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A STUDY ON CURRENCY DEPRECIATION: IMPACT ON INDIAN ECONOMY

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ABSTRACT

Some experts have an opinion that our economy is going back to 1991 scenario. Our country currency was depreciated at very high rate in last five years from Rs. 45 to Rs. 68 it was depreciated by 50% more. In present scenario currency depreciation is the major problem which is facing by the Indian economy. But it was not good for the developing economies like India. It affects every common man in the economy. There are various positive and negative impacts which are being predicted by the experts who belong to the same field. Rupee depreciation, no doubt it will affect upper and lower sectors of the economy. This spectacular decline of rupee value will result in the loss of India's confidence in its growth prospect too. By this study we understand the causes and impacts of currency depreciation and how the economy is affected by this, and the impact of macroeconomic factors on exchange rate. Collected data for ten years through secondary data and used linear regression method to know the impact of macroeconomic factors on exchange rate. The study for the period is 2005-2016 for the study of macroeconomic variables. This study tries to explore the causes and impact of rupee depreciation on the Indian economy and also intended to provide some suggestions to the Government so that they could recover from the present crisis.

KEYWORDS

exchange rate, macroeconomic variables, currency depreciation.

INTRODUCTION

In the present economic scenario rupee depreciation is a hot topic. Every individual is experiencing negative impact due to this. Many political discussions are going around regarding the subject of rupee devaluation.

Incidentally, when India received its independence in 1947, the value of rupee is par with dollar. External borrowings and wars in 1962 (china)and in 1965 (Pakistan)resulted in a huge deficit. So in 1966, the rupee devalued as RS. 7.57 Against the dollar. At present one dollar cost is RS. 66.72 (01-11-16).

In 2013 we have the value of one dollar is Rs. 68.8 (nearly Rs. 69). This scenario has made an impact on peoples mind and made them to think that Indian economy is shifting to 1991 scenario.

As per the basic laws of economics if the demand for USD in India exceeds its supply then it's worth will go up and that of the INR will come down in that respect. It may be that importers are the major entities who are in need of the dollar for making their payments. Likelihood here could be that the Foreign Institutional Investors are retreating their investments in the country and taking them elsewhere.

Generally, rupee depreciation is advantage to exporters because they get more money than the value. But it will be bane for the importers to pay more money to creditors.

REVIEW OF LITERATURE

While conducting study below literatures are reviewed to know the information on required areas to complete study. Here various opinions of researcher are referred and understand the importance of problem and their reasons about the rupee depreciation.

Ravi Bhandhari (2014) studied the depreciation of rupee against dollar & analysis on impact of Macroeconomic factors on exchange rate of rupee. Here he considered economic variables and find the relationship with macro economic factors and exchange rate of rupee. He concludes that, we have to increase exports instead of imports and effective economic plans are required to stabilise the economic growth. He found that there is positive correlated to GDP and export growth. Viney narang (2014) had studied the reasons for currency devaluation and its impact on Indian economy. Here says that one of the important reasons for devaluation was crude oil imports and he suggest the measures how to control it and he shows how it effects.

Jin sang lee (2014) he examined the effects of currency depreciation on trade balance in selected Asian economies. Through that he says exports did not respond as expected, mainly due to a decline in terms of trade for primary commodities and manufactured products or due to heavy dependence on import goods which may be more expensive in the local currency. Many Asian economies are heavily engaged in imported energy resources like oil and gas, natural resources, and many economies are focusing on export promotion. Therefore, it is worthwhile to look at the consequences of devaluation. The study found a strong evidence for inflation and high lending interest rate to negative effect on trade balance.

Inderpal singh (2015) effects of macroeconomic factors on rupee value. Price of one currency in terms of another currency (exchange rate) is a very important variable for an open economy in the global market, because it affects the overall economic performance and growth of the economy. So, the relationship between exchange rate and the related macro-economic factors causing variability in the value of the former carries a high degree of significance for any open economy.

