Journey of the Rupee; Meandering Through Turbulent Times

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Abstract: **The article traces the history of the Indian Rupee till date. It journeys from 6th century BC in circa to present times. The word 'rupiya' is derived from a Sanskrit word 'rupyarupa', which means a coin of silver. The concept of the paper is to study how the Indian currency has witnessed a slippery journey since independence .Many geopolitical and economic developments have affected its movement in the last 65 years. The paper also attempts to study the implications of the rupee when after independence it chose to adopt a fixed rate currency regime. In spite of major financial crises and two consequent devaluation of the rupee happened in 1966 and in 1991.Thus, making the government to lift restrictions on its currency. A number of reforms were made on current account transactions (including trade, interest payments and remittance and some capital based transactions) leading to the introduction of partial convertibility of the rupee in 1992. The paper also attempts to high light how a fall in crude prices will immediately have an impact on WPI (wholesale price index) inflation which in turn will have a direct impact on fiscal deficit. This enabled the government to achieve sustainable growth and development .Hence, upgrading the credit rating and image of the country in the eyes of the international communities.**

Keywords: **History of money, depreciation, devaluation of money**

The journey of the rupee traces back to ancient India in circa in 6th century BC along with the Chinese wen. The word rupiya is derived from a Sanskrit word rupya rupa, which means "wrought silver,a coin rupa means form or shape. Chanakya, the prime minister of the Maurya emperor Chandergupta Maurya (340-290 BC) mentions silver coins as rupyarupa.

Sher Shah Suri, during his five year rule from 1540 to 1545 set up a new civic and military administration. He issued a coin of silver, weighing 178 gms which was termed Rupiya.

The Indian rupee was a silver based currency during the 19th century .This had severe consequences on the standard value of the currency, as stronger economies were on gold standard.

The Anna series was introduced during the British rule and first decade of independence. The rupee was subdivided into 16 annas. Each anna was subdivided into either 4 paisa or 12 pies. So one rupee was equal to 16 annas, 64 paisa of 192 pies.

In 1957, decimalization of rupee occurred as given in the table below:

Dates	**Currency System**
From 1835	1 rupee=16annas=64pice
	(pais'e=singular,paisa)=192
	pies(singular=pie)
From 1st April 1957	1 rupee=100 naye' paise'
From 1st June 1964	1rupee=100 paise'

However, after a few years, the initial "naye" was dropped.

In the early and middle of the 20thcentury, the Indian rupee became the official currency in several areas that were controlled by the British and governed from India. These countries were East Africa, Southern Arabia and the Persian Gulf.

After India got independence on August 15th 1947, the value of rupee was at par with the American dollar. This was so because India adopted a fixed rate currency regime.

Two consecutive wars, one with China in 1962 and another with Pakistan in 1965, resulted in huge deficit on India's budget, forcing the government to devalue the currency to 7.57 against the dollar.

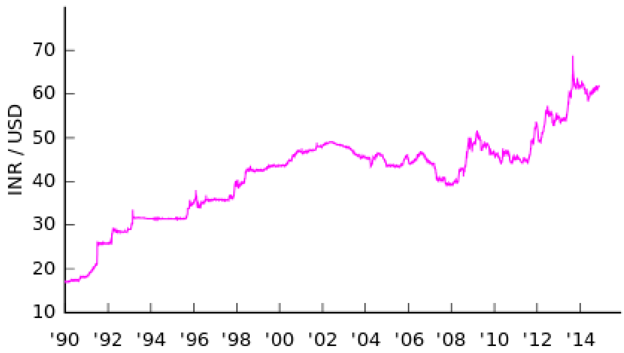
The rupee which was linked with the British pound (currency) was broken in 1971 and directly linked to the US dollar.

In 1985, it was further devalued to 12INR against a dollar. Hence, India plunged into trade deficit. As a result the government of India issued bonds through the RBI, which increased the money supply leading to inflation. Moreover, the burden of Indo-Park War plus severe drought resulted in inflated prices. Making the rupee plunge to all time low .This triggered a wave of irreversible liberalization reforms away from populist measures.

