

# OVERVIEW

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# Rupee loses nearly 50 Paise in a day, closes at 87.33

## 1. INTRODUCTION

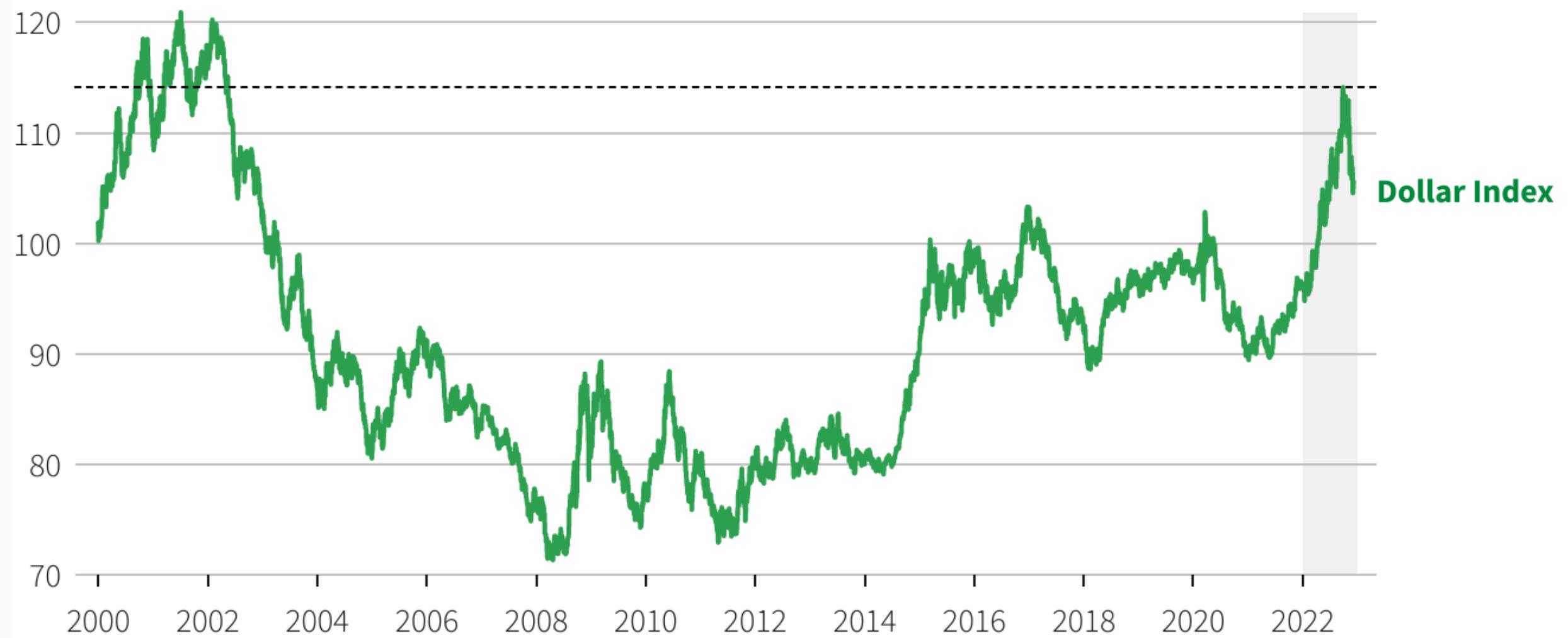
The Indian rupee's depreciation is driven by widening interest rate differentials, capital outflows, and external vulnerabilities such as a rising trade deficit and declining net FDI inflows. The Federal Reserve's restrictive monetary policy has led to a stronger dollar, intensifying exchange rate pressures and reducing carry trade incentives.

This presentation examines key macroeconomic factors, including monetary policy divergence, current account sustainability, forex reserve adequacy, and the transmission of global liquidity shocks on India's external position.