Harberger (2003) studied the impact of economic growth on real exchange rate. He found that there is no systematic connection between economic growth and real exchange rate. Husain et al. (2004) found in their study, little access to international capital is available for the weaker and less developed countries, so low rate of inflation and higher level of durability is associated with fixed exchange rate regime in those countries. However, they found no robust relationship between economic performance and exchange rate regime in the developing economies. They also found that advanced economies may experience durable and slightly higher level of growth rate without higher level of inflation in flexible exchange rate regime.

Ibrahim Tuhran et.al (2012) examined that, the dynamic relationship between oil prices and exchange rate of selected emerging economies. It contributes to the literature in at least three points, first contrary to the general use of developed economies, the author opted emerging markets to study the relationship between oil prices and exchange rates. Second, un-parallel to the literature using monetary models to explore the exchange rates with low frequency data, oil is taken as alternative asset class and use daily oil price data to investigate the dynamics of exchange rate of an emerging market. Third, this paper shows how this relation has changed by comparing the relationship before and after the financial crisis.

Chellasamy (2013) analyzed the effects on rupee depreciation against the dollar covering the area of currency growth, foreign investment, and macro-economic factors that affected Indian currency during the study period from 1989-1970 to 2012-2013.

Bhandari (2014) this study relates to the causes & impact of rupee depreciation against dollar on Indian economy in the recent period when on August 28th 2013, the rupee closed to 68.80 against dollar resulting in the fear of Indian economy returning to 1991 scenario.

Raithatha (2012) studies effects of currency appreciation and depreciation as boon and bane for economic growth &provides suggestions to overcome ill-effects of excessive fluctuations between rupee and dollar keeping in view current trends.

Syed Abul Basher et.al (2010) investigated that, the dynamic relationship between real oil prices, exchange rate index for major currencies, emerging market stock prices, interest rates, global real economic activity and oil supply. The results of this paper support to some extent that oil prices respond to movements in exchange rates. Further, the result reported in the paper offered some support for higher oil prices affecting exchange rates in the short run. In particular, positive oil shock leads to immediate drop in the trade weighted exchange rate. On the other hand, oil prices respond negatively to an unexpected increase in oil supply and oil prices respond positively to an unexpected increase in demand. These results are consistent with the prediction from a demand and supply model for the oil market. oil prices respond positively to positive shock in emerging stock markets, while respond negatively to the positive shock. These results are important in establishing that in addition to global supply and demand conditions for oil, oil prices also respond to emerging economy equity markets and global capital markets.

OBJECTIVES

This study aims at finding out the crucial factors of the economy that cause impact on Indian rupee fluctuation against US dollar. There are several macroeconomic factors affecting the exchange rate like the inflation, interest rates, trade balance, GDP growth rate, foreign direct investments, etc. From these factors we have identified five independent variables and exchange rate as dependent variable.

For doing this study main objectives are:

1. To study the Indian currency market & rupee position in the global foreign exchange market.
2. To study the fluctuation in Indian rupee against the dollar (INR/USD) post globalization.
3. To find out the impact of macroeconomic factors on exchange rate.
4. To give suitable suggestions to improve the rupee value.

HYPOTHESIS

Since, last decade the Indian foreign exchange market has undergone significant changes and has been subjected to few shocks. It is clearly reflected by the ups and downs of Indian rupee exchange rate against the US Dollar. There are several factors affecting the exchange rate like the inflation, interest rates, current account deficits, public debt, the terms of trade, economic and political factors, FDI, FII, etc. Based on these factors following hypothesis are constructed for study to find their impact on exchange rate.

H1: Inflation rate influence the exchange rate of Indian Rupee.
H2: Lending Interest rate influence the exchange rate of Indian Rupee.
H3: Foreign direct investment (FDI)influences the exchange rate of Indian Rupee.
H4: Gross domestic product (GDP)growth Rate influence the exchange rate of Indian Rupee.
H5: Balance of payments (BOP)influence the exchange rate of Indian Rupee.

