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Impact of devaluation of Indian currency

T. Vijayalakshmi [1*]

[1] Department of Economics, STET Womens College, Sundarakottai, Mannargudi, Tamilnadu, South India.

Abstract

This paper examines the recent trends in India's exports and imports, analyses the world trade scenario and its impact on India economy, the share and growth rate of principal commodities of exports and imports and the impact of devaluation of Indian currency on India's Foreign Trade.

Keywords: devaluation of rupee, exports, growth rate, import, world trade.

INTRODUCTION

Every country export and import for their survival. It is good for the nation when exports equal imports. But when imports are more than exports , the value of the currency starts declining. It means that the country needs more from other countries while it has little to offer . Indian goods are bought with Indian rupees. Hence if the demand for Indian goods fall, consequently the demand for Indian rupee also falls. The present paper has the following objectives.

(i) To examine the trends in India's exports and imports.

(ii) To analyse the world trade scenario

(iii) To explain the share and growth rate of principal commodities of exports and imports

(iv) To evaluate the impact of devaluation of Indian currency on India's foreign trade

METHODOLOGY

Secondary data were collected for the present study and the data were compiled and analysed based on the objectives.

RESULT AND DISCUSSION

World Trade Scenario

As per IMF's World Economic Outlook, world trade recorded its largest ever annual increase as merchandise exports surged 14.4 %. Growth in the volume of trade is expected to decline to 5.8% as per IMF projections. The advanced economies are expected to grow at 1.9% while the emerging and developing economies to grow at 6.1%. The projected growth rates in different countries are expected to determine the markets for India's exports.

India's Trade performance

India's merchandise exports reached a level of US $251.14 billion during 2010-11 registering a growth of 40.49 % as compared to a negative growth of 3.53% during the previous year. India's export sector has exhibited remarkable resilience and dynamism in the recent years. Despite the recent setback faced by India's export sector due to global slowdown , merchandise exports recorded a Compound Annual Growth Rate (CAGR) of 20% from 2004-05 to 2010-11.

Exports recorded a growth of 40.49 per cent during April-March 2010-11. The Government has set an export target of US $ 300 billion for 2011-12. With merchandise exports reaching US $ 217.66 billion in 2011-12(Apr-Dec), the export target of 300 US $ billion is expected to be achieved. Cumulative value of imports during 2011-12 (Apr-Dec) was US $ 350.94 billion as against US $ 269.18 billion during the corresponding period of the previous year registering a growth of 30.4 per cent in $ terms. Oil imports were valued at US $ 105.6 billion during 2011-12 (Apr-Dec) which was 40.39 per cent higher than oil imports valued US $ 75.2 billion in the corresponding period of previous year.

Growth of imports and exports of principal commodities

Growth of bulk imports increased from 41.85% (2004-05) to 43.86% in 2009-10; Pearls, precious and semi-precious stones 7.74%; machinery 10.46%; project goods 1.84% ; others36.11%. Exports of plantation increased from 6.83% (2004-05) to 20.77% ; agri and allied products 13.82% to 24% ; marine products 5.95% to 18.9% ; ores & minerals 109.64% to 25.82%; leather 9.47% to 5.3% ; gems and jewellary 27% to 12.7%; sports goods 0.9% to 12.49%; engineering goods 43% to 58.85%.;

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(i) The price of petrol has gone up: price of diesel and LPG could spike; cost of transportation goes up: cost of goods and inflation goes up.

(ii) Companies which are dependent on raw material or have imported components could see profitability and market capitalisation take a bearing.

