

Inflation And Falling Currency: The Saga Continues



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As the Ukraine crisis intensifies, the Indian rupee has declined by 13 paise to close at 79.26 against the US dollar on Friday, tracking a rebound in crude oil costs and the power of the American currency overseas.

At the interbank foreign exchange market, the local currency opened weak at 79.20 and touched a high of 79.20 and a low of 79.32. It finally ended at 79.26, down 13 paise over its previous close of 79.13, news agency PTI reported.

In recent times, the Indian Rupee has been hitting record lows against the USD and critics are warning that the situation can go south at any time. However, contrary to critics, economists noted that the situation is much better than other currencies from developed and developing countries like the United Kingdom (UK), Japan, South Korea and China.

"INR is not moving in isolation and has been a relatively better performer over the last few months against most other economies. Given the dollar strengthening, the INR will be depreciating. The depreciation, if large, can feed into domestic inflation. Inflation has been increasing mostly due to global commodity prices across energy, metals, and food items," said Suvodeep Rakshit, Senior Economist, Kotak Institutional Equities.

Vijay Kalantri, Chairman, MVIRDC World Trade Center Mumbai recently mentioned that the Indian currency has depreciated by only 6 per cent, against 26 per cent depreciation in the currency of Japan, 16-17 per cent depreciation of the Chinese renminbi and around 16 per cent decline in the value of UK sterling.

Since April 2022, the Indian rupee has depreciated by around 4.1 per cent against the U.S. dollar amid the ongoing geopolitical tensions and monetary policy tightening in western countries

Rakshit also said that we have seen global commodities' prices soften sharply recently. A weakening INR could offset part of the benefits of lower global prices. However, it is unlikely to have a substantial negative impact.

It is an exaggeration to say that the rupee is "hitting a new low with each passing day". Today (07, July) it is stronger than it was in the previous two days. The rupee has depreciated about 5.5 per cent in the past 12 months, a modest depreciation necessitated mainly by the fact that India's inflation rate was higher than most trading partners' last year," said Prasenjit K Basu, Chief Economist, ICICI Securities.

Basu noted that currently, many trading partners have higher inflation rates than India, so I expect that by March-April next year, the rupee will have strengthened from current levels against the USD and Euro.

India's annual wholesale price-based inflation rose to a record 15.88 per cent in May, as compared to 13.11 per cent in May 2021, said the Ministry of Commerce and Industry. At 15.88 per cent, the WPI inflation print for May is the highest in the current series, data for which is available starting April 2013.

"Commodity inflation is high and added to that the depreciation pressure of the INR is adding to the input cost of the manufacturers, which is also getting passed on to the end-users. This is pushing inflation higher, and negatively affecting the real consumption power of the Indian population," said Indranil Pan, Chief Economist, Yes Bank.

Experts also pointed out that a depreciated rupee increases the cost of imports, particularly crude oil, India's largest import item. But it also makes India's exports more competitive and should bolster the trade and current account balances with a 6-9 month lag.

"The ongoing depreciation in Rupee is a worry as it would make India's energy imports expensive and lead to further fuel inflation. Following the tightening of monetary policy by the Federal Reserve, a strong dollar overseas, growing trade deficit, foreign capital outflows, the Rupee is registering a significant decline," Pradeep Multani, President PHD Chamber of Commerce and Industry.