RESEARCH DESIGN

The study covers a Research is Exploratory & Analytical that generates a hypothesis by analyzing a data and looking for potential relations between variables.

For doing this study we consider a sample Period of 10 years from 2005 - 2006 to 2015-2016. During this period currency rates are more volatile in nature and in 2013 august exchange rate is increased to 68.3. For doing analysis conducted linear regression test.

SOURCES OF DATA COLLECTION

For present study source of data is secondary data. The data for the study is collected from various sources such as:

- Online research databases (such as: EBSCO host, Shodhganga, etc.)
- Various websites
- Magazines,
- Newspapers,

CAUSES OF RUPEE DEPRECIATION

As the Indian currency is sharply depreciated against dollar, as well as against other world currencies, it is imperative to understand the factors contributing its fall in the global market. Some of the major factors of currency depreciation are discussed below:

A. Demand and Supply rule

Demand and supply rule means if there is more demand of dollars in the currency market and is not adequately matched by the supply, other things remaining equal, the rupee price of dollar will go up or the rupee will depreciate.

B. Improving the strength of US economy:

Improving the strength of the US economy or dollar gaining strength against other currencies is considered as another reason for the crisis. That is Reserve Banks of Euro zone and Japan printing excessive money due to which their currency is being devalued.

C. Increased price of oil

Increased prices and demand for Oil is another reason for rupee fall. India has to import Bulk of its oil requirements to satisfy its local demand which is increasing every year. The domestic demand for oil is increasing which causes the price of the oil to increase in the international market. The demand for dollar increases as we have to make payments to our suppliers in dollars. This increase in demand for dollar weakens the rupee. 55% of the India's oil import is used for Transportation of goods and people and 50% of that or 27% of the total is used for transporting the 1.8 Indians who owns cars.

D. Wider Current Account Deficit

Wider Current Account Deficit (CAD)can be regarded as another reason for currency fall. A current account deficit occurs when a country is importing more goods and services than that is exporting. This wider current account deficit usually creates demand for dollar which may result in rupee depreciation. The deficit can be bridged either by using country's forex reserves or from capital inflows.

E. Low foreign exchange reserve

Low forex reserve is another reason for currency depreciation. India's forex reserves have declined in recent months. The main reason for this fall is due to heavy dollar sales by RBI to protect the rupee. On Nov 9th the forex reserve again dipped to$ 1.65 billion due to the dip in value of gold in reserves. If reserves are declining in such a manner, RBI can't intervene aggressively in currency markets. Moreover, most of the countries traded with India only accept foreign currencies in return. In India, Foreign Exchange Reserves are the foreign assets held or controlled by the country central bank.

F. Lower growth

Lower growth is another reason for currency depreciation. That is due to the low growth foreign institutional investors were pulling off money from India. Lower GDP with high inflation, record high CAD and record high Indian rupee depreciation will further worsen the India's Macroeconomic condition.

G. High demand for gold

Increased demand for Gold or increased import of gold is considered as another reason for the crisis. In India there is a tradition to wear gold and diamond ornaments for the auspicious occasions. So there is more requirements for these but are not abundantly available in India. So India has to import these at huge price. When the rupee value gets depreciating, the percentage for each dollar increases making the demand increase.

H. High fiscal deficit

High fiscal deficit can be regarded as another reason for this crisis. The higher fiscal deficit could lead to speculative attacks on currency. In case of high deficit Govt. may use foreign currency reserve to finance the deficit. This lead to lowering of reserves and if there is speculation of currency, the govt. may not have adequate reserve to protect the fixed value of currency. This prompts the govt. to devalue the currency. Though Fiscal deficit have no direct bearing on foreign markets, play a role in crisis.

I. Dollar gaining strength against other currencies

Dollar gaining strength against other currencies is considered as another reason. The US had been printing money to bolster the economy. Now with the revival of the economy the Chairman plans to unwind the program. This statement led to unrest in the US economy and US investors started withdrawing money from the overseas markets.

