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	CLEAR IJRMST Indexed Impact Factor Journal CLEAR IJRMST	International Journal of Research in Management, Sciences and Technology A Blind Peer Reviewed and Open Access Journal Publication as Per UGC Care of India and SCOPUS Vol-10, Issue-20 pp. 69-73, July-Dec- 2020

AN ANALYSIS OF EXCHANGE RATE OF RUPEE AGAINST MAJOR FOREIGN CURRENCIES IN GLOBALISATION ERA

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ABSTRACT

Achieving stability in exchange rate of the currency of a country is a goal of exchange rate policy of the country. Arguments supporting globalization claim that the globalization would stabilize the exchange value of the currencies of the countries. This paper analyses the trend behavior in exchange rate of rupee in the globalization era compared to major world currencies. The rate of depreciation of rupee was the highest against the US dollar. The highest decadal average rate of depreciation of Indian rupee was against euro. The rupee has lost its value at the most rapid rate in terms of major currencies of the world during the 1991-2000 decade. It is to be noted here that the 1991-2000 decade is the decade of globalization. The merchandise trade, balance of payment and terms of trade implications of this loss of value of Indian currency is to be investigated in further studies.

Article History

Received: 20th November 2020

Received in revised form: 28.11.2020

Accepted: 20.12.2020

Published : 30th December.2020

Keywords: Words: Exchange Rate, Globalization, Dollar, Euro and Pound Sterling

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Introduction

Exchange rate is the exchange value of currency of a country in terms of currencies of other countries. It is specified as number of currencies of a country that can be converted into per unit of currency to other country. Achieving stability in exchange rate of the currency of a country is a goal of exchange rate policy of the country. Arguments supporting globalization claim that the globalization would stabilize the exchange value of the currencies of the countries. Over the last five decades since independence the exchange rate regime in India

has transited from a par value system of the IMF during 1947-1971 to a basket-peg during 1971-1992 and eventually culminating in the present form of a market determined exchange rate regime since March 1993 via a transitional phase of a dual exchange rate between March 1992-February 1993. (R K Pattnaik et al., 2003). Liberalization in exchange rate has been implemented based on the recommendation of High-Level Committee on Balance of Payments headed by Dr. C. Rangarajan. Accordingly, Liberalized Exchange Rate Management System

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(LERMS) in March 1992 has been come into practice. Under this system, 40 per cent of the current receipts were required to be surrendered to the Reserve Bank at the official exchange rate while the rest 60 per cent were converted at the market exchange rate. The 40 per cent portion was utilized to meet the essential imports at a lower cost (R K Pattnaik et al., 2003). The stability imparted by the LERMS and the significant easing in the rate of inflation and a healthy build-up of foreign exchange reserves enabled a smooth changeover to Market-Determined Exchange Regime March 1, 1993 (RBI, 1993).

The restrictions on current account transactions were relaxed in a phased manner culminating in current account convertibility of the rupee on August 20, 1994 as India accepted obligations under Article VIII of the IMF's Articles of Agreements. On the issue of Capital Account Liberalization (CAL), the Indian approach recognizes that CAL is a continuous process based on careful and continuous monitoring of certain pre-conditions/signposts and attendant macroeconomic and financial sector variables. Moreover, the process of CAL needs to be "embarked upon cautiously as part of overall economic reforms as well as a proper assessment of the emerging economic scenario relating to international economic and financial architecture" (Jalan 1999). With this background the present article focuses on exchange rate of Rupee vis-à-vis per US Dollar, per Pound sterling and per Euro in the globalization era. Remaining part of this paper is divided into three sections. First section states objectives, second section explains materials and methods used to bring out the results and discussion and third section gives discussion on the annual and decadal trend analysis of exchange rate of rupee

against us dollar, euro and pound sterling in globalization era

Objectives

The main objective of this paper is analyzing the trend behavior in exchange rate of rupee in the globalization era compared to major world currencies. The specific objectives are

- To analyze the trend behavior of exchange rate of Rupee against US dollar
- To examine the movements of Rupee vis-à-vis Euro
- To study the fluctuation of Rupee with regard to Pound Sterling.

Material and Methods

The data have been collected for this study from Handbook of Statistics on Indian Economy (A Time Series Publication), Reserve Bank of India (dbie.rbi.org.in). The time series data have been used for a period from 1981 to 2018. The line diagrams, Annual Growth Rate and Decadal Average Growth Rate have been applied to bring out the movements of the Rupee with regard to per US dollar, per Euro and per Pound sterling.

