Depreciation of the Indian Rupee: A Deep Cut or an Opportunity?

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The Indian Rupee is passing through a tough time, becoming one of the weaker-performing Asian currencies this year. What is interesting is that this depreciation has taken place despite strong GDP growth which actually raises concerns about the real health of the economy.

A common assumption is that if the Indian economy is growing faster than most countries, the rupee should automatically appreciate against the dollar.

Economic growth is a key indicator, but currency markets react to far more variables than GDP alone. Currency health is directly affected by inflation, trade balances, fiscal deficits, interest rate differentials, geopolitical risks, commodity prices and global investor sentiment.

So, the nose diving of the Indian currency vs the US dollar is the final outcome of many interconnected forces operating simultaneously across the global economy.

Rupee Depreciation: Costs and Opportunities	
Challenges of a Weaker Rupee	**Potential Advantages**
Imports become more expensive, especially crude oil and gas.	Indian exports become cheaper and more competitive globally.
Inflation rises due to higher import costs.	IT companies earn higher rupee revenues from dollar income.
Foreign education and overseas travel become costlier.	Merchandise exports such as textiles, leather and agricultural products gain price competitiveness.
Companies with dollar-denominated debt face higher repayment costs.	Tourism and services become more attractive for foreign visitors.
Government's import bill increases, widening the fiscal burden.	Higher export earnings improve foreign exchange inflows over time.

Source: Author's Compilation

Let's peel the layers that has made the rupee so weak against the US Dollar.

The rupee's depreciation against the dollar suggests a deeper stress in India's external sector. India is facing a chronic trade deficit[1] as India's imports have consistently outweighed its exports for decades. We are importing more and exporting less goods. In simple terms, it indicates more flow of capital than inflows of capital, putting direct pressure on the rupee.

Official data showed that the trade deficit increased to $119.3 billion in financial year 2025-2026, compared with $94.6 billion in the previous financial year of 2024-2025.[2] A big jump in the deficit with the oil crises has been compounding India's economic woes.

Why is the Rupee Under Pressure?		
Factor	**Impact on the Rupee**	**How it Affects the Currency**
Persistent Trade Deficit	High	India imports far more than it exports, increasing the demand for US dollars.
Heavy Crude Oil Imports	Very High	Nearly 89% of India's crude oil is imported and paid for in dollars, putting constant pressure on the rupee.
Foreign Investor Outflows (FIIs)	High	Investors convert rupees into dollars before exiting Indian markets, weakening the currency.

Source: Author's Compilation

[1] *https://www.macrotrends.net/global-metrics/countries/ind/india/trade-balance-deficit*

[2] *https://www.cnbctv18.com/economy/india-trade-deficit-data-march-wifdens-gold-silver-price-import-export-ws-el-19887138.htm*

Why is the Rupee Under Pressure?		
Higher US Interest Rates	High	Attractive returns in US bonds pull global capital away from emerging markets like India.
Strong US Dollar	High	A globally stronger dollar automatically weakens most emerging market currencies.
Geopolitical Uncertainty	Moderate To High	Global conflicts trigger a flight to safer dollar assets.
Import Dependence on Electronics, Fertilisers & Machinery	Moderate	Large import bills increase dollar demand throughout the year.
RBI Intervention	Stabilising	The RBI sells dollars to reduce excessive volatility but cannot permanently reverse market forces.

The Rupee's Slide in over 75 Years

Let us look through the historical lens to understand the issues that led the Indian currency to the current tight spot. During independence, the rupee was valued at 4 rupees against a dollar. It was precisely four rupees and 76 paisa per dollar in August 1947.

The rate continued till 1966 when wars, drought, and falling foreign reserves made India devalue its currency under difficult circumstances. There were oil shocks in the 1970s coupled with rising external debt, pushing the rupee lower. Our currency slid to 17 rupees and 50 paise per dollar by the 1990's. The 1991 balance of payments crisis marked a turning point. India adopted economic liberalization that further devalued the rupee. It also marked a transition to a market determined exchange rate by 1993. By the late 1990s, the rupee depreciated further touching about 43 rupees against a dollar. The next decade saw economic gains in the 2000s due to strong IT exports and capital inflows.

The growth rose but India's dependence on oil imports kept the rupee volatile. The 2008 global financial crisis led to heavy outflows of capital, weakening the currency again. By 2014, the rupee crossed 60 rupees per dollar and over the last decade, we've seen the story unfold to where it is.