J. Great volatility of stock market

Great volatility in stock market also regarded as another reason for the currency devaluation. Our equity market is volatile for some time now. Equity means the investments in Indian companies made by foreign institutional investors. Indian stock market is mainly dominated by overseas investors.

K. Withdrawal by investors

Withdrawal by investors affects the rupee to decline in value. The economic slowdown of many industries, in the Indian environment, the market's weakness for the government to implement public policies are increasingly disappointed.

L. Lack of clarity in policy reforms

Lack of clarity in policy reforms is another reason for depreciation of currency. Perception of lack of clarity on the policy front is also fanning speculative demand wherein RBI on one day said it will tighten liquidity and on yet another said it will inject $1 billion in the market.

M. Interest rate difference

Interest rate difference is another factor, that is higher interest rate generally attract foreign investment but due to slowdown in growth there is increasing pressure on RBI to decrease policy rates.

N. Higher inflation

Indian economy is experiencing higher inflation which will decrease purchasing power of rupee against other currencies. This will lead to rupee depreciation. This essentially means that more rupees were printed than required which causes a rise in inflation.

TABLE 1: TABLE SHOWING THE DATA OF MACROECONOMIC FACTORS AND EXCHANGE RATES

YEAR	CUR-RAT	FDI(IN MILLION $)	LEND RATE (%)	INFLATION (%)	GDP (%)	BOP(RS IN BILLION)
2005-2006	45.23	8961	11.5	6.53%	9.3	-2039.91
2006-2007	41.4	22826	13.5	5.51%	8.6	-2687.27
2007-2008	43.44	34843	14	9.70%	3.9	-3564.48
2008-2009	48.33	41873	14.125	14.90%	8.5	-5336.8
2009-2010	45.64	37745	13.67	9.47%	10.3	-5182.02
2010-2011	46.32	34847	8.875	6.49%	6.6	-5405.45
2011-2012	53.32	46556	10.375	11.17%	5.6	-8795.04
2012-2013	58.26	34298	10	9.13%	6.6	-10348.44
2013-2014	61	36046	10.13	5.86%	7.2	-8104.25
2014-2015	64.08	45148	10.13	6.32%	7.6	-8406.41
2015-2016	67.04	55457	10	5.71%	7.9	-7715.03

TESTING OF HYPOTHESIS

Data is collected to Measure the relationship between macro-economic variables and exchange rate by considering the data of last ten years for each variable and exchange rate. Here linear regression method is used to find the relationship between variables and exchange rate.

1) FDI AND EXCHANGE RATE

H1: FDI influence the exchange rate of Indian Rupee

TABLE 2: SHOWS THE MODEL SUMMARY OF REGRESSION ANALYSIS BETWEEN EXCHANGE RATE AND FDI

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.642[a]	.412	.346	7.28160

a. Predictors: (Constant), FDI(In millions $)

The R and R^2 value are provided by the Model Summary table. The R value is 0.642, which signifies the simple correlation. It shows a low degree of correlation. How much of the dependent variable, "Exchange Rate", can be explained by the independent variable, FDI, is indicated by R^2 value. In this case, 41.2% can be explained, which is less than moderate. The exchange rate is 41.2% dependent on Independent variables.

TABLE 3: TABLE SHOWS THE ANOVA OF REGRESSION ANALYSIS BETWEEN EXCHANGE RATE AND FDI

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	334.125	1	334.125	6.302	.033[b]
	Residual	477.195	9	53.022		
	Total	811.320	10			

a. Dependent Variable: currency rate

b. Predictors: (Constant), FDI(in millions $)

Above table shows the regression model forecasts the outcome variable significantly well. This specifies the statistical significance of the regression model that was applied. Here, $p < 0.033$, which is less than 0.05, and indicates that, overall, the model applied can statistically significantly predict the outcome variable i.e., Exchange Rate.

