Impact of Inflation and GDP Of India And the United States on Its Current Foreign Exchange Currency Market Rate

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Abstract- As various countries are now getting global and are opening their market for foreign companies, various investors are investing in those countries, which means the demand for currency is increasing, affecting the currency exchange rate.

In this research paper, the author tries to establish the relation between macroeconomic variables like Inflation and GDP on the currency exchange rate. The author has collected the secondary data of Inflation rate and GDP and tries to see its relationship with the currency exchange rate system. The author has used a correlation and regression model to analyze the relationship between the dependent and independent variables.

Index Terms- Inflation, Foreign currency exchange Rate, GDP, India, U.S.A.

I. INTRODUCTION

Foreign exchange rate is the relative value among two currencies. Merely put, "exchange rates are the quantity of one currency you can exchange for another." There is specific risk associated with foreign currency exchange rates, like when a company involves in financial transactions designated in a currency other than the currency where that company is based. Assume a currency's value alters between when the contract is signed and the delivery date. It might cause a loss for one of the parties. To deal with this, many businesses have set up foreign exchange risk management to avoid these situations. Foreign Exchange Risk management minimizes the risk due to fluctuation in the value of the currency in concern. Suppose we talk of Indian Rupees against U.S. Dollars. It could be easily observed that the U.S. dollar seems to be appreciated against the value of the Indian Rupee over time. However, it is tough to remark on any single cause for such sort of appreciation or devaluation of currencies as there are so many factors at the Micro and Macro level like Inflation, Export-Import, Interest Rates, Balance of Payment, Trade Deficit, Economic Policies of Nation or Union, Currency in Usage, Holding Tendency of Forex Traders/ Speculators, Circulation.

Although it's tough to comment that what exact currency policy should be adopted so that the economy would have sustainable growth, a robust local currency always indicates productivity and sustainability in the country's economy. But at the same period, it has to be evaluated that strong local currency might also attract cheap imports and make it a lucrative business and might not be right in the long term of the country's economy. This situation has been observed with Singapore Dollars against USD. The primary distinction between Indian National Rupee and United States Dollar is that the Rupee acts as a dependent variable. In contrast, U.S. Dollars are an Independent Variable that impacts other aspects of currency value than the Indian National Rupee, which is impacted.

As an example, the U.S. Forex market is more robust than the Indian market. There are several factors and recent talks and expectations of Britain exiting from E.U. losing one of its members. This Brexit cannot be taken as remote from India's perspective; the world is a global village for the past few decades. Therefore, Brexit is vital because other than involvement in trade relations, E.U. is India's one of the largest different export markets. With a populace of about half a billion, the European economy is worth $16 trillion, around one-fourth of global GDP. The state of its currency directly reflects the good health of an economy. The Rupee may also depreciate due to the dual effect of Overseas fund outflow and dollar demand rise. It appears that it will also upsurge petrol and diesel prices to the level that government then may want to diminish additional excise duty levied on fuel when it was on a downward trend. This would increase fiscal deficit unless revenue increased the Real Prices of gold, electronic goods; on the other hand, a cheaper Rupee will make Indian exports, including I.T. and Its, competitive. If the U.K. exits the European Union, which is expected from the current situation, the probability of investors moving more from developing market currencies and euro/GBP investments, which in turn will lead investors to

save their funds in the haven of USD and U.S. treasury, strengthens Dollar against the other currencies. As E.U. is among India's biggest trading partner, a high devaluation in Rupee/Dollar could be anticipated. Even big titans like Tata Motors-owned Jaguar Land Rover (JLR) have reported a projected 1 billion pounds loss by 2020 after Brexit.

The rationale behind selecting India and U.S.

India and the U.S. are one of the two essential economies globally. India is one of the world's biggest markets and is currently a developing economy that is developing at a very high rate. It is the second-most populated country, the seventh-largest country by land area, and the most populous democracy in the world. The Indian economy in 2019 was supposedly worth \$2.9 trillion; it is the fifth-largest economy by market conversation rates and is around \$11 trillion, the third-largest by purchasing power parity. India was the world's second-largest textile exporter after China in the 2013 calendar year.

