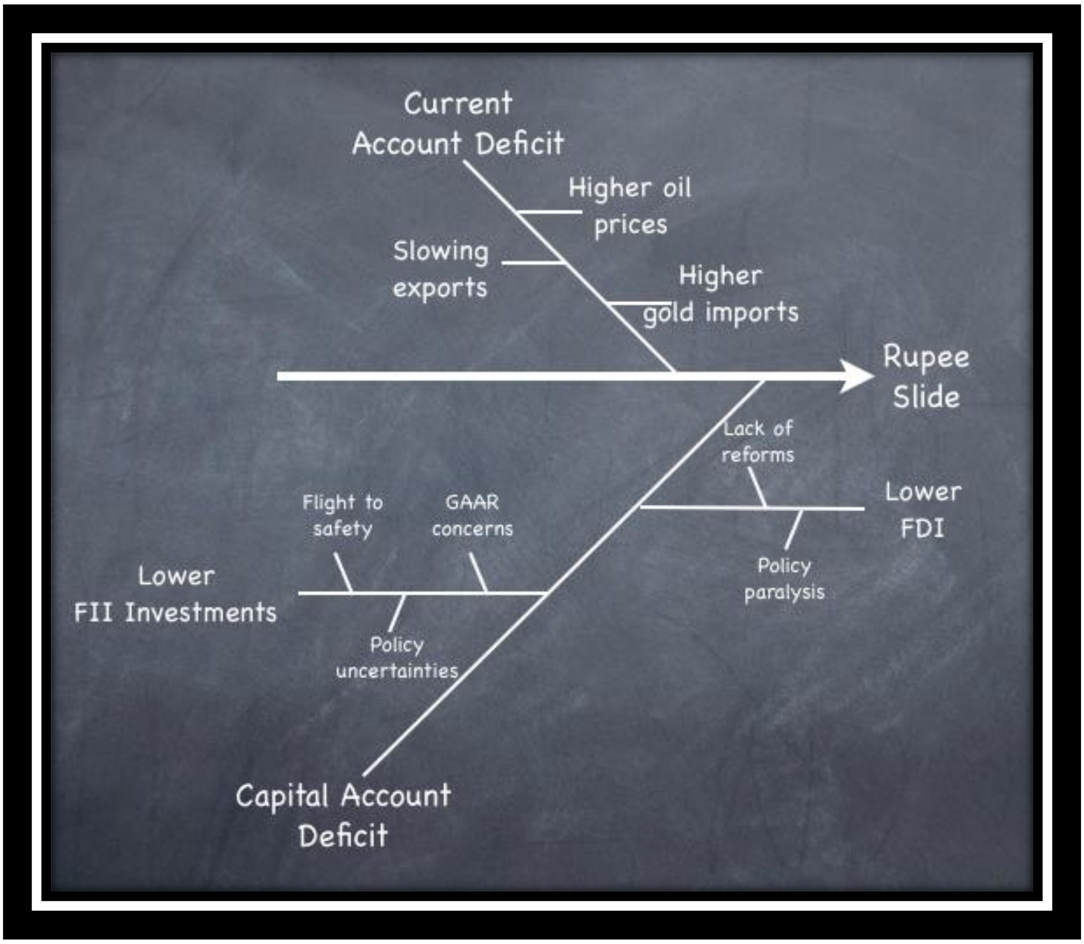
CAD is considered to be the key factor behind the steep volatility of rupee against dollar. CAD occurs when the total import of goods and services of a country is greater than the total export of goods and services thus making India a debtor to the rest of the world. India's current account averaged a deficit worth 1.5 billion USD since 1947 until 2013. In the first quarter of 2013 the CAD was 18.1 billion and at present it has gone up over 20 billion. This has hit hard on the rupee.

(2) Strengthening of Dollar: In the last six months the dollar has strengthened by 3.52 percent with the strengthening of the US economy. The dollar has been rising on signs of growing economic momentum and talk of an early end to the Fed's stimulus effort. This is something, which is beyond the control of the Indian Government, and it is hampering the recovery of the rupee.