TABLE 4: SHOWS THE COEFFICIENTS OF REGRESSION ANALYSIS BETWEEN CURRENCY RATE AND EXCHANGE RATE

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	35.203	7.113		4.949	.001
	FDI(in millions $)	.000	.000	.642	2.510	.033

a. Dependent Variable: currency rate

The above table shows that beta co efficiency of independent factor which shows the influence on the dependent factor of currency rate according to the above results the FDI having negative Beta value that is 0.642 and T value of FDI is 2.510 According to the asymmetric significance value of P value is less than the 5% level of significance and this variable influence the dependent variable of currency price is significant.

2) GDP GROWTH RATE AND EXCHANGE RATE

H2: GDP growth Rate influences the exchange rate of Indian Rupee.

TABLE 5: SHOWS THE MODEL SUMMARY OF REGRESSION ANALYSIS BETWEEN CURRENCY RATE AND GDP GROWTH RATE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.081[a]	.007	-.104	9.46363
a. Predictors: (Constant), GDP (%)				

The R and R^2 value are provided by the Model Summary table. The R value is 0.81, which signifies the simple correlation. It shows a low degree of correlation. How much of the dependent variable, "Exchange Rate", can be explained by the independent variable, "GDP" is indicated by R^2 value. In this case,.007 can be explained, which is very large. The exchange rate is 7% dependent on Independent variables.

TABLE 6: SHOWS THE ANOVA OF REGRESSION ANALYSIS BETWEEN CURRENCY RATE AND GDP GROWTH RATE

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.277	1	5.277	.059	.814[b]
	Residual	806.042	9	89.560		
	Total	811.320	10			
a. Dependent Variable: currency rate						
b. Predictors: (Constant), GDP (%)						

This table shows that the regression model forecasts the outcome variable significantly well. This specifies the statistical significance of the regression model that was applied. Here, p value is 0.814, which is more than 0.05, and indicates that, overall, the model applied can statistically significantly not predict the outcome variable i.e., Exchange Rate. So hypothesis will be rejected due to high significance value.

TABLE 7: SHOWS THE COEFFICIENTS OF REGRESSION ANALYSIS BETWEEN CURRENCY RATE AND GDP GROWTH RATE

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	55.231	12.861		4.295	.002
	GDP (%)	-.408	1.680	-.081	-.243	.814
a. Dependent Variable: currency rate						

The above table shows that beta co efficiency of independent factor which shows the influence on the dependent factor of currency rate according to the above results the GDP having negative Beta value that is -0.081 and T value of GDP is -0.243 According to the asymmetric significance value of P value is more than the 5% level of significance and this variable influence the dependent variable of currency price is insignificant.

3) LENDING INTEREST RATE AND EXCHANGE RATE

H3: Lending Interest rate influence the exchange rate of Indian Rupee.

TABLE 8: SHOWS THE MODEL SUMMARY OF REGRESSION ANALYSIS BETWEEN CURRENCY RATE AND LENDING INTEREST RATE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.644[a]	.414	.349	7.26604
a. Predictors: (Constant), Lending rate (%)				

The R and R^2 value are provided by the Model Summary table. The R value is 0.644, which signifies the simple correlation. It shows a less degree of correlation. How much of the dependent variable, "Exchange Rate", can be explained by the independent variable, "Lending Interest Rate" is indicated by R^2 value. In this case,.414 can be explained, which is very large. The exchange rate is 41.4% dependent on Independent variables.

TABLE 9: SHOWS THE ANOVA OF REGRESSION ANALYSIS BETWEEN CURRENCY RATE AND LENDING INTEREST RATE.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	336.162	1	336.162	6.367	.033[b]
	Residual	475.158	9	52.795		
	Total	811.320	10			
a. Dependent Variable: currency rate						
b. Predictors: (Constant), Lending rate (%)						

This table shows that the regression model forecasts the outcome variable significantly well. This specifies the statistical significance of the regression model that was applied. Rate Here, $p < 0.0045$, which is less than 0.05, and indicates that, overall, the model applied can statistically significantly predict the outcome variable i.e., Exchange. So considered hypothesis will be accepted.