## 2.THE RISE OF THE US DOLLAR IN GLOBAL MARKETS

### Mighty Dollar

The dollar surged to its highest level in two decades this year



Source: Refinitiv Datastream | Reuters, Dec. 7, 2022 | By Vincent Flasseur



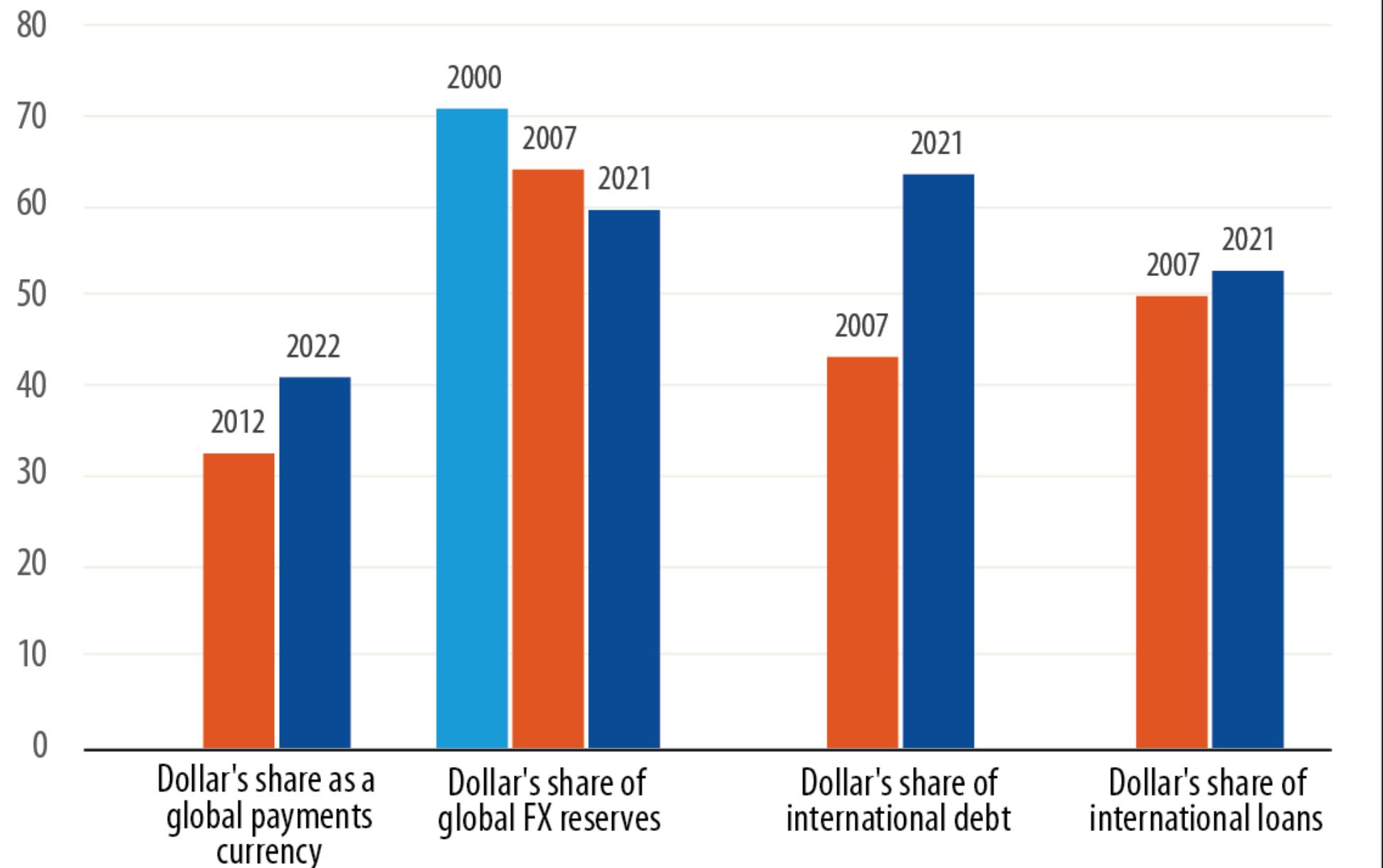
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*The Dollar Index surged to a two-decade high in 2022, driven by Fed rate hikes, global risk aversion, and capital flight to the U.S. This sharp appreciation pressures emerging market currencies, raises global borrowing costs, and makes U.S. exports less competitive while reducing import costs.*

## Dollar dominance

Whether as a reserve currency, a payment vehicle, or a denominator of debts and contracts, the dollar has by far the most important role in global finance.