For developed countries, we have chosen the U.S. as the U.S. is one of the most powerful nations capable of uplifting any economy. Also, both these nations have friendly relations with each other. At 9.8 million square kilometers, it is the world's third- or fourth-largest country by total area. With more than 328 million people, it is the third most populous country in the world. This makes the U.S. one of the best contenders in the case of a developed nation. Therefore, we can understand the relationship between the currency exchange rate system between a high growth rate developing country and a developed country through understanding this relationship. Being a friendly nation with policies favoring each other makes the best choice for us to understand the foreign currency exchange rate. Therefore, we have chosen India and U.S. for this research paper.

OBJECTIVE

The research paper's primary objective is to analyze the relationship between India's Inflation and the United States with the change in the value of the Rupee against the U.S. Dollar. We want to learn about the exchange rate movement in the long run as in short-run micro variable affects the exchange rate. Still, to find the macro variable's impact, we need to understand the exchange rate movement in the long run; therefore, we had taken 59 years to understand the movement. This research paper assumes that the micro variable has no impact on the currency exchange rate in the long run.

The rationale behind selecting the variable

Inflation is not a standalone factor determining currency value but is still an essential factor in determining currency value. As inflation impacts investment and imports, Exports also. We would also try to find a relationship between India's and the USA's GDP with a change in Rupee's value against U.S. Dollar. GDP is also not a standalone factor affecting currency exchange rate but is still a weightage component determining currency value. As the Gross domestic product is a financial measure of the market value of all the final goods and services formed in a specific period

Methodology

To check the influence of Rupee value in the context of U.S. dollars, the data of 59 Years of Consumer Price Index of the United States and India, GDP data for 59 years for both India and United States, along with 1USD=X Rupees value annual has been taken. Multiple Correlation analysis in SPSS has been applied.

Hypothesis
1. H_0 = Rupee Appreciation is not dependent on the CPI of the U.S.
H_1 = Rupee Appreciation has a significant dependence on the CPI of the U.S.
2. H_0 = Rupee Appreciation is not dependent on CPI of India
H_1 = Rupee Appreciation has a significant dependence on CPI of India
3. H_0 = Rupee Appreciation is not dependent on the GDP of the U.S.
H_1 = Rupee Appreciation has a significant dependence on the GDP of the U.S.
4. H_0 = Rupee Appreciation is not dependent on the GDP of India
H_1 = Rupee Appreciation has a significant dependence on the GDP of India.

In the Table, CPI USA represents the Consumer Price Index of the United Stated, and CPI India denotes India's Consumer Price Index from the period 1961-2019. USD-INR represents the value of 1 USD against rupees. This data is the average of the first date of every month of the said year. (For, i.e., Jan. 01 1961,1st February 1961 ......till Dec. 01, 1961, is an average of 1961 and so on, Source -www.worldbank.com).

Analysis
For Hypothesis 1 and 2

Date	CPI India	CPI USA	1 US$ in INR
31-12-1961	1.78	1.46	4.76
31-12-1962	1.70	1.07	4.76
31-12-1963	3.63	1.20	4.76
31-12-1964	2.95	1.24	4.76
31-12-1965	13.36	1.28	4.76
31-12-1966	9.47	1.59	6.36
31-12-1967	10.80	3.02	7.50
31-12-1968	13.06	2.77	7.50
31-12-1969	3.24	4.27	7.50
31-12-1970	-0.58	5.46	7.50
31-12-1971	5.09	5.84	7.49
31-12-1972	3.08	4.29	7.59
31-12-1973	6.44	3.27	7.74
31-12-1974	16.94	6.18	8.10
31-12-1975	28.60	11.05	8.38
31-12-1976	5.75	9.14	8.96
31-12-1977	-7.63	5.74	8.74
31-12-1978	8.31	6.50	8.19
31-12-1979	2.52	7.63	8.13
31-12-1980	6.28	11.25	7.86
31-12-1981	11.35	13.55	8.66
31-12-1982	13.11	10.33	9.46
31-12-1983	7.89	6.13	10.10
31-12-1984	11.87	3.21	11.36
31-12-1985	8.32	4.30	12.37
31-12-1986	5.56	3.55	12.61
31-12-1987	8.73	1.90	12.96
31-12-1988	8.80	3.66	13.92
31-12-1989	9.38	4.08	16.23
31-12-1990	7.07	4.83	17.50
31-12-1991	8.97	5.40	22.74
31-12-1992	13.87	4.24	25.92
31-12-1993	11.79	3.03	30.49
31-12-1994	6.33	2.95	31.37
31-12-1995	10.25	2.61	32.43
31-12-1996	10.22	2.81	35.43
31-12-1997	8.98	2.93	36.31
31-12-1998	7.16	2.34	41.26
31-12-1999	13.23	1.55	43.06
31-12-2000	4.67	2.19	44.94
31-12-2001	4.01	3.38	47.19
31-12-2002	3.78	2.83	48.61
31-12-2003	4.30	1.59	46.58