The Role of Crude Oil and Imports

Today, India is the world's third-largest consumer of crude oil. India imports nearly 89% of its crude oil requirement from other countries making the economy vulnerable. In the financial year 2025, India imported around 242 million tons of crude oil with the oil bill rising to nearly $161 billion.[3,4]

India, with its burgeoning population, has massive energy needs, and when millions of barrels of oil are imported every day, oil marketing companies need to shell out billions of dollars from the foreign exchange market. The higher the demand for the dollar, the greater the pressure on the rupee.

Apart from crude oil, India imports a sizeable chunk of edible oils and fertilisers for domestic consumption. From liquefied natural gas, semiconductor components, sophisticated machinery, medical equipment, pharma API's and a large share of electronic goods, the huge import bill is partly responsible for weakening the Indian currency over the years.

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FII's Outflow from India

The other side of the story has been that the FDI portfolio inflows into India's equity markets have slowed in the last couple of years. A significant reason for the rupee losing sheen has been the big pullout by foreign investors from the financial markets of India since last year. Many foreign institutional investors have taken billions of dollars out of India to safer havens with lesser risk. These global investors became nervous because of global uncertainty, rising US interest rates or geopolitical tensions, and started selling Indian assets. They convert their rupees back into dollars before taking the money out of the country. This has led to the Balance of Payments or the BoP deficit, touching over $30 billion last year. It was more than a six-fold increase over 2024-25. Notably, the Balance of Payments (BoP) had remained in surplus as recently as 2023-24. This financial year, some experts believe that the BoP is expected to hover around $60 billion.

India's outward FDI has increased significantly in recent years. In 2023-

[3] https://www.mospi.gov.in/uploads/publications_reports/publications_reports1776236408576_e41fac2e-cde2-4002-9055-aa42a4140c25_Energy_Statistics_India_2026_Final.pdf

[4] https://www.newindianexpress.com/business/2025/Apr/18/crude-oil-import-up-by-42-to-242-mt-in-fy25-yoy-bill-falls-by-24-bn

24 and 2025-26, Indian firms invested nearly $65 billion outside India.

Global Headwinds

A stronger US dollar and high US interest rates have further upped the ante on the Indian Rupee. The hegemony of the US dollar in global trade has been unchallenged. According to the International Monetary Fund, nearly 58% of global foreign exchange reserves are held in dollars. Close to 90% of all foreign exchange transactions worldwide involve the US dollar in one leg of the trade. From crude oil and natural gas to aircraft and defence equipment, a vast share of international trade is priced in US dollars, making it the world's dominant reserve and settlement currency.

The importance of US interest rates also needs to be factored in while assessing the downward pressure on the Indian Rupee. For a long time in the last decade or more, interest rates in countries like the US remained close to zero. Financial investors flocked to countries like India that were promising and showed potential.

But the scales tilted back in favour of the US following an increase in interest rates by the US Federal Reserve. This made the US government bonds offer attractive returns with very low risk. As a result, global investors began pulling their money out of emerging economies to earn higher yields.

This straight away boosts the value of the US dollar and weakens emerging-market currencies like the rupee simultaneously. In other words, currents in the US economy directly impact the flight of capital in and out of India.

The Role of RBI in Currency Valuation

The story remains incomplete without examining the role of the Reserve Bank of India in the picture.

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The Reserve Bank of India holds one of the world's largest stockpiles of foreign currency. As of July 10, 2026, India's foreign exchange reserves stood at $675.16 billion.[5] Therefore, whether the RBI should simply intervene to stem this free fall of the rupee against the US dollar remains a big question.

The Central Bank acts not just when the rupee is depreciating but also when it appreciates. When depreciation happens, the RBI intervenes by selling dollars from its foreign exchange reserves. This increases the supply of dollars in the market, slowing down the pace of depreciation.

On the other hand, when there is an influx of dollars via exports, foreign investments or overseas borrowing, the RBI often purchases those dollars. This holds the rupee against sharp appreciation as otherwise it would hurt Indian exporters.

History has taught some lessons in the exchange rate management to India. In 1991, India's foreign exchange reserves had bottomed out so much that the country had barely enough dollars to finance about two weeks of imports. It was a precarious situation, forcing the government to airlift nearly 67 tonnes of gold to secure emergency loans from overseas lenders.

That moment was a watershed moment in India's economic thinking.

The liberalisation that happened post 1991 was also aimed at preventing such a severe foreign exchange crisis in the future. The goal has been met fairly, with India today holding foreign exchange reserves comfortably above $650 billion, making it one of the largest reserve holders in the world. These reserves include US dollars, euros, pounds, yen and gold.

