

EVA STALIN IAS ACADEMY – BEST IAS COACHING IN CHENNAI

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EDITORIAL ANALYSIS → 20 JULY 2022 → THE INDIAN EXPRESS:

FALLING OF RUPEE:

- **What is Depreciation:**
- Depreciation is the term used to describe a drop in a currency's value in a system with flexible exchange rates.
- A drop in the rupee's value in relation to the dollar is referred to as depreciation of the rupee.
- It shows that the rupee is today less strong than it was earlier.
- Using the rupee as an example, the dollar's value has declined relative to the rupee, increasing the amount of rupees needed to purchase one dollar compared to when it was worth Rs. 70.
- **Effect of the Appreciating Indian Rupee:**
- The weakening of the rupee has created a conundrum for the Reserve Bank of India.
- **Positive:**
- Theoretically, a weaker currency should boost India's exports, but this could not be the case given the current level of global unpredictability and the country's low demand.
- **Negative:**
- The risk of imported inflation increases, and the central bank may find it difficult to maintain historically low interest rates for a longer period of time.
- India imports more than two-thirds of its domestic oil requirements.

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- India is one of the main consumers of edible oils. The cost of imported edible oil will increase due to a weaker currency, which would also increase food inflation.
- **What are the reasons for the recent devaluation of the Indian Rupee?**
- **Offsetting Equity:**
- Concerns over China's economic progress as a result of the Covid-19 surge, the European dispute, and the U.S. Federal Reserve's (central bank) increase in interest rates all had a role in the sell-off in global financial markets that led to the rupee's decline.
- **Dollars withdrawn:**
- The dip in equity markets and high gasoline prices are both to blame for the dollar's decline.
- **Tightening of Monetary Policy:**
- The RBI's efforts to tighten monetary policy in response to rising inflation have also led to depreciation.
- **How Does the Economy as a Whole Be Affected by the Rupee's Depreciation?**
- The current account deficit will undoubtedly increase, causing the rupee to depreciate and foreign exchange reserves to decrease.
- As a result of higher landed costs for crude oil and other necessary imports, the economy is unquestionably getting closer to cost-push inflation.
- Cost-push inflation, also known as wage-push inflation, is the phenomena that occurs when overall prices increase (inflation) as a result of increased expenses for labour and raw commodities.
- Businesses might not be able to pass on price increases to consumers entirely, which might have an impact on government dividend payments and cause worry about projected fiscal deficits.
- **Depreciation versus Devaluation:**

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- When the value of the Indian Rupee is decreased as a result of governmental action, devaluation has taken place.
- Although depreciation and devaluation have different mechanisms, their outcomes are the same.
- India used a fixed or controlled exchange rate until 1993. Then, it changed to a fluctuating or market-based exchange rate.
- China still adheres to the Depreciation.