31-12-2004	3.81	2.27	45.32
31-12-2005	3.77	2.68	44.10
31-12-2006	4.25	3.39	45.31
31-12-2007	5.80	3.23	41.35
31-12-2008	6.37	2.85	43.51
31-12-2009	8.35	3.84	48.41
31-12-2010	10.88	-0.36	45.73
31-12-2011	11.99	1.64	46.67
31-12-2012	8.86	3.16	53.44
31-12-2013	9.31	2.07	56.57
31-12-2014	10.91	1.46	62.33
31-12-2015	6.35	1.62	62.97
31-12-2016	5.87	0.12	66.46
31-12-2017	4.94	1.26	67.79
31-12-2018	2.49	2.13	70.09
31-12-2019	4.86	2.44	70.39

Table 1 Data Table CPI

Descriptive
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
CPI India	59	-7.6339	28.5987	7.512207	5.0055142	.906	.311	5.253	.613
1 US$ in INR	59	4.7600	70.3900	27.513220	21.2271774	.523	.311	-1.136	.613
CPI USA	59	-.3555	13.5492	3.753193	2.7906847	1.657	.311	2.899	.613
Valid N (listwise)	59								

Table 2 Descriptive Statistics CPI

Correlations

Correlations

		CPI India	CPI USA	1 US$ in INR
CPI India	Pearson Correlation	1	.232	-.076
	Sig. (2-tailed)		.078	.566
	N	59	59	59
CPI USA	Pearson Correlation	.232	1	-.467**
	Sig. (2-tailed)	.078		.000
	N	59	59	59
1 US$ in INR	Pearson Correlation	-.076	-.467**	1
	Sig. (2-tailed)	.566	.000	
	N	59	59	59

**. Correlation is significant at the 0.01 level (2-tailed).

Table 3 Correlation CPI

Nonparametric Correlations

Correlations

			CPI India	CPI USA	1 US$ in INR
Spearman's rho	CPI India	Correlation Coefficient	1.000	.085	.036
		Sig. (2-tailed)	.	.520	.789
		N	59	59	59
	CPI USA	Correlation Coefficient	.085	1.000	-.300*
		Sig. (2-tailed)	.520	.	.021
		N	59	59	59
	1 US$ in INR	Correlation Coefficient	.036	-.300*	1.000
		Sig. (2-tailed)	.789	.021	.
		N	59	59	59

*. Correlation is significant at the 0.05 level (2-tailed).

Table 4 Spearman Correlation CPI

Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.469a	.220	.192	19.0840093

a. Predictors: (Constant), CPI India, CPI USA

Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5739.230	2	2869.615	7.879	.001b
	Residual	20395.167	56	364.199		
	Total	26134.397	58			

a. Dependent Variable: 1 US$ in INR

b. Predictors: (Constant), CPI India, CPI USA

Table 5 Regression CPI

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	40.004	5.188		7.711	.000
	CPI USA	-3.615	.923	-.475	-3.917	.000
	CPI India	.144	.515	.034	.279	.781

a. Dependent Variable: 1 US$ in INR

Table 6 Coefficient CPI

Interpretation

It could be easily observed that for the last 59 Years, from (1961-2019) the average Indian Rupee against USD is 27.513. The average Consumer Price Index is 2.79 in the U.S. and 7.51 in India; it could be seen that even in an average of these 59 years, the CPI of India is three times the US CPI. But the result of correlation shows that USD-INR prices are negatively correlated to India and the U.S.'s CPI. It means that the increase in Inflation in the U.S. would decrease Rupee's value against USD by -.467 compared to the Indian CPI, which is also negatively correlated but still not as negative compared to the United States. Still, taking the inflation of both the places discretely can't give us the right picture. We have to sign it with the help of changes in inflation of both years together. In the model summary table, it could be seen the "R" column shows the value of R, the multiple correlation coefficient. R can be measured to be one measure of the quality of the anticipation of the dependent variable. From the above table of model summary, the value of R is 0.469. A value of 0.469, in this example, specifies an adequate level of extrapolation. R-Square column denotes the R2 value, which is the percentage of discrepancy in the dependent variable described by the self-determining variables. We can see from our value of 0.220 that our independent variables explain 22% of the variability of our dependent variable, USD-INR.

