



Rupee Depreciation - Financial Awareness Notes in PDF

Financial Awareness has gained prominence as a subject in several noteworthy exams of late. Bank exams like SBI Clerk and SBI PO announced changes in their patterns to accommodate Financial Awareness. In these series of Financial Awareness Notes in PDF, we will look at the most important topics of discussion. Let us now take a look at Rupee Depreciation – Financial Awareness Notes in PDF.

Each country has its own currency, which is used to carry out daily transactions. We can convert one currency into another currency. The rate at which this conversion happens is called conversion rate. This rate changes on daily basis depending on the demand and supply of each currency and other factors. When the value of the currency falls, however, this can signal changes in the health of the economy. Let us take a look at what is the meaning of Rupee Depreciation.

What is the meaning of Currency/ Rupee Depreciation?

Depreciation is the loss in the value of a currency with respect to other currencies. For example, today's value of rupees w.r.t. Dollar is \$1 = 67 rupees. If tomorrow the value becomes \$1 = 70 rupees, it would mean that value of rupee has decreased in comparison to the dollar.

How has the Rupee's value varied over the years?

In 1947, 1 Indian Rupee was equal to 1 US Dollar. However, the present value is 1 US Dollar = 67 Indian Rupees. You can notice the huge depreciation in the value of rupee here. This rupee depreciation can be due to several factors.

What are the causes of Rupee Depreciation?

The value of a currency depends on factors that affect the economy. These factors include but are not limited to the following:











- a. Demand for Dollar: When the demand of a currency increases, its value increases. So, if the demand for dollar increases, its value increases. If the rupee cannot keep up its demand in the international market, then rupee depreciation occurs Thereby Rupees' value against the dollar decreases.
- b. Inflation: Inflation means increase in the prices of the commodities. When price of the commodities increase, you can buy lesser and lesser in the same amount of money. Thereby, this decreases the value of the rupee. Very high inflation may lead to the economic recession.
- c. Unemployment: Higher unemployment leads to decline in the GDP growth. This, therefore, leads to rupee depreciation.
- d. Changes in International Trade: With the increase in prices or quantities of the products that we import, we have to pay more dollars. This leads to the increase in the demand of dollar. As demand for the dollar increases, its value increases and hence, value of rupee in comparison to the dollar decreases.
- e. Trade Deficit: If a nation's imports are more than exports, it's called Trade Deficit or Trade Gap. If exports are less, demand for rupee decreases in the international market. It leads to a sustained rupee depreciation.
- f. Budget Deficit: If the expenditure is more than the income, it is called Budget Deficit. When budget deficit occurs, the country may not attract foreign investors and hence the currency value decreases.
- g. Trade Embargos: Sanctions and trade embargos can lead to a fall in the demand for a certain currency. Sanctions against India after the Pokhran Nuclear Tests had led to rupee depreciation.

Effects of Rupee Depreciation

- 1. Exporters are at benefit as they get more rupees for same amount of dollars.
- 2. Importers are at loss as they pay more rupees for the same amount of dollars.
- 3. Foreign investors lose confidence in country's economy and start withdrawing their investments, leading to further depreciation of rupee.
- 4. The price of the imported goods increases.









- 5. Foreign trips and studies in foreign countries become expensive.
- 6. NRIs are at benefit as they will get more rupees for the same amount of dollars.

Even though there are some temporary benefits due to currency depreciation, it's not good for the country's economy in the long run. The government must take necessary steps to appreciate the value of Rupee.

Discuss in the comments, what will happen if the value of Indian Rupee again becomes equal to the value of US Dollar.

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