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1. Markets are submerging due fall of Rupee: The increasing demand for the U.S. dollar is shaking currency markets across the globe

- Why rupee is falling freely?
- What are the implications of this continuously falling Indian currency?
- What measures have been taken by RBI to prevent the fall of rupee?

GS paper 3 (Indian Economy)

In this video, you can find detailed answers for all the above questions.

The above article has been retrieved from:

N.A. (2018, September , 03). Submerging markets: on falling rupee value. The Hindu. Retrieved from <https://www.thehindu.com/opinion/editorial/submerging-markets/article24835442.ece>

What is the context about?

- Emerging market economies continue to be in the spotlight for the wrong reasons as their currencies resume their prolonged slide against the U.S. dollar.
- The Indian rupee weakened past the 71 mark for the first time ever on Friday, registering a loss of about 10% of its value against the dollar since the beginning of the year.
- This makes the rupee the worst-performing currency in Asia.

Why rupee is falling freely?

- The main reasons behind rupee's free fall can be attributed to higher crude oil prices (crude prices have spiked by almost 22 per cent in the last year), widening trade deficit, increasing capital outflows.
- Also fear of trade war between China and US which would have negative implications on Asian economies and sanctions on Iran are also affecting value of Indian rupee.
- Unless our exports pick up substantially, this may worsen the deficit even further. That will make the rupee slide even further in the near term.

What are the implications of this continuously falling Indian currency?

- A weaker rupee has resulted in rise in import bills, costlier foreign education and travel.
- The biggest impact is on petrol and diesel prices which have witnessed steady increase throughout the year.
- Petrol and diesel have risen by 13.99 per cent and 23.04 per cent respectively since August 24 last year.

What measures have been taken by RBI to prevent the fall of rupee?

- The Reserve Bank of India (RBI) has enough fire-power to prevent a rapid slide in the rupee's value, a gradual and continued fall in the currency cannot be ruled out.

- ❑ The central bank has been raising interest rates to match the rising interest rates in the US.
- ❑ If RBI does not raise interest rates, the “yield differential” with the US might narrow, potentially prompting more capital outflows from India and further weighing on the rupee.
- ❑ The central bank’s rate hikes have, however, complicated matters for India’s banking sector, already reeling under a massive bad debt problem.