Testing of hypothesis

Table Number 4- For Consumer Price Index- United States significance value is 0, which is less than the 0.05 level of significance, indicating the hypothesis-Ho is not acceptable (rejected), i.e., USD-INR is not dependent on CPI-US. Hypothesis (H1) is acknowledged, i.e., Currency Exchange value has a significant dependence on U.S. inflation.

For Consumer Price Index – India value is 0, which is lighter than the 0.05 level of significance, which means the hypothesis (H0) is vetoed, i.e., USD-INR is not dependent on CPI-India, and alternate hypothesis (H1) is acknowledged, i.e., Currency Exchange value has a significant dependence on inflation of India.

For Hypothesis 3 and 4

Date	GDP India	GDP USA	1 US$ in INR
31-12-1961	37.03	540.20	4.76
31-12-1962	39.23	580.61	4.76
31-12-1963	42.16	612.28	4.76
31-12-1964	48.42	653.94	4.76
31-12-1965	56.48	697.32	4.76
31-12-1966	59.55	771.86	6.36
31-12-1967	45.87	833.30	7.50
31-12-1968	50.13	881.44	7.50
31-12-1969	53.09	968.03	7.50
31-12-1970	58.45	1038.15	7.50
31-12-1971	62.42	1088.61	7.49
31-12-1972	67.35	1190.30	7.59
31-12-1973	71.46	1328.90	7.74
31-12-1974	85.52	1476.29	8.10
31-12-1975	99.53	1599.68	8.38
31-12-1976	98.47	1761.83	8.96

31-12-1977	102.72	1934.27	8.74
31-12-1978	121.49	2164.27	8.19
31-12-1979	137.30	2476.95	8.13
31-12-1980	152.99	2723.88	7.86
31-12-1981	186.33	2985.56	8.66
31-12-1982	193.49	3280.82	9.46
31-12-1983	200.72	3402.56	10.10
31-12-1984	218.26	3794.71	11.36
31-12-1985	212.16	4148.55	12.37
31-12-1986	232.51	4444.09	12.61
31-12-1987	248.99	4657.63	12.96
31-12-1988	279.03	5007.99	13.92
31-12-1989	296.59	5399.51	16.23
31-12-1990	296.04	5747.24	17.50
31-12-1991	320.98	6004.73	22.74
31-12-1992	270.11	6264.54	25.92
31-12-1993	288.21	6680.80	30.49
31-12-1994	279.30	7013.74	31.37
31-12-1995	327.28	7455.29	32.43
31-12-1996	360.28	7772.59	35.43
31-12-1997	392.90	8259.77	36.31
31-12-1998	415.87	8765.91	41.26
31-12-1999	421.35	9293.99	43.06
31-12-2000	458.82	9899.38	44.94
31-12-2001	468.39	10439.03	47.19
31-12-2002	485.44	10660.29	48.61
31-12-2003	514.94	11071.46	46.58
31-12-2004	607.70	11769.28	45.32
31-12-2005	709.15	12522.43	44.10
31-12-2006	820.38	13332.32	45.31
31-12-2007	940.26	14037.23	41.35
31-12-2008	1216.74	14681.50	43.51
31-12-2009	1198.90	14559.54	48.41
31-12-2010	1341.89	14628.02	45.73
31-12-2011	1675.62	15240.84	46.67
31-12-2012	1823.05	15796.46	53.44
31-12-2013	1827.64	16358.86	56.57
31-12-2014	1856.72	17083.14	62.33
31-12-2015	2039.13	17838.45	62.97
31-12-2016	2103.59	18354.37	66.46
31-12-2017	2294.80	18979.25	67.79
31-12-2018	2652.75	19831.83	70.09
31-12-2019	2713.17	20891.37	70.39

Table 7 Data Table GDP

Descriptive

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
GDP India	59	37.0299	2713.1651	587.781335	726.9124774