It signals to international players that India has the financial strength to absorb external shocks. These forex reserves also act as the country's emergency savings account which is used judiciously by the RBI to handle genuine crises while allowing the rupee to calibrate itself in the changing economic conditions.

So, when we say why the RBI cannot completely stop the depreciation of the rupee, the answer is rooted in the economic reality of the day. The RBI has no control over global economic pressures. If it keeps reacting to the rupee's depreciation by pumping more dollars, the reserves might be seriously depleted without any certainty that this would plug the fall.

This is precisely the reason why central bankers rarely describe the rupee as "weak" or "strong." Instead, they underline the importance of an orderly market.

The Positive Side of a Weak Rupee

Let's flip the issue of a weaker rupee hurting the economy.

Necessarily, a weaker rupee doesn't always mean doom for the economy. It can be a boon for

[5] *https://m.economictimes.com/news/economy/indicators/indias-forex-reserves-rise-964-million-to-675-16-billion-for-week-ended-july-10/articleshow/132460094.cms*

exports if the currency becomes moderately weak. Export goods and services become competitive in global markets, with foreign buyers having to spend fewer dollars to buy our products. Food, agro-based products, merchandise, leather etc., are some of the few sectors that experience the positive side of a weaker rupee on the export front.

Another issue that needs to be analysed in this context is the "dominance of the DOLLAR". This is one subject that has begun to feature prominently in the corridors of power of central banks, finance ministries, and boardrooms around the world. Can the world finally move beyond the US dollar?

America's currency has become the de facto world's currency. Be it crude oil, gold, aircraft and defence equipment, or any other international purchases, countries have traditionally been billed in dollars. This is one of the reasons why the USA holds unprecedented clout through measures such as economic sanctions on non-compliant regimes. After all, banks, corporations, and governments cannot afford to be shut out of that ecosystem.

De-Dollarisation: A Reality or Noise?

Fingers are being raised as to whether the dollar can be allowed to dominate forever. This thought has been accelerated by geopolitical events. When Russia's forex reserves were frozen following the Ukraine conflict, the shockwaves were felt in many countries.

This has given traction to conversations around de-dollarisation. De-dollarisation does not seek to eliminate the dollar from global trade. It simply means countries are trying to reduce their dependence on the dollar by finding alternative ways to transact in their own currencies. India has already joined this bandwagon.

India has inked agreements with many countries, including Russia, that facilitate trade in rupees rather than dollars. The Reserve Bank of India has introduced mechanisms that enable international trade to be processed and encashed in Indian rupees.

This is a welcome development, but it does not suggest that the dollar is going to weaken because many countries are opting to trade in their local currencies with their international partners. China is a befitting example here.

China understood the need to decrease its reliance on the dollar in the long term for international trade and has therefore actively promoted the international use of its currency, the yuan. For over a decade, it has established currency swap arrangements, encouraged yuan-based trade, and expanded cross-border payment systems.

Though China is the world's second-largest economy, its currency still does not come anywhere near challenging the dollar's dominance. The Chinese currency still accounts for only a small part of global reserves and international payments.

China's system is tightly controlled. It is viewed as lacking transparency that is heavily valued by investors. Be it independent institutions or freely functioning financial markets, all need the confidence that capital will not face sudden restrictions.

The Road Ahead

This is where India has an advantage. A rare demographic opportunity that India possesses is a young workforce. This, along with a swiftly expanding digital economy, one of the world's most sophisticated payment infrastructures through UPI, a thriving services sector, and increasing manufacturing ambitions under initiatives such as *Make in India*, offers an opportunity to build export competitiveness.

If we can raise the bar by giving a strong push to manufacturing and expanding our exports, the demand for our products and services will grow manifold. From semiconductors to green energy technologies, defence manufacturing, pharmaceuticals, artificial intelligence, advanced engineering and high-value services, demand for the rupee will naturally increase over time if we can produce for the world.

A currency strengthens when a country's economic capabilities flourish. If we have to arrest the depreciation of the Indian rupee, we should focus on making the Indian economy so productive, innovative, and trusted that the world chooses to buy from India.

This is why the argument of the rupee crossing ₹95 or hitting ₹100 against the dollar often misses the larger picture. The reality is that there are no shortcuts to arresting the depreciation of the rupee in the short term. The solution is long term and lies in boosting our manufacturing, exports, and quality standards to earn more dollars through exports than are spent on imports.

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