



## Impact of falling rupee on Indian economy

### Description

#### Theme:

- As of 10th April 2021, 1 US dollar is worth Rs. 74.73.

#### What does it mean by “falling rupee”?

- The value of any currency decreases when its demand decreases. And also if the demand for the US dollar increases, the rupee along with many other currencies weakens against the USD.

#### Impact of falling rupee on Indian economy:

- Imports from other countries will become expensive & exporters will get more rupees for the goods they export. With this situation, we expect that imports will decrease and exports will increase which boosts our economy. But in reality, continuous depreciation of the rupee worries importers, and thereby they buy more stock in advance to avoid paying a higher price in the near future. This causes more demand for the dollar.
- Traders will prefer to export goods rather than selling them in domestic markets. This will increase the prices in domestic markets. Along with that as imports are costlier, imported goods will become expensive. As a result of this entire process, inflation occurs. When inflation is too high, sales will be dropped affecting the country’s economy.
- The rise in inflation will reduce savings from people. This will negatively impact the country’s economy because savings and investments are extremely important for economic growth.
- Repaying foreign debts will become much more expensive. This will increase the burden on the Indian economy.
- The falling rupee increases pressure on Foreign exchange reserves.
- The weak and fluctuating currency will discourage foreign investors from investing in the country. Thereby Foreign Direct Investment (FDI) inflows to India will slow down. Some



investors will sell off their holdings in India causing capital outflows. This will further reduce the demand for the rupee. And that leads to further [depreciation of the rupee](#).

### **Conclusion:**

Though we cannot control some factors like increasing crude oil prices, trade wars etc., we can take some steps to strengthen the rupee or at least to prevent further fall of the value of our currency. Steps to retain the trust of investors, attract more FDI, reducing the dependence on imports by encouraging the domestic manufacturing industry, investing more in the development of [renewable energy resources](#) to reduce crude oil imports will help in strengthening Rupee.

### **Your Turn!**

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