(3) Insufficient inflow of FDIs and outflow of the foreign investments: The downfall in the Indian economy has worsened the situation and the government is unable to generate heavy capital inflows. Despite all the government effort to allow Foreign Direct Investment (FDI), there hasn't been significant FDI inflow. The US federation has withdrawn some of its bond buying programs resulting in a sudden outflow of money that in return has left India far behind in the race .Foreign investors has been pulling out of the Indian economy.

(4) Rising Imports: The rising import bill is one of major concern and it has hindered the government effort to tackle the falling rupee. Oil accounts for 35% of the total imports and gold 11% on India's current bill. There has been a heavy demand for the greenback from the exporters of oil, the most prolific buyers of dollar in the world market, thus pushing rupee lower. In the gulf countries, the dealing of oil is done in dollars, i.e., if India has to purchase oil, it has to pay in dollars, so for this India needs purchase dollars from USA in exchange of gold. This has led to the further devaluation of the rupee.

(5) Poor Economic Growth: The Gross Domestic Product (GDP) has hit its lowest patch in the last 10 years. With fall of the GDP to 4.8%, it had significant effect on the stock markets and the falling rupee. The manufacturing, mining and the agricultural sector has faltered and investors have become cautious of investing in India.



A graphical representation of the causes and consequences of the Rupee downfall.

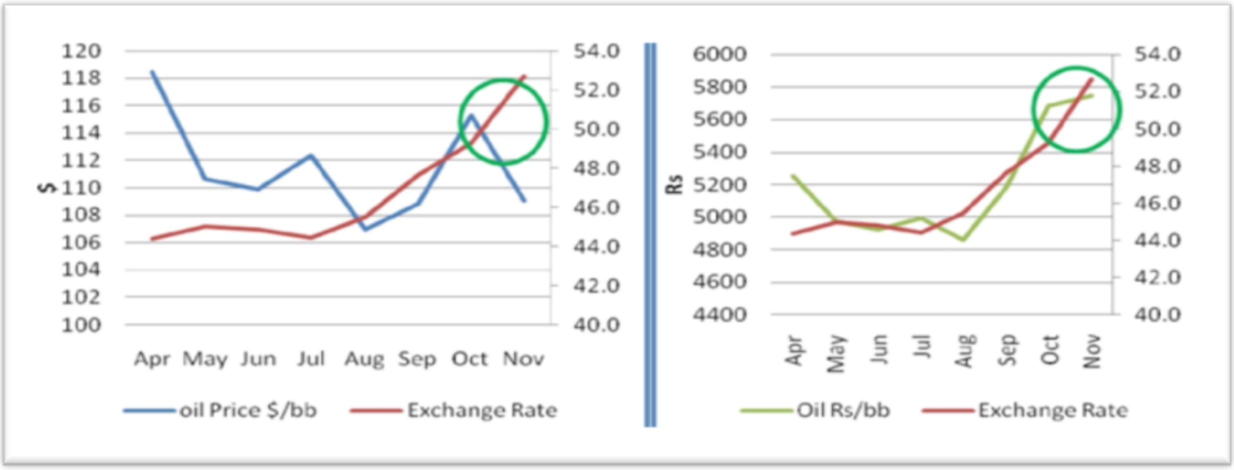
CONSEQUENCES OF DEPRECIATION OF RUPEE

The fall in the value of Indian rupee has several consequences which could have mixed effects on Indian economy.

HOW CURRENCY DECLINE MAY HURT?

Significant depreciation affects the overall confidence in the economy and policy making becomes difficult. Depreciation of the Indian rupee has impacted the government, the industry and the individuals of the nation in the following manner:

- **Imported items-** Importers have to shell out more rupees for the same amount of goods in dollars leading to inflation. For example, suppose an Indian buyer pays Rs 50 for an article priced at $1. If the currency depreciates to Rs 60, the buyer will have to pay Rs 10 extra for the same article, still priced at $1.So,with depreciation of rupee the imports have become costlier and thus importing crude oil becomes a burden. With every single value fall a burden of Rs.9000 crores is created on the government in the form of subsidy. This has caused the fiscal deficit of the government to increase.
- **Impact on Oil Imports** Oil imports consume the largest part of the FOREX re-serves. A depreciating rupee is bound to offset the decrease in the international prices of commodities such as oil. As can be seen from the figure below although the oil price per barrel has fallen however the depreci-ating rupee has not given any respite to the importer as they actually have to shell out more money in order to purchase the same quantity of oil.