(evolution of the dollar's role in global finance, percent)



**Sources:** Bank for International Settlements; European Central Bank; International Monetary Fund; and SWIFT.

**Note:** Data are from the end of 2021, except for payments, which are from March 2022.  
FX = foreign exchange.

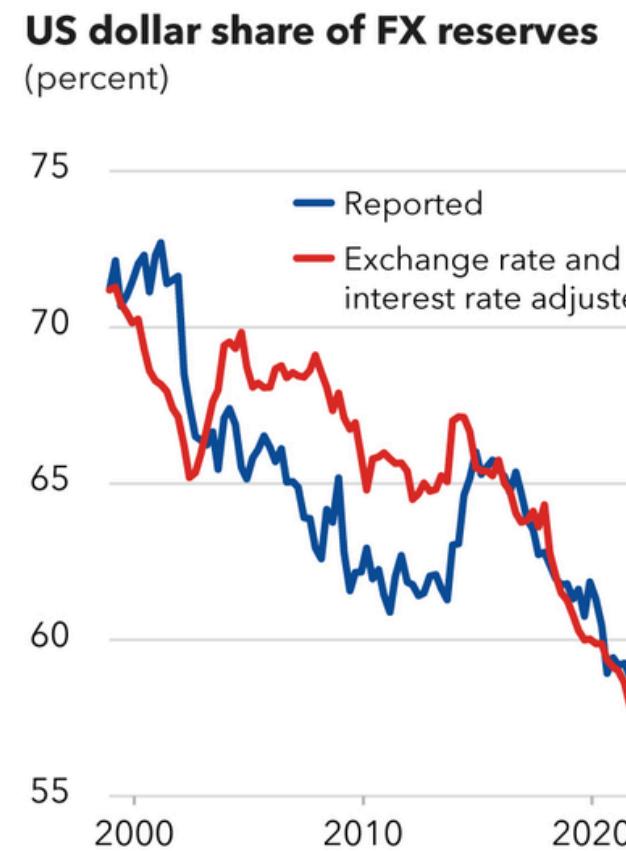
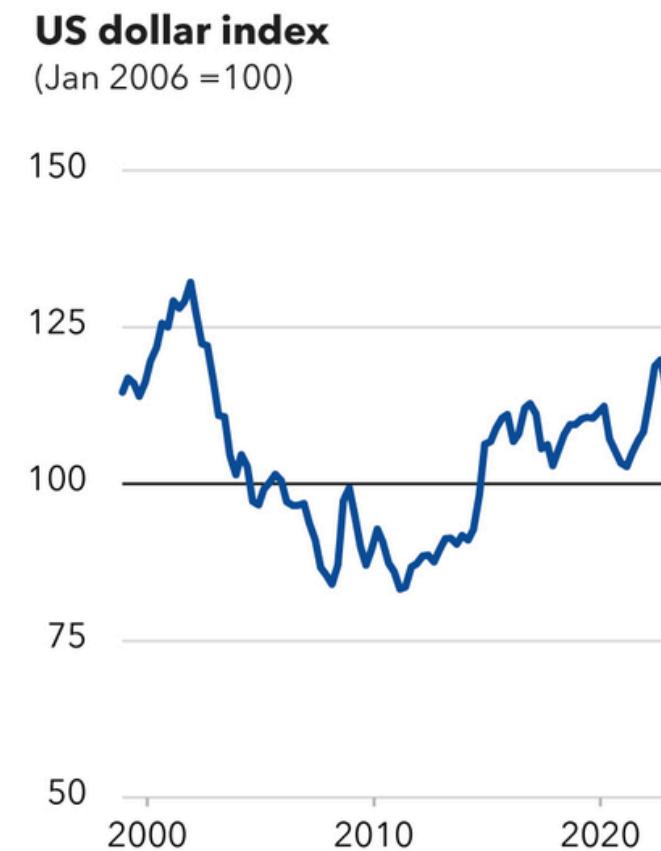