TABLE 10: SHOWS THE COEFFICIENTS OF REGRESSION ANALYSIS BETWEEN CURRENCY RATE AND LENDING INTEREST RATE

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	86.224	13.666		6.310	.000
	Lending rate (%)	-2.964	1.175	-.644	-2.523	.033
a. Dependent Variable: currency rate						

The above table shows that beta co efficiency of independent factor which shows the influence on the dependent factor of currency rate according to the above results the lending rate having negative Beta value that is -0.644 and T value of lending rate is -2.523 According to the asymmetric significance value of P value is lower than the 5% level of significance and this variable influence the dependent variable of currency price is significant.

4) INFLATION AND EXCHANGE RATE

H4: Inflation rate influence the exchange rate of Indian Rupee.

TABLE 11: SHOWS THE MODEL SUMMARY OF REGRESSION ANALYSIS BETWEEN CURRENCY RATE AND INFLATION

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.255[a]	.065	-.039	9.18084
a. Predictors: (Constant), Inflation rate (%)				

The R and R^2 value are provided by the Model Summary table. The R value is 0.255, which signifies the simple correlation. It shows a very low degree of correlation. How much of the dependent variable, "Exchange Rate", can be explained by the independent variable, "Inflation" is indicated by R^2 value. In this case,.065 can be explained, which is very small. The exchange rate is 6.5% dependent on Independent variables.

TABLE 12: SHOWS THE ANOVA OF REGRESSION ANALYSIS BETWEEN CURRENCY RATE AND INFLATION

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	52.730	1	52.730	.626	.449[b]
	Residual	758.590	9	84.288		
	Total	811.320	10			

a. Dependent Variable: currency rate

b. Predictors: (Constant), Inflation rate (%)

This table shows that the regression model forecasts the outcome variable significantly well. This specifies the statistical significance of the regression model that was applied. Here, p is 0.449, which is more than 0.05, and indicates that, overall, the model applied can statistically significantly will not predict the outcome variable i.e., Exchange Rate. So reject Hypothesis due to high p-value.

TABLE 13: SHOWS THE COEFFICIENTS OF REGRESSION ANALYSIS BETWEEN CURRENCY RATE AND INFLATION

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	58.629	8.602		6.816	.000
	Inflation rate (%)	-.780	.987	-.255	-.791	.449

a. Dependent Variable: currency rate

b. Independent variable: Inflation

The above table shows that beta co efficiency of independent factor which shows the influence on the dependent factor of currency rate according to the above results the INFLATION having negative Beta value that is -0.255 and T value of Inflation is -0.791 According to the asymmetric significance value of P value are higher than the 5% level of significance and this variable influence the dependent variable of currency price is insignificant.

5) BALANCE OF PAYMENTS AND EXCHANGE RATE

H5: BOP influences the exchange rate of Indian Rupee.

TABLE 14: SHOWS THE MODEL SUMMARY OF REGRESSION ANALYSIS BETWEEN CURRENCY RATE AND BOP

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.811[a]	.657	.619	5.56097

a. Predictors: (Constant), BOP(in billions)

The R and R^2 value are provided by the Model Summary table. The R value is 0.852, which signifies the simple correlation. It shows a high degree of correlation. How much of the dependent variable, “Exchange Rate”, can be explained by the independent variable, “balance of payment” is indicated by R^2 value. In this case, 65.7% can be explained, which is very large. The exchange rate is 65.7% dependent on Independent variables.

