

# CURRENCY CAUTION: THE HINDU EDITORIAL ON THE INDIAN RUPEE'S DEPRECIATION

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Inflation & Monetary Policy

The Indian rupee is experiencing its worst slump in four years. Since the start of 2022, the [currency has depreciated by more than 7% against the U.S. dollar](#), weakening past [a historic low of 80 to a dollar mark](#) earlier this week. While the Indian currency is not alone in faring poorly against the greenback, with even the historically strong euro and the British pound taking a hammering and weakening by more than the rupee has, the fact that other currencies too have appreciably lost value against the dollar can only offer cold comfort to India's real economy. Domestic manufacturers and services providers are now having to cope with not just higher dollar prices for the raw materials, equipment or other supplies they may need to procure from overseas, in the wake of the supply disruptions caused by the pandemic and the war in Ukraine, but they also face mounting import bills — the slide means they have to fork out more rupees for the same dollar price from even just a few months ago. The Finance Minister and the RBI Governor have sought to explain the proximate causes for the pressure on the currency and allay apprehensions that the rupee may be in a 'free fall', a scenario that could ultimately prove rather damaging for macro-economic stability by spurring imported inflation at a time when both fiscal and monetary authorities are battling to tame runaway inflation.

While the Minister's statement in the Lok Sabha cited factors including the Russia-Ukraine conflict and soaring crude oil prices as major drivers of the rupee's depreciation, Governor Shaktikanta Das on Friday acknowledged concerns about the rupee and pointed to the fact that foreign portfolio investors were "selling off assets and fleeing to safe haven" in the wake of global monetary policy tightening. So far in 2022, FPIs have dumped \$29.6 billion in Indian equity and debt after three straight years of net investments, with the prospect of more, sharp interest rate increases by the Federal Reserve to tame four-decade-high U.S. inflation likely to do little to staunch the outflows. The dollar index, a measure of the greenback's value against a basket of six major currencies, too offers little reassurance to the rupee. The index is just shy of a 20-year high hit last month indicating that investors are betting strongly on dollar-backed assets. The rupee's real effective exchange rate (REER), which provides a weighted average value in relation to a basket of currencies of its major trading partners, is also signalling that the Indian currency is still overvalued and has room to depreciate further. Notwithstanding Mr. Das's assertion that India's underlying fundamentals 'are strong and resilient' with foreign exchange reserves 'adequate', the RBI will need to judiciously utilise every dollar in its war chest to ensure that a likely slowdown in exports and sticky imports do not add more undue pressure on the rupee.

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