Corporate profits -In a country dependent on imports for many raw materials, a weaker rupee impacts the profits of companies at a time when they are already stressed.

According to Madan Sabnavis, chief economist at rating firm CARE Ltd, "Corporate profitability would be affected negatively as the input cost will increase for the companies that importing raw materials."

Foreign Borrowings-At the industry level the cost of borrowing has been increased for the companies which had taken foreign loans. "As these loans mature, the cash flows will also be impacted", said PawanAgrawal, senior director at credit rating agency Crisil Ltd.

The increased liability has burdened companies which now resort to retrenchment to cut down expenditure. This has led to unemployment in the economy. According to government statistics, out of India's $376 billion outstanding external debt, about 23% or $85.3 billion comprises external commercial borrowings, or ECBs.

Education abroad- At the individual level the prices of all imported goods have increased. Students going broad to study now have to shed 20% extra for every dollar. This has caused the cost of foreign studies to increase which burdens the Indian families.

Trade and fiscal deficits- A weak currency might worsen the already-stressed trade deficit. The rupee is not the only currency which is depreciating, so there is not much of an increase in export competitiveness at a time when global recovery is still fragile.

Foreign investments -The rupee's weakness may make foreign investors think twice before investing. Foreign capital inflows are typically at risk when the local currency weakens. Already, portfolio flows into both debt and equity have been gradually tapering, with investors subscribing to the view that the local currency could depreciate further.

Reduction in Purchasing Power Parity- One of the outcomes of a depreciating rupee will be the rise in inflation in the economy. When the inflation rises, prices of goods and commodities shoots up. Therefore, the purchasing power of the rupee falls down.

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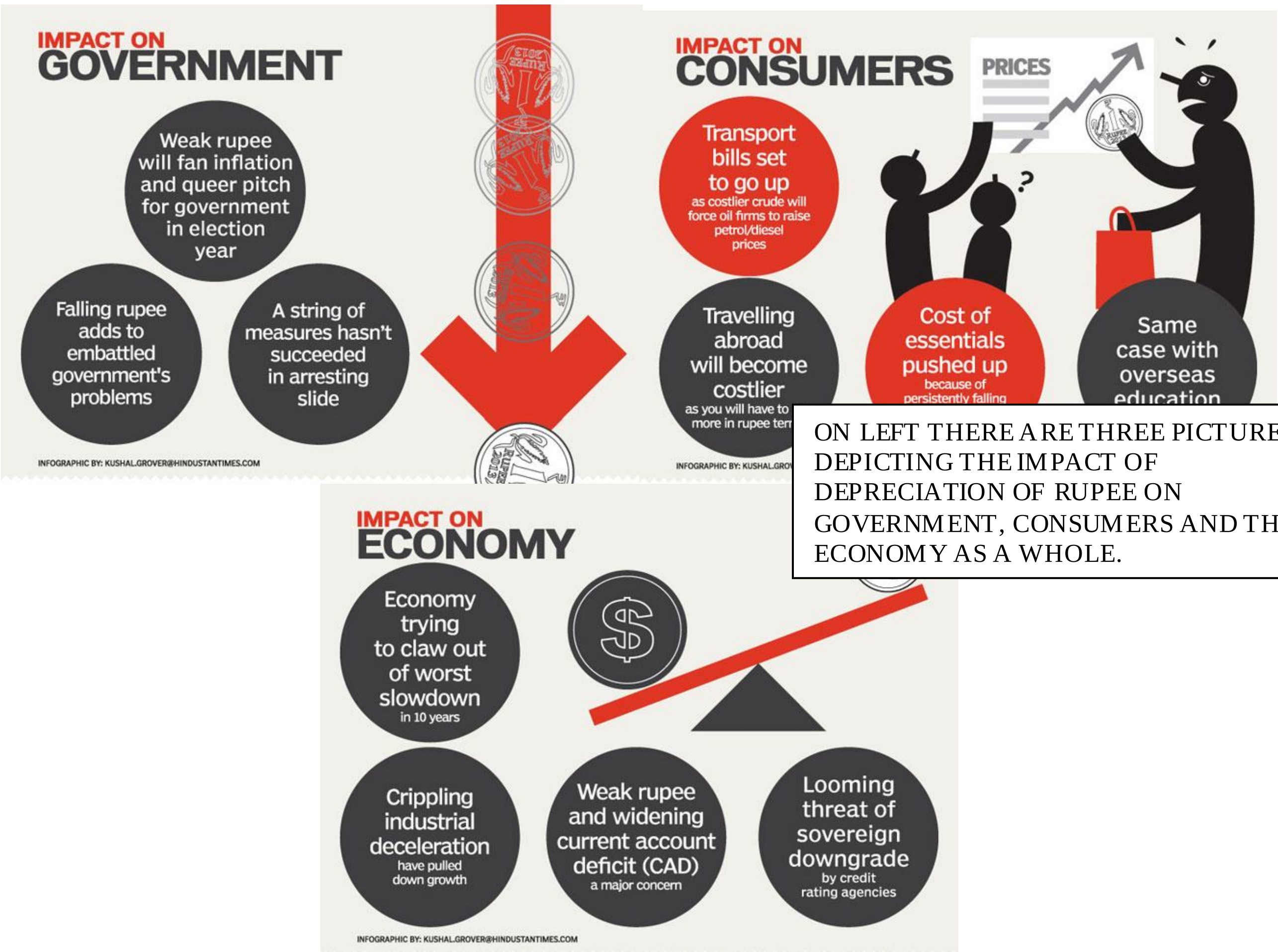