In1991 India had a fixed exchange system. Since it was already facing balance of payment problems since 1985 that by the end of 1990 it found itself deeply embroiled into serious economic trouble. Its foreign exchange reserves had dried up to a point that it could barely finance three weeks' worth of imports. Hence, this led the government to devalue the rupee. The objective being discourage imports and give impetus to exports. In the period between 2000 to 2007 saw the revaluation of the rupee as it stopped declining and stabilized between 1USD=INR44-45. It reached a record high of Rs. 39 per USD because of sustained foreign investment flows into the country .However, this trend reversed with the 2008 world financial crises as foreign investors transferred huge sums out of their own countries.

Thus, due to stagnant reforms, declining foreign investments, the rupee started depreciating in the early 2013. This made the rupee drop to 68.80 per dollar .In spite of various measures adopted by the government of India, it could not prevent it from falling further. This continued depreciation led to high inflation. The then Prime Minister if India, Mr. Man Mohan Singh, made a statement in the parliament that the depreciation was partly due to global factors and domestic factors .He also asked the political parties to help the government to tide over the crises that the country was facing with the rupee losing its value. This is very evident from table given below:

Year	**Exchange rate (INR per USD)**
1948	3.31
1949	3.67
1950 – 1966	4.76[16]
1966	7.50[16]
1975	8.39[16]
1980	7.86[17]
1985	12.38[17]
1990	17.01[17]
1995	32.427
2000	43.50[17]
2005 (Jan)	43.47[17]
2006 (Jan)	45.19[17]
2007 (Jan)	39.42[17]
2008 (October)	48.88
2009 (October)	46.37
2010 (January 22)	46.21
2011 (April)	44.17
2011 (November 17)	55.395
2012 (June 22)	57.15[18]
2013 (May 15)	54.73[19]
2013 (Sep 12)	62.92[20]
2014 (March 31)	59.9
2015 (Jan 31)	61.86



The Present Scenario

The Indian rupee extended its fall to 65.50 to the dollar as heavy demand from importers along with weak domestic equities continued to weigh on its sentiments .Moreover, the slide of the rupee also all-time low against British pound. It breached the 102 mark on local bourses. However, steps taken by the RBI and the government to curb the volatility in the exchange rate have had little impact so far. The government of India explored measures to narrow down the account deficit, but to no avail. The then Finance Minister categorically said that was no plan to introduce capital control as the economy was not ready at that time.

On the back of reformatory initiatives undertaken by the new government at the center, "The rupee is the best performing Asia-Pacific currency" (source-PTI May 25th 2014).Boosted by capital inflow and euphoria around the current government, the rupee surges to 11 month high level making it the best performing currency in Asia-Pacific region against the US dollar so far .Since, the new government had development as its main agenda has reasons to rejoice. The sharp fall in crude oil prices has a blessing in its continued battle with the inflation demon. Hence the fall in crude price in the international market translated into benign import bills which shall in turn bring down CAD (current account deficit), oil subsidy burden and overall inflation. The amount thus saved upon the oil import bills can be used by the government of India in supporting more growth and development oriented programmers like basic education, infrastructure, sanitization, and job creation. Moreover, lower fiscal deficit will also ensure improved ICOR (Incremental Capital upon Output Ratio) thereby ensuring efficiency of scarce resources leading to stabilization of INR. A strong rupee will lower the country's dependence on foreign borrowings thereby reducing external debts.

This will upgrade India's credit rating and bolster the image in the eyes of the international communities'. On the back reform oriented policies and measures it will stimulate the economy. As a result, it will encourage more confident investment decisions (long term in nature) in the coming years. Thus, we that the Indian economy has been amongst the few ones that have managed to successfully steer through turbulent times merely because of a strong policy intervention. Moreover, as per the World Development Report 2013, India has become the third largest economy in the world in terms of purchasing power parity displacing Japan from its position.

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