Results and Discussion:

The movements in the exchange rate of the rupee vis-à-vis per US dollar are shown in the chart-1. The rupee depreciated by 459 per cent vis-à-vis per US dollar from Rs.8.69 in 1981 to Rs.48.60 per US dollar in 2002, followed by appreciation of -14.92 per cent from 48.59 per US dollar to Rs.41.35 per US dollar in 2007. The rupee again depreciated by 65.39 per cent from Rs.41.34 per US dollar in 2007 to Rs.68.39 per US dollar in 2018. Over a 38 year span the rupee depreciated by 686.75 per cent from Rs.8.69 per US dollar in 1981 to Rs.68.39 per US dollar in 2018.


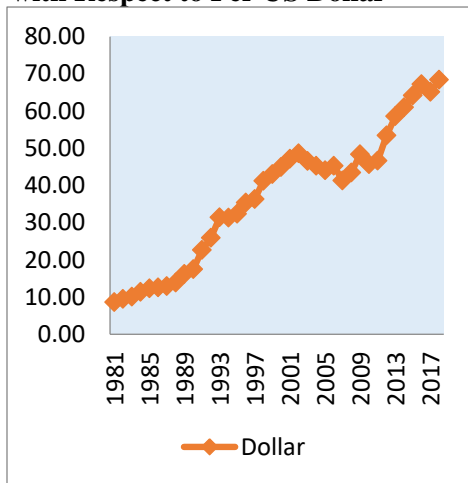
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Chart 1: The Movements of Rupee with Respect to Per US Dollar

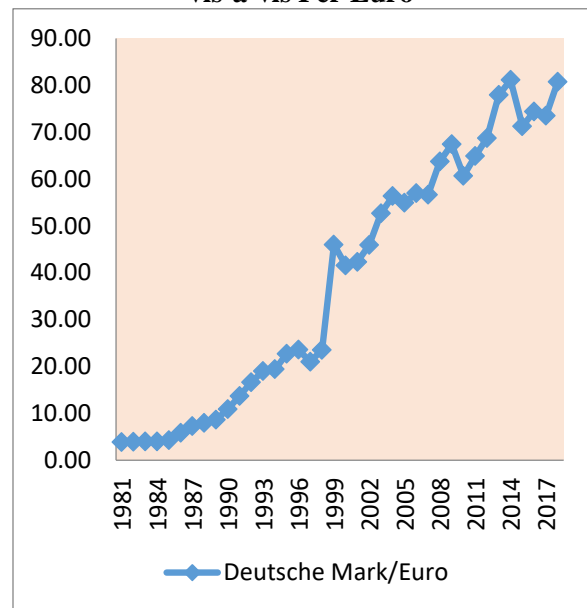


Source: Hand Book of Statistics on Indian Economy

The highest level of depreciation of rupee in particular year (around 30 per cent) is noticed in 1991 from Rs.17.49 per US dollar in 1990 to Rs.22.68 per US dollar in 1991, followed by 21 per cent in 1993 from Rs.25.92 per US dollar to Rs.31.44 per US dollar in 1993, 16.59 per cent in 1989. These years are the years of implementations of economic reforms in India, which led to globalization of Indian economy, from Rs.13.91 per US dollar to Rs.16.22 per US dollar in 1989, 14.49 per cent in 2012 from Rs.46.67 per US dollar to Rs.53.43 per US dollar in 2012, 12.13 per cent in 1984 from Rs.10.13 per US dollar to Rs.11.36 per US dollar in 1984, and 11.26 per cent in 2009 from Rs.43.50 per US dollar to Rs.48.40 per US dollar in 2010. In terms of Decadal Average Growth Rate (DAGR), the highest DAGR has been observed during 1991-2000 at 10.24 per cent, followed by 8.16 per cent during 1981-1990, 5.27 per cent during 2011-2018 and 0.34 per cent during 2001-2010.


The movements of exchange rate of rupee vis-à-vis euro are presented in chart-2. The rupee depreciated by 511.92 per cent from Rs.3.85 per euro in 1981 to Rs.23.57 per euro in 1996, followed by an appreciation from Rs.23.50 per euro in 1996 to Rs.20.99 per euro in 1997. Again, the rupee value depreciated very steeply from Rs.23.50 per euro in 1998 to Rs.45.99 per euro in 1999, followed by an appreciation from Rs.45.99 per euro in 1999 to Rs.42.28 in 2001 and the rupee value depreciated to Rs.45.88 in 2002.