ON LEFT THERE ARE THREE PICTURES DEPICTING THE IMPACT OF DEPRECIATION OF RUPEE ON GOVERNMENT, CONSUMERS AND THE ECONOMY AS A WHOLE.

SMOOTH DRIVE:

Software firms

As most Indian software firms derive upwards of half their revenue from the US, a weaker rupee is good news for them. On average, a one percentage point depreciation in the rupee translates into a 30-50 bps gain in operating margins for information technology (IT) companies, according to analysts.

Pharma firms

"The pharmaceutical sector will by and large benefit from the rupee slide as a majority in the industry are net exporters. But the companies who have large foreign debts in the books stand to lose at this advantageous position due to heavy interest burden," said Rajesh Desai, chief financial officer, Glenmark Pharmaceuticals Ltd.

For e.g. many domestic companies such as Lupin, Sun Pharmaceutical and Dr Reddy's Laboratories which have high exposure to the west have gained from the depreciation.

NRI Remittances:

All those NRI'S who remit their money back to INDIA will benefit from deprecation of rupee. This is because if, for e.g. a NRI who remitted $1000 to her family in India in early August was able to send only around Rs. 44,100. But if she sends the $1000 three months later, when the rupee depreciated to Rs. 52, her family will receive Rs. 52000.

Tourism industry:

Travel and tourism is a sector which will benefit from the depreciation of the rupee. Let's take up an example to understand how this industry will benefit. Suppose, if a trip to India costs Rs. 1,00,000 to a foreigner and the dollar is quoting 1USD = Rs.50 at that time. So, the trip would cost the foreigner 2000 USD. If the rupee declines in front of dollar and suppose it quotes at 1USD = Rs. 60. Then the same trip would cost the foreigner approx. 1666 USD. This will entice foreigners to visit India and help increase revenues through the travel and tourism industry.

Advantage to Exporters:

Weakening of rupee gives up a huge advantage to the exporters. Let's take up an example to understand this point. Suppose, an exporter exported goods to US and his receivable payment is 100 USD. Let's take the value of 1 USD = Rs. 55 at the time of trade. So, his net receivable will be Rs. 5500. Suddenly, at the time of payment if the rupee declines sharply in terms of dollar and let's take 1USD at that time becomes Rs. 57. So, at the time of payment the exporter will get Rupees 5700 of the same trade due to the currency fluctuation. Therefore, his net profit due to depreciation of rupee becomes Rs. 200. This is how the exporters are benefited when rupee declines in terms of dollar.

