ACADEMICIA

ISSN: 2249-7137 Vol. 11, Issue 6, June 2021 Impact Factor: SJIF 2021 = 7.492

ACADEMICIA
An International Multidisciplinary Research Journal
(Double Blind Refereed & Peer Reviewed Journal)

DOI: 10.5958/2249-7137.2021.01597.4

WEAK INDIAN RUPEE – ISSUES AND CHALLENGES

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ABSTRACT

The Indian rupee crashed to a new life time low which has the potential to leave a lasting scar on the economy and corporate who are already bruised by the slumping output, declining consumer demand and high interest rates. Oil Company, Corporate and FII are creating heavy demand for dollar in the market which marked to 53.72. As long as currency like euro & pound are weak against the dollar the rupee too will remain weak. It is sure that if the situation continues it will affect the Indian economy. Te rupee come under pressure as FII cut their position in the domestic equity market and converted the sales proceeds into dollars for repatriation to their home countries. India has been weighed down by the twin deficit trade and fiscal.

KEYWORDS: *Equity Market, Euro Zone Crisis, Refinancing, Foreign Exchange Market.*

INTRODUCTION

Investors usually won't spend much time on studying the currency movement. Many skipped the news of the Indian rupee hitting as low of against the dollar, even though it would hurt the economy and it also increase the inflation. Rupees did not get as much priority as Sensex/Nifty even in business journal/television. Investor genuinely doesn't understand the currency market to make sense of such news. Market expert attributed the weakness in rupees will slow down the domestic growth leading to weak stock market, widening trade gap, and political log-jam in attracting long term capital flow. In this context this paper attempts to highlights the major issues, challenges and its possible impact on the economic growth.

ISSUES AND CHALLENGES

Oil Company

Oil Company like HPCL, BPCL and IO and corporate bought dollar desperately put pressure on heavy dollar demand, the rupee breach the 53 mark to the dollar. There were rumors that RBI would give direct access to oil company from their reserves, but yet there was no confirmation. If the RBI does there would some relief as the oil company would not come to the market.

Inflation

India imports almost 80% of its crude oil requirement. India is importing inflation through oil import route because of depreciated rupees. Currency depreciation will put more pressure on inflation. Strictly speaking inflation and lack of infrastructure will pull down the productivity gain of our country.

External factors and Domestic factors

External factors and domestic factors will pay a big role. Global risk and weak domestic prospects (IIP figure, lower domestic growth forecast) will continue to keep the bias titled towards a weak rupee in the near to medium term. RBI is yet to take a decision whether to introduce in the forex market to protect the Indian currency, linking the decline to rupee to the sovereign debt problem in Europe. Lack of firm plan to tackle the Euro zone crisis is seem as a negative for the currency and is driving investor to safe heaven currencies like dollar. European bank are not willing to lend to the emerging market due to debt crisis in euro zone. Apart from Euro zone worries, the high short term interest rates in India could also keep the rupee under pressure.

Risk aversion

Risk aversion is prompting FII to cut equity position in India and other emerging mark economies and invest in save heaven like US treasuries and gold. Te rupee come under pressure as FII cut their position in the domestic equity market and converted the sales proceeds into dollars for repatriation to their home countries. India has been weighed down by the twin deficit trade and fiscal. But inflow in the form of FDI, FII and ECB mostly from European bank were strong which helped the currency so far cannot be expected in the future.

Apparel Industry

Rupee depreciation has not had an immediate impact on the apparel industry. Rupee depreciates close on the heels of cotton price rise and excise duty will be a big blow. There will be no large scale impact on those brands that have less import content.

RBI intervention

RBI is believed to have pressed dollar sales through PSB to stem the depreciation of rupees, this action did not have the desired impact, RBI ability to intervene in the foreign exchange market in the limited clouded the rupee sentiment. As long as currencies like euro and pound are weak against the dollar the rupee too will remain weak.

Importer

India remains a net importer of goods in foreign trade. A sharp depreciation in the rupee in recent times could pose a challenge for the import bill.

Debt inflow

With the increasing interest rate differentials between India and developed world, there was a sizable increase in debt capital inflow into the country. In the last couple of years India overall external debt outstanding of June 2011 was 317 $ billion, an increase of 38% in last two years. Additionally sizable par of Indians externals debt is believed to be financed by European bank, which were the most active lender to emerging Asia which is higher that US and Japanese bank put together. With the ongoing re-capitalized needs of European banks it is likely that these banks will be less forthcoming in refinancing India corporate debt in future.

Current account deficit

So long as the current account is in deficit the natural tendency of the rupee is to fall whether and how much it falls depends on the pace and direction of capital flow and RBI intervention

CONCLUSION

Corporate India is a net borrower of dollar and the extent to which in affects the balance sheet depends upon the depreciation rupees. Company with foreign debt on their book is badly affected if this situation continues. With the rupee depreciating against the dollar the company will need more rupees to repay their loans in dollar. This will increase the debt burden and lower the profit. Uncertainties in the Euro-zone and Moody's decision to review its rating for European countries are also adding to worsen the rupee anguish. In this scenario it will be better of the investors to stay away from investing in the company with high foreign debt.

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