Chart 2: The Movements of Rupee vis-à-vis Per Euro



Source: Hand Book of Statistics on Indian Economy

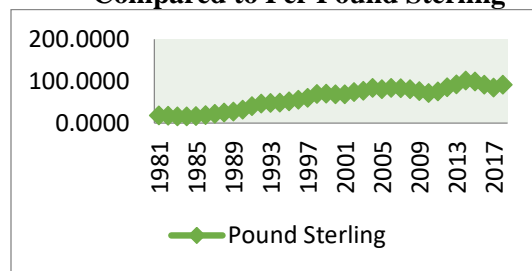
The rupee depreciated by 46.86 per cent from Rs.45.89 per euro in 2002 to Rs.67.39 per euro in 2009, followed by an appreciation of Rs.60.66 per euro in 2010. Again, the rupee depreciated by 33.04 per cent from Rs.60.67 in 2010 to

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Rs.80.71 per euro in 2018. The highest level of annual growth rate has been seen in 1999 at 95.66 per cent, followed by 38.15 per cent in 1986, 26.05 per cent in 1991, 21.43 per cent in 2003, 16.95 per cent in 1995, and 14.76 per cent in 1993 and so on. In terms of Decadal Average Growth Rate, the highest level of DAGR is noted at 17.15 per cent during 1991-2001, followed by 12.87 per cent during 1981-1990, 4.11 per cent during 2001-2010 and 3.90 per cent in 2011-2018.

Chart no.3 shows the movement of exchange rate of rupee vis-à-vis per pound sterling. The rupee depreciated by 419.99 per cent in 2018 from Rs.17.54 in 1981 to Rs.91.21 per pound sterling in 2018. There are depreciating trends seen in the movements of rupee with respect to per pound sterling from Rs.15.99 per pound sterling to Rs.80.13 per pound sterling in 2008 except for the year 2000, 2001, and 2007 where negative annual growth rates are presented, that is rupee value has appreciated during these years. Again, the pound sterling appreciated by -6.6 per cent in 2011 from Rs.80.13 per pound sterling to Rs.74.77 per pound sterling in 2011.

Chart 3: The Movements of Rupee Compared to Per Pound Sterling




Source: Hand Book of Statistics on Indian Economy

The rupee depreciated by 34.46 per cent in 2014 from Rs.74.77 per pound sterling in 2011 to Rs.100.54 per pound sterling in 2014. The rupee appreciated in 2018 from Rs.100.54

per pound sterling to Rs.91.21 per pound sterling in 2018. The highest level of double-digit annual growth rate is observed for the year 1991 at 27.84 per cent, followed by 17.82 per cent in 1990, 16.65 per cent in 1988, 15.64 per cent in 1986, 14.83 per cent in 1987, 14.82 per cent in 1998 and 13.26 per cent in 2012. The highest level of decadal growth rate is witnessed during 1991-2000 at 8.39 per cent, followed by 7.05 per cent during 1981-1990, 3.53 per cent during 2010-2018 and 0.51 per cent during 2001-2010.

Conclusion

Over a 38 year span the rupee depreciated by 686.75 per cent from Rs.8.69 per US dollar in 1981 to Rs.68.39 per US dollar in 2018. In terms of Decadal Average Growth Rate (DAGR), the highest level of decadal average depreciation in rupee dollar exchange rate has been observed during 1991-2000 decade at 10.24 per cent. The rupee depreciated by 511.92 per cent from Rs.3.85 per euro in 1981 to Rs.23.57 per euro in 1996. In terms of Decadal Average Growth Rate, the highest level of decadal average depreciation has been noticed at 17.15 per cent during the decade 1991-2001. The rupee depreciated by 419.99 per cent in 2018 from Rs.17.54 in 1981 to Rs.91.21 per pound sterling in 2018. The highest level of decadal average depreciation rate is witnessed during 1991-2000 at 8.39 per cent. The rate of depreciation of rupee was the highest against the US dollar. The highest decadal average rate of depreciation of Indian rupee was against euro. The rupee has lost its value at the most rapid rate in terms of major currencies of the world during the 1991-2000 decade. It is to be noted here that the 1991-2000 decade is the decade of globalization. The merchandise trade, balance of payment and terms of trade implications of this loss of value of Indian currency is to be investigated in further studies. The arguments by

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R.K Patnaik that the exchange rate management in India has been consistent with macroeconomic stability (R K Pattnaik et al., 2003) is to be understood with due caution.

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