

# Devaluation of Currency vs Depreciation Currency



## Introduction:

Both these terms look same but the meaning of both differs somewhat. Both these words are used in a foreign exchange market and both are affected by the international economy elements. Both these words are used when the value of the currency falls as compared to the other currency. Both have different causes and long term effects on the economy.

## The meaning of Devaluation:

- Devaluation of currency occurs when in the country the monetary policy authority or government intentionally reduces the value of its currency by lowering the exchange rate as compared to another country's exchange rate.
- The authority devalues the currency by lowering the fixed exchange rate in the international market.
- It is changed by only the country's authority by comparing the worth of the goods and services in the international market.
- It helps the economy in the short period.
- There is no fixed time for it to devalue the currency but when the need occurs or authority think there is a need to devalue the currency, it happens.

### Effects:

- Exports cheaper.
- Imports more expensive.
- Increased aggregate demand
- Improvement in the current account.
- Higher Inflation

### The meaning of Depreciation:

- The depreciation of currency occurs by forces of demand and supply in the global market not by the government. (If under any circumstances the government sells a lot of currency more than needed in that case depreciation occurs.)
- By depreciating the value of currency the problem occurs only for short time but in a long time, it will help an economy to build well and reliable.
- It also guards against the market crack-ups.
- The floating exchange rate changes day basis. Floating exchange rate is a rate by which the country determine the value of their own currency in the global market.
- It happens in the global market on a daily basis because of change in the economic policy or political party in the global market.
- In the depreciation, the purchasing power of currency falls as compared to another country's currency means country's money has less power to purchase as compared to another currency.

### Effects:

- Exports cheaper
- Imports expensive
- Higher inflation
- Decrease in supply

Base	Devaluation of currency	Depreciation of currency
<b>Meaning</b>	Devaluation means to lower the value of country's currency as compared to the another country's value	The meaning of depreciation of the currency is the same as the meaning of devaluation of the currency.

<b>circumstances</b>	It is done by government authority.	It is done by the force of demand and supply in the international market.
<b>Rate</b>	It is done by using fixed exchange rate.	It is done by using floating exchange rate
<b>Effect on economy</b>	It just for short term.	It affects the economy for a longer term
<b>Changes</b>	There is no fixed time for it but it doesn't occur in regularly.	It occurs on a daily basis.