TABLE 15: SHOWS THE ANOVA OF REGRESSION ANALYSIS BETWEEN CURRENCY RATE AND BOP

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	533.000	1	533.000	17.236	.002[b]
	Residual	278.320	9	30.924		
	Total	811.320	10			

a. Dependent Variable: currency rate

b. Predictors: (Constant), BOP(in billions)

This table shows that the regression model forecasts the outcome variable significantly well. This specifies the statistical significance of the regression model that was applied. Here, p is .002, which is less than 0.05, so accept hypothesis

TABLE 16: SHOWS THE COEFFICIENTS OF REGRESSION ANALYSIS BETWEEN CURRENCY RATE AND BOP

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	35.665	4.319		8.258	.000
	BOP(in billions)	-.003	.001	-.811	-4.152	.002

a. Dependent Variable: currency rate

The above table shows that beta co efficiency of independent factor which shows the influence on the dependent factor of currency rate according to the above results the BOP having negative Beta value that is -0.811 and T value of BOP is -4.152. According to the asymmetric significance value of P value are lower than the 5% level of significance and this variable influence the dependent variable of currency price is significant.

TABLE 17: REGRESSION ANALYSIS CONCLUSIONS

S. No.	HYPOTHESIS	P-VALUE	RESULT
1.	Foreign direct investment Influences the exchange rate of rupee.	P=0.033	Accept the hypothesis because p-value is less than 0.05.
2.	Gross domestic product growth rate influences the exchange rate of rupee.	P=0.814	Reject hypothesis because p-vale is more than 0.05.
3.	Lending interest rates influences the exchange rate of rupee.	P=0.033	Accept hypothesis because p-value is less than 0.05.
4.	Inflation rate influences the exchange rate of rupee.	P=0.449	Reject hypothesis because p-value is more than 0.05.
5.	Balance of payments influences the exchange rate of rupee.	P=0.002	Accept hypothesis because p-value is less than 0.05.

FINDINGS

Following are some of the important points which are observed while doing the study. They are:

1. Demand for dollar is increasing from time to time due to high imports. Dollars are required for payment of imports.
2. Oil imports are increasing at very high rate from year to year.
3. Exports are not meeting the expectations of the economy.
4. Depreciation of rupee will affect every individual in the economy by increasing the cost of living.
5. Our currency value is very less when compared with other country currencies like dollar, pound, euro.
6. Last five years’ currency value depreciates at very high rate. In 2010 exchange rate was Rs. 45 now it was Rs. 68.26. it is increased more than 50%.
7. Inflation is not influence the exchange rate of the country.
8. GDP is not influence the exchange rate of the country.

SUGGESTIONS

1. Oil import is one of the reason for which country needs to demand the foreign currency, the government has to stagger the demand.
2. The flow of foreign investments into India impacts the exchange rate to appreciate as it has positive relation. So, the government should take initiatives which encourage and increase foreign investments into India.
3. The government can consider temporary import compression.
4. Encourage export oriented companies.
5. Increase industrial base in the country.
6. Finding substitute products which will replace the foreign market products.
7. Government have to provide the financial assistance to start ups and export oriented companies to increase their business.
8. Giving boost to domestic industries & companies to with stand the competition in international market.
9. Government have to frame the strict policies and it have to implement them to control the currency depreciation.
10. Inflation has to control otherwise other our country products become more expensive.
11. Reducing gold imports.
12. RBI should come up with measures to reduce interest rate on export credit and Public Sector banks should ensure credit to medium and small exporters under the priority sector.

CONCLUSION

Depreciation of rupee has affected everyone in the economy including the common man. Hence we should focus more on increasing the export by correcting economic fundamentals. Immediate economic reforms should be taken in order to gain the confidence of foreign investor. A stable currency regime required for a stable growth economy cannot be achieved unless the structural issues are addressed to advance productivity and keep a stable inflation environment, resulting in a more stable fiscal deficit and external sector which put India on a sustainable growth path with stable Fiscal deficit, current account deficit, inflation and growth.

From this study we can say that currency rate was not influenced by the considered macro economic variables.

We need to accelerate reform process that would make economy resistant to external shocks and changes in economy cycles and currency fluctuations. The bottom line is our policy should concentrate on enhancing our capability in manufacturing, promote entrepreneurship and provide incentive for innovations. We need to remember that the challenge which we are facing is not only about currency risk but it is about moving to growth and development.

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