CORRECTIVE MEASURES

MEASURES UNDERTAKEN BY THE CENTRAL GOVERNMENT :

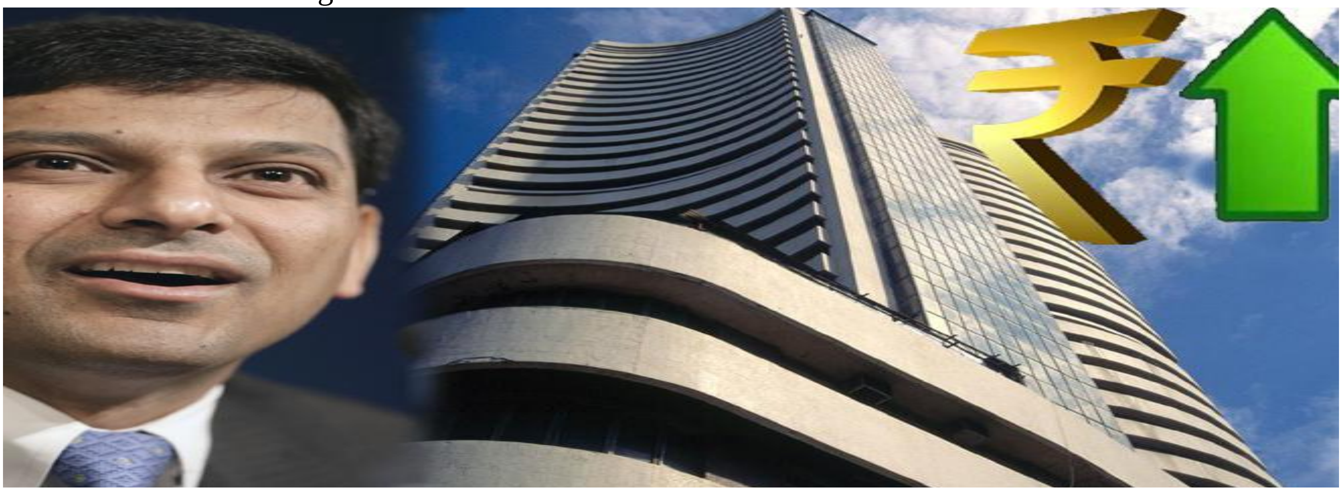
The central government has unraveled a multipronged strategy to bring about an increment in the inflow of dollars and limit the outflow to compensate for the sliding value of rupee.

Some of the other possible remedies that can be emphasized are:

- A planned increase in import duty has been exercised to shore up the decrement in rupee.
- The customs duty on several red-hot imports like gold and silver is on the rise as it's a strategic movement by the central government to ease the gap between dollar and rupee.
- NRI bank deposits can be made more attractive and foreign loan norms eased.
- The government has also decided on three public sector institutions based on finances to raise funds in dollars through bonds.
- Electronic goods top the list when it comes to making big business. In order to stabilize rupee a significant increase in customs duty on Electronic goods needs to be exercised.

STEPS TAKEN BY RAJAN (GOVERNOR OF RBI)

RaghuramRajan – the new Reserve Bank of India (RBI) governor – has announced a slew of measures to attract capital flows in the country to provide support to the rupee which has depreciated around 22% in the current financial year.



Here are the 4 key steps and their expected impact:
1.) Measure: Swap window to banks for fresh FCNR(B) Dollar funds mobilized for at least 3 years at a fixed rate of 3.5% p.a
Objective: Boosting forex reserves
Impact: Banks can raise FCNR (B) deposit around 2.5 % cheaper than market rate; $10 billion inflows likely
2.) Measure: Overseas borrowing limit of banks has been raised from 50% of unimpaired Tier I capital to 100%.

Objective: More room for banks to raise overseas funds
Impact: Banks will have the headroom to raise around $ 30 billion
3.) Measure: Exporters can rebook cancelled forward exchange contracts to the extent of 50%, importers to the extent of 25%.

Objective: Increase depth of FX market, aid operational ease
Impact: Exporters, importers will have greater flexibility in foreign risk management
4.) Measure: RBI will issue inflation indexed savings certificate linked to the new CPI index

Objective: Attract domestic household savings
Impact: Encourage household savings, which dropped to an 11-year low in FY12 and reduce structural pressure on current account gap.