GDP USA	59	540.1970	20891.3670	7350.460237	6161.2421177
1 US$ in INR	59	4.7600	70.3900	27.513220	21.2271774
Valid N (listwise)	59				

Table 8 Descriptive Statistics GDP

Correlations

Correlations

		GDP India	GDP USA	1 US$ in INR
GDP India	Pearson Correlation	1	.926**	.878**
	Sig. (2-tailed)		.000	.000
	N	59	59	59
GDP USA	Pearson Correlation	.926**	1	.977**
	Sig. (2-tailed)	.000		.000
	N	59	59	59
1 US$ in INR	Pearson Correlation	.878**	.977**	1
	Sig. (2-tailed)	.000	.000	
	N	59	59	59

**. Correlation is significant at the 0.01 level (2-tailed).

Table 9 Correlation GDP

Nonparametric Correlations

Correlations

			GDP India	GDP USA	1 US$ in INR
Spearman's rho	GDP India	Correlation Coefficient	1.000	.997**	.982**
		Sig. (2-tailed)	.	.000	.000
		N	59	59	59
	GDP USA	Correlation Coefficient	.997**	1.000	.986**
		Sig. (2-tailed)	.000	.	.000
		N	59	59	59
	1 US$ in INR	Correlation Coefficient	.982**	.986**	1.000
		Sig. (2-tailed)	.000	.000	.
		N	59	59	59

**. Correlation is significant at the 0.01 level

Table 10 Spearman Correlation GDP

Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.980[a]	.960	.959	4.3125265

a. Predictors: (Constant), GDP USA, GDP India

Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25092.916	2	12546.458	674.617	.000[b]
	Residual	1041.482	56	18.598		
	Total	26134.397	58			

a. Dependent Variable: 1 US$ in INR

b. Predictors: (Constant), GDP USA, GDP India

Table 11 Regression GDP

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.544	.985		1.568	.123
	GDP India	-.006	.002	-.194	-2.746	.008
	GDP USA	.004	.000	1.157	16.343	.000

a. Dependent Variable: 1 US$ in INR

Table 12 Coefficients GDP

Interpretation

It could be easily observed that since the last 59 Years, from (1961-2019) the average Indian Rupee against USD is 27.513. The average Gross Domestic Product is 7350.46 in the U.S. and 587.78 in India; it could be understood that even in an average of these 59 years, the GDP of India is 14 times the US GDP. Through the result of correlation, we could see that USD-INR prices are positively correlated to the GDP of India and the U.S. both. The increase in GDP in the U.S. would increase Rupee's value against USD by 0.977 compared to the Indian CPI, which is positively correlated but still not as positive as the United States. But still, Taking the GDP of both the places separately can't give us the right picture we have to characterize it with the help of changes in GDP of both years together. In the model summary table, it could be seen the "R" column shows the value of R, the multiple correlation coefficient. R can be measured to be one measure of the quality of the anticipation of the dependent variable. From the above table of model summary, as the value of R is 0.980. A value of 0.980, in this example, specifies an adequate level of extrapolation. R-Square column denotes the R2 value, which is the proportion of inconsistency in the dependent variable that the self-determining variables can clarify. We can see from our value of 0.960 that our independent variables explain 96% of the variability of our dependent variable, USD-INR.

Testing of hypothesis

From the table for GDP- United States significance value is 0, which is fewer than the 0.05 level of significance, which showed the hypothesis-Ho is not acceptable (rejected), i.e., USD-INR is not dependent on GDP-US. Hypothesis (H1) is recognized, i.e., Currency Exchange value has a significant dependence on the U.S.'s GDP.

For GDP –India value is 0, which is smaller than the 0.05 level of significance, which means the hypothesis (H0) is vetoed, i.e., USD-INR is not dependent on GDP-India, and the alternative hypothesis (H1) is accepted, i.e., Currency Exchange value has a significant dependence on GDP of India.

Suggestions

Forex Rate is a composite variable that depends on several macroeconomic variables like

- Level of Forex Reserve –
  - Low forex reserve is one more reason for currency fall. India's forex reserves have declined in the recent past. The main reason for this is India has to import these at a higher price. Due to this, the rupee value gets depreciated, Dollar acquires strength against other currencies.
- Dollar obtaining strength against other currencies is another reason as in today's world Cross Currency conversation rate also exists due to Arbitrage and affluence in Global Financial Transactions.
- Unclarity on Policy reforms
  - Non-clarity on guidelines in reforms is another reason for reducing currency. Key strategies like Direct Tax Code and Goods and Service Tax have been in the conversation for years.
- Interest rate difference
  - This is another factor: upper-interest rate generally attracts overseas venture, but due to retard in growth, there is increasing pressure on RBI to reduce policy rates. In such circumstance's investors stay away from the domestic market. This affects capital account movements to India and put a decreasing pressure on Rupee.