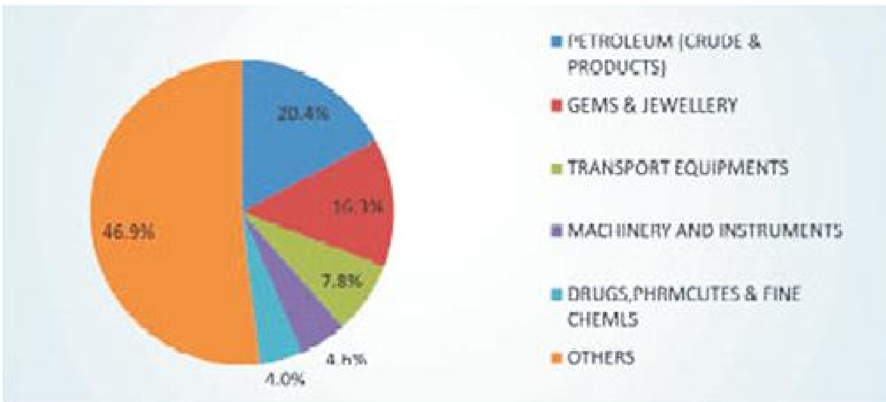
*Corresponding Author
email:tvijayalakshmi17@gmail.com

Table 1. Performance of India's exports and imports: (values in Rs crores)

Year	Exports	% Growth	Imports	%Growth	Trade deficit
2004-05	3,75,340	27.94	5,01,065	39.53	-1,25,725
2005-06	4,56,418	21.6	6,60,409	31.8	-2,03,991
2006-07	5,71,779	25.28	8,40,506	27.27	-2,68,727
2007-08	6,55,864	14.71	10,12,312	20.44	-3,56,448
2008-09	8,40,755	28.19	13,74,436	35.77	-5,33,680
2009-10	8,45,534	0.57	13,63,736	-0.78	-5,18,202
2010-11 provisional	11,42,649	35.14	16,83,467	23.45	-5,40,818
2010-11 (Apr-Dec)	7,89,069		12,28,074		-4,39,006
2011-12 (Apr-Dec)	10,24,707	29.86	16,51,240	34.46	-6,26,533

Source: DGCIS, Kolkata

Fig. 1. Share of Principal Commodities in India's Export 2011-12 (April-October)



Source: Department of Commerce, Govt. of India, Annual Report 2011-12,Trends in India's Foreign Trade

(iii) Foreign travel is set to get costlier.

(iv) Studying in foreign universities may get costly.

(v) Electronic goods depend on imports are expensive.

(vi) NRIs and exporters would be happy and can be expected to remit more dollars as they would get a higher price. Companies like IT software , BPO would gain more from the dollars that they earn by providing goods and services abroad.

Remedial measures:

(i) Government can buy Indian rupees from foreign exchange market by selling its dollars.

(ii) Government can mandate banks to increase their Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)

(iii) Government can ask companies who have dollar accounts to bring in the dollars back into the country and convert them into rupee accounts.

(iv) Government can make it easier to borrow in dollars from abroad.

CONCLUSION

India has dual challenges. While the demand for Indian goods seems to be waning, due to export slippage, India continues to import crude petrol and other goods vital for the economy at high international prices. There is an inelastic demand for gold and silver. Therefore the demand for the dollars continues to be high. This situation puts pressure on the Indian rupee widening the current deficit.

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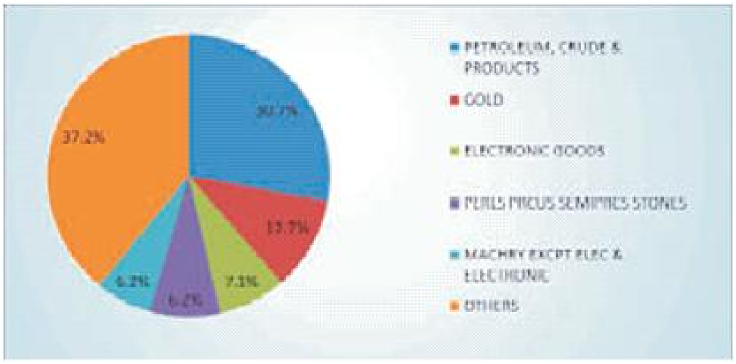
Fig. 2. Share of Principal Commodities in India's Imports 2011-12



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