

How Indian rupee has been stable in last 10 years compared to currencies around the world

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As India rose from being the 10th largest economy in 2014 to the 5th largest in 2023, why did the rupee go downwards?

The Indian rupee currently trades at around 83 to the dollar. Has the rupee been falling in recent years? Or has the dollar been rising? At first, these may seem like two ways of asking the same question. But they are not. For instance, in September 2013, the rupee was trading at 85 to the Euro. Ten years later, it is at 89. And there lies the difference. If the rupee was indeed falling, its value would go down with respect to all currencies. Instead, it is the dollar which has become stronger against everything else.

In India, we connect the value of the rupee to national pride. We see a strong rupee as a symptom of a healthy economy. And likely for good reason. But then, even as India rose from being the 10th largest economy in 2014 to the 5th largest in 2023, why did the rupee go downwards? Here is what actually happened.

Why is the US dollar rising?

Because the US Federal Reserve raised interest rates so high. Think about it. The dollar is the most widely accepted, most powerful currency in the world. If an investor can get a high return on their money in dollars, why would they go anywhere else? In 2014, the rate at the US Federal Reserve was just 0.1 percent, or even lower. As of 2023, it has shot up to 5.33 percent.

But why did this happen? During the pandemic, the US printed huge amounts of money to keep the economy going. As a result, inflation rose to the highest level in 40 years. To contain that inflation, the US Federal Reserve has raised interest rates, leading to a stronger dollar. At first, this may seem confusing, or even unfair. If there is high inflation in the US, should its currency not go down? But the United States has been a superpower for over one hundred years. The US economy is so big that the usual "rules" no longer apply to it. This means that when times are bad, more people flock to the dollar as a last resort. Demand for the dollar rises, and the currency gets stronger.

How has the Indian rupee held up in the last ten years?

The rupee has been quite stable when compared to other currencies. As mentioned before, it went from 85 to the Euro in September 2013 to 89 in September 2023. Here are the numbers with respect to other major currencies in the same period. The British pound went from 101 to 103. The Canadian dollar has barely moved, going from 60 rupees to just 61 rupees in the last ten years. The Chinese yuan has gone from 10 rupees to 11 rupees. As for the Japanese yen and the Australian dollar, the rupee has actually grown stronger. The Japanese yen has gone from 0.65 rupees to 0.56 rupees. The Australian dollar has

gone down from 59 rupees to 53 rupees. In the last ten years, the rupee has also risen by about 65 percent compared to the Brazilian real and by 123 percent compared to the Russian rouble.

In other words, the rupee either stayed around the same level, or actually got stronger with respect to all these currencies. Almost all except the US dollar. This is what one means by the dollar getting stronger, rather than the rupee getting weaker.

Compared to the 2004-14 period, how has the rupee done since 2014?

Between 2004 and 2014, the rupee fell compared to all major currencies, not just the dollar. There is a simple way to measure this. It is called the US dollar index. The dollar index is a kind of mean of the conversion rate of the US dollar with respect to other big global currencies. When the dollar index is high, it means that the dollar is getting stronger. Currently, the dollar index stands at 105. It used to be just 80 in May 2014. In October last year, at the peak of global uncertainty around the war in Ukraine, it reached almost 112.

Let us make this simpler. We can imagine the dollar index as the conversion rate of the dollar with respect to a “rest of the world” currency, which we will call ROW. In these terms, 1 USD was equal to 80 ROW in May 2014. As of now, 1 USD is worth about 105 ROW. We know that 1 USD was about 60 rupees in May 2014. Roughly speaking, this means that if the Indian rupee had kept up with the rest of the world, the dollar should be around 79 rupees right now. Instead, the dollar is at 83 rupees. That is not much of a difference.

Let us now do the arithmetic for the 2004-14 period. In that period, the dollar index actually fell, from 90 in May 2004 to 80 in May 2014. So if 1 USD was equal to 90 ROW in 2004, it was worth only 80 ROW ten years later. So the rupee should have gained strength as well, from 45 to the dollar in May 2004 to around 40 in May 2014. Instead, the rupee fell to 60! So in the 2004-14 period, it was the rupee which suffered compared to all big currencies around the world.

Breaking the monopoly of the US dollar

From this discussion, it may feel like the US dollar always wins. Because it does. When the US economy is strong, the dollar gets stronger. When the US economy is weak, it creates a wave of panic across the world. Out of fear, everyone flees to the US dollar, and the dollar gets even stronger! That hardly seems fair. Imagine if India could do things like this. The US does not need to worry a whole lot about paying back debt. Because the US borrows only in dollars, and only the US can print more dollars. But the Indian government and Indian businesses have to borrow in foreign currencies, usually in dollars. This leaves us vulnerable to fluctuations in the rupee.

That is why India is trying so hard to break the monopoly of the US dollar. India is trying to convince the IMF to include the rupee in its “Special Drawing Rights” basket. As of now, the basket only has the US dollar, the Euro, the British pound, as well as the Chinese yuan and Japanese yen. India has begun trade with Russia in rupees, and is trying to do the same with other BRICS countries. The UAE has just joined the BRICS grouping, and India has made its first oil purchase in rupees from them.

The Indian rupee has a proud history. More than most people remember today. In the 1950s and 1960s, the Indian rupee was the official currency all across the Middle East. Yes, that was very much true, even

though it may feel like a dream today. In fact, our RBI used to be the central bank for all those countries. But as the Indian economy suffered in the licence-quota-permit era, they no longer wanted the rupee. Today we have to buy oil from them in dollars.

But India is back. And India wants to revive those old linkages. The India-Middle East-Europe economic corridor was formed at the G-20 meeting in New Delhi last week. That is only a beginning. India is back at the high table as the world's fifth largest economic power. And as we maintain our status as the fastest growing major economy, we will soon be the third largest. The new India will not stop.

Abhishek Banerjee (@AbhishBanerj on "X") is an author and columnist. Karuna Gopal (@KarunaGopal1 on "X") is president, Foundation for Futuristic Cities. Views expressed in the above piece are personal and solely those of the author. They do not necessarily reflect Firstpost_'s views._