Other Factors which affected the USD – INR exchange rate

Year-wise Dollar vs. Rupee- issues from independence to 1967

The worth of 1 INR in 1947 was 4.76 (if a direct contrast is not made). This value continued till 1966. But the Indian economy started seeing a downfall starting from the 1950s. This was on the justification of the country's credit from the international market. The situation was deteriorated by the 1962 war of India and China, tracked by the 1965 war of India and Pakistan, and the famine that had hit the nation in 1966. All these turned the conversation rate of 1 Dollar to INR 7.50.

Oil crisis - 1973

Rupee value fell to 8.10 in 1974, after the Oil Shock in 1973 due to the OAPEC Countries' decision to reduce production. To fight the situation and the successive political crisis, India had to borrow foreign currency. This caused the fall of the Indian currency value. The exchange rate depreciated throughout the 1980s and reached a value as high as 17.50 in 1990.

The Economic Crisis – 1990s

India's economy was going through a rough time in the 1990s. Interest payment was reported for 39% of the revenue that the government collected at the time. Fiscal shortage reduced to 7.8% of GDP, and India on the edge of being declared a nonpayer in the international market. This crisis called for a depreciation of the Indian currency. Depreciation is when countries reduce their currency value in the international market while keeping their internal value intact. India took a similar tactic to make its export market cheaper and its import market costlier.

Devaluation

The depreciation turned the conversation rate of 1 USD to 25.92 INR in the year 1992. The Indian currency value began deteriorating since then, with a present rate of 74 INR. Dollar worth in 2004 was 45.32 INR, and in the subsequent ten years, it rose to 62.33. In 2016, February was the month to observe Dollar to INR's highest rate ever, amounting to 68.80 INR.

USD to INR in the year 2020

The current conversation rate of 1 USD is 73.64 INR. The devaluation of the Indian Rupee has occurred by about 7 percent since the commencement of this year. One explanation for this is the change of ownership of the Yes bank, which has created anxiety among the investors regarding the stability of Indian banks. The epidemic is another prominent reason for the depreciation. The value of INR is primarily related to crude oil prices. As oil price surges, the value of Indian currency decreases, and vice versa. The removal of foreign investors from the Indian market is an additional contributing factor. Government debts can root investors to lose interest in the country's market, resultant in inflation. Issues like these may combine with several others to cause further devaluate the INR in the future.

II. CONCLUSION

This research had to find out the connection between Inflation (Consumer Price Index- India, United States), GDP, and significant economic factors and got some useful outcomes connected to this. Multiple Correlation and Regression study has been used to do the examination based on an annual basis. Finally, the result is that India and the United States' inflation and GDP significantly affect Rupee's value against U.S. Dollars. The Inflation and Interest Rate variance makes the USD more rewarding for Speculators and Arbitragers as they could benefit from low inflation and low interest from the U.S. market. This inflation and interest gap are so high that buying USD at some premium is still profitable for Speculators and Arbitrageurs. Other than this, Exim traders also take benefit by Hedging and using the same methods to earn profit by these types of fall is due to heavy dollar sales by RBI to protect the Rupee. Demand and Supply - There is an extra demand of dollars in the currency market and is not effectively matched by the supply. Other things remaining the same, the Dollar's rupee value will go up, or the Rupee will decrease. Demand for dollars may be molded by importers demanding more dollars to give for their imports, foreign institutional investors diminishing their investments, and taking USD outside the nation. Account Deficit - In BOP, the current account deficit occurs when the country imports more goods and services than exporting. High demand for gold - higher demand for gold or higher import of gold is considered another cause for the financial crisis. In India, there is a tradition to put on gold and diamond stuff for favorable occasions. There are more needs for these but are not richly available in India, creating more USD, which ultimately appreciates it. It is unsuitable to say that inflation is a significant reason for Rupee always depreciating against U.S. Dollars.

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