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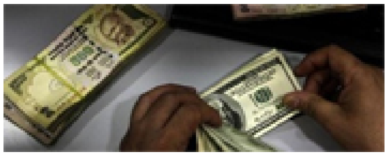

Deepak Nagpal

When an airplane loses altitude suddenly, it faces the risk of crash taking down all passengers along with it. Same is the case with a currency - it has the potential of taking down the economy of a country during a freefall.

The Indian rupee is in a similar precarious situation. It has touched historic low – new historic lows every passing day, to be precise.

At close on Wednesday (August 28), the rupee had ended at 68.80/81. During intra-day trading, the currency had hit a record low of 68.85. The rupee's 256-basis-point fall on Wednesday was the biggest ever.

Though the Indian currency has improved marginally ending at 65.70 against dollar on Friday (August 30), it has tanked 20% this year and is among the worst-performing ones in the world.

The rupee's freefall in part can be blamed on fears that the US will scale back stimulus measures.

The US Federal Reserve has said that as the American economy improves, scaling back stimulus measures is a real possibility and could see light of the day as early as next month.This has made investors wary, and they are wasting no time in 'fleeing' emerging markets.

As a result, currencies and stock markets in countries like India, Thailand, the Philippines and Indonesia have seen pounding.

Adding to the woes are the real possibility of international intervention in Syria in the wake of a deadly chemical attack and the surge in global crude oil prices.

Internal factors that have hurt rupee include the passing of the Food Security Bill in the Lok Sabha, which analysts say will be a burden on the economy and will worsen the fiscal deficit.

In fact, the rupee's freefall has not only been against the US dollar. At close on Wednesday, the British pound went past Rs 106 level, Euro crossed Rs 92, Swiss Franc was at Rs 75 mark, Canadian dollar touched Rs 65, Australian dollar breached Rs 60, while Singapore dollar crossed Rs 50 level.

"There is fear that the US will strike Syria and that has created more risk. Crude oil prices have started moving up due to the Syrian factor, and it will lead to more dollar outflow. Other concerns remaining the same, these two external factors have caused massive volatility in the foreign exchange market," DK Joshi, chief economist at rating agency Crisil, told the Associated Press.

"The Food Security Bill has spooked the market because it believes that the fiscal balances will get distorted and we could slip up here," believes Rajesh Mokashi, deputy managing director, Care Ratings, as reported by the

Associated Press.

Analysts believe the currency could breach the psychologically key 70 level anytime now, as interventions from the Reserve Bank of India and the Central government in the form of policy measures as well as project approvals have failed to stem the slide.

"If steps are not taken to implement the reforms necessary to tackle the structural issues, the government will be left with the so-called `3D options`: debt default, devaluation, deflation," Angelo Corbetta, head of Asia equity for Pioneer Investments in London, told Reuters. "In India, devaluation is happening now and deflation could be about to start. The good news is that the debt default is highly unlikely."

As per estimates, India has seen a flight of nearly USD 12 billion (in shares and debt) in the past three months. If the trend continues, experts fear India will enter a vicious cycle wherein low confidence will hit stocks and the currency harder.

"This is unprecedented and we are in unchartered territory for the rupee," Vishnu Varathan, an economist with Mizuho, told the BBC.

What the country needs right now is foreign capital, given the current account deficit is at a record high, fiscal pressures are mounting and the GDP growth has slowed down to a decade-low.

With the common man already reeling under high inflation, possible government measures to check the rupee slide including a steep diesel price hike could further put burden on the pocket.

The government, too, is in a bind at this moment. With General Elections due next year, the UPA is not keen on taking too many non-populist measures. But that would mean the economy stays in doldrums and its consequences would be wide-ranging and broad-based.

In fact, BNP Paribas this week revised its outlook for the Indian economy's growth to just 3.7 per cent for the fiscal ending March 2014 from its previous estimate of a decent 5.2 per cent. If that turns out to be true, the growth would be the slowest since the 1991-92 crisis.

It remains to be seen how the government and the central bank manage the economy in the days to come, but the pain is definitely here to stay. As put aptly by DK Joshi of Crisil: "We have to endure this pain. We have to wait for things to stabilize and now only wait and watch."

(The views expressed by the author are personal)