STEPS TAKEN BY RESERVE BANK OF INDIA

The RBI has increased the Marginal Standing Facility (rate at which banks borrow from the RBI) rate. Since, borrowing short-term money will now be costlier, banks will most likely cut their forward positions and reduce speculative trading. This will reduce pressure on the rupee.
The RBI has capped the amount banks can borrow from overnight markets to Rs. 75,000 crore. The RBI will also conduct Open Market Sales of bonds of Rs.12, 000 crore. These measures are aimed to suck liquidity from the system. Bond prices will fall and yields will rise. Higher yields will attract foreign investment back into the debt market at a time when FIIs have sold billions of dollars from the Indian market.
The new steps were announced after RBI's earlier steps to sell dollars in forex markets through state-run banks failed to halt the slide in the currency.
These steps will tighten domestic liquidity, raise short-term interest rates, increase the relative interest rate differential and possibly stem debt outflows

MY PERSPECTIVE

"We invented money and we use it, yet we cannot understand its laws or control its actions. It has a life of its own."
- Lionel Trilling, American literary critic.
We are seeing that everything is going berserk and with every passing day we think that this is the last breach the rupee got against dollar but the next morning, there is more bad news. Falling rupees has caused everything in this subcontinent costlier than ever. Survival for a poor man is a big question. Eatables are becoming unaffordable day by day and sustainability is in question. Even if it regains for a moment, there is again sharp fall in the next few days.
There are a few that I would like to suggest in order to curb the prevailing pressure of depreciation of rupee against dollar:

Measures to Control CAD-

Growing Indian economy has led to widening of current account deficit as imports of both oil and non-oil products have risen. Despite dramatic rise in software exports, current account deficits have remained elevated. The first set of measure should include a careful evaluation of the import tariff structure and increase it wherever such levels are lower than WTO requirement. Curb on Import of non-essential & unproductive products such as GOLD by imposing higher taxes.
To reduce import we should bring in import substitution by supporting the domestic organizations by providing subsidy, tax benefits, grants and proper Infrastructure. In this regard National Manufacturing policy will play a major role in years to come. To contain the current account deficit we should also focus on boosting exports by export promotion policies and looking for more stable longer term foreign inflows have been suggested as ways to alleviate concerns on current account deficit. Subsidy on import products such as oil should be discontinued.

Measures to Increase foreign Capital Flows –

Recession in developed economies and uncertain political Environment made big institutions to pull out their money from India.
• Government can create a stable political and economic environment. Providing infrastructure

and local support to the investors is another, admittedly more difficult avenue that can be explored in this regard.

• One of the measures being looked at is allocating a separate quota for sovereign wealth funds (SWF) in PSU divestment issues. This reservation could be as high as 30 percent.

• Making government bonds available to non-resident investors will also increase the inflow of dollars in to the country.

• RBI can ease capital controls by increasing the FII limit on investment in government and corporate debt instruments and introduce higher ceilings in ECB's.

Measures to Revive Economic Growth-

Apart from above measures to Control Current Account deficit and increase foreign Capital flows, on time policy executions and strict laws to curb corruption will also help us to revive the economic growth at fast pace.

Measures To Control Expenses-

When credit rating of our country is downgraded and there is huge current account deficit and fiscal deficit, we must check on our expenses whereas bills of no certain fruitful results like food bill are introduced which the national market and international markets are reacting very sharply as it will furthermore put the government's kitty in dire strain.

Measures To Stop Meaningless Schemes-

Immediate attention should be paid to stop all the leakages in the distribution system, and all the meaningless schemes, which are not reaching, to the poorest of poor should be stopped.

Measures To Encourage Exports and To Discourage Imports-

Limit using or buying things which are imported and our country needs to spend in dollars, as the more you spend in dollars the more the rupee will depreciate against dollars. Encourage export through various measures and also device some good schemes for people of Indian origin to remit their money in India. Limit the use of crude oil and gold as much as we can, which is eating our foreign reserves like a monster.

CONCLUSION

The Indian Rupee has depreciated significantly against the US Dollar marking a new risk for Indian economy. Grim global economic outlook along with high inflation, widening current account deficit and FII outflows have contributed to this fall. RBI has responded with timely interventions by selling dollars intermittently. But in times of global uncertainty, investors prefer USD as a safe haven. To attract investments, RBI can ease capital controls by increasing the FII limit on investment in government and corporate debt instruments and introduce higher ceilings in ECB's. Government can create a stable political and economic environment. However, a lot depends on the Global economic outlook and the future of Eurozone which will determine the future of INR.

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