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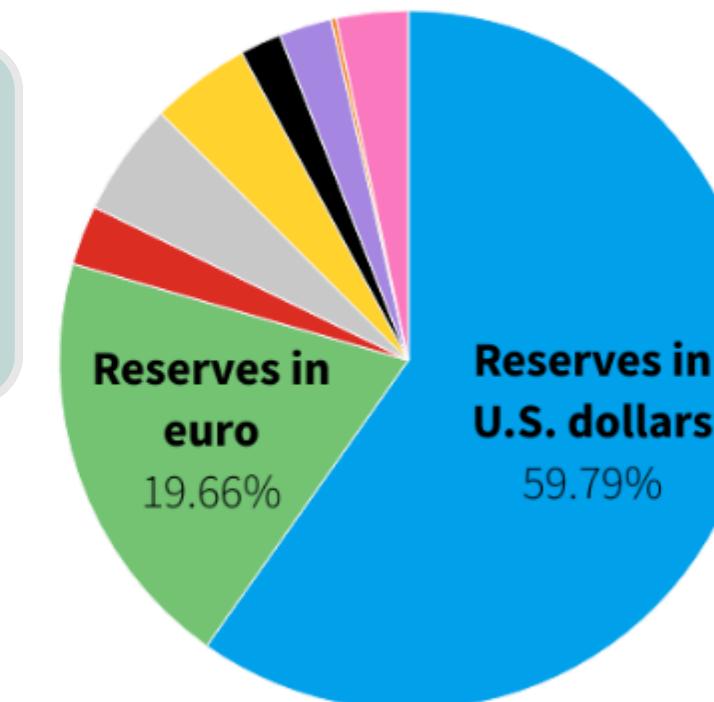
*The dollar remains the primary currency for international payments, foreign exchange reserves, debt issuance, and cross-border loans. While its share in global FX reserves has declined from its peak in 2000, it continues to be the most widely used currency.*

## Stealth erosion

Recent US dollar appreciation has masked the extent of shifts out of dollar reserves.



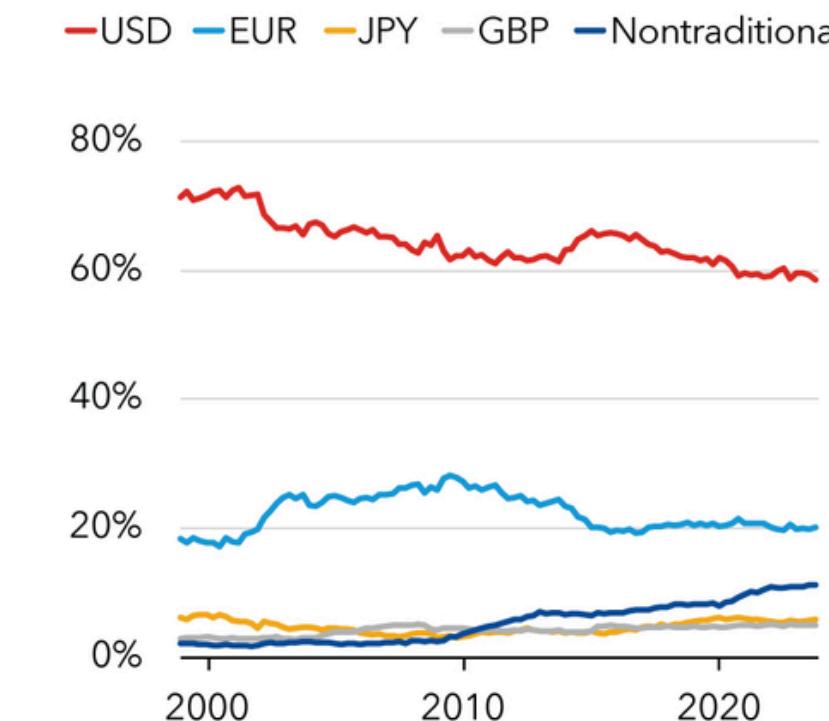
**Strong Dollar and Global Trust:**  
The dollar's strength and stability make it the safest and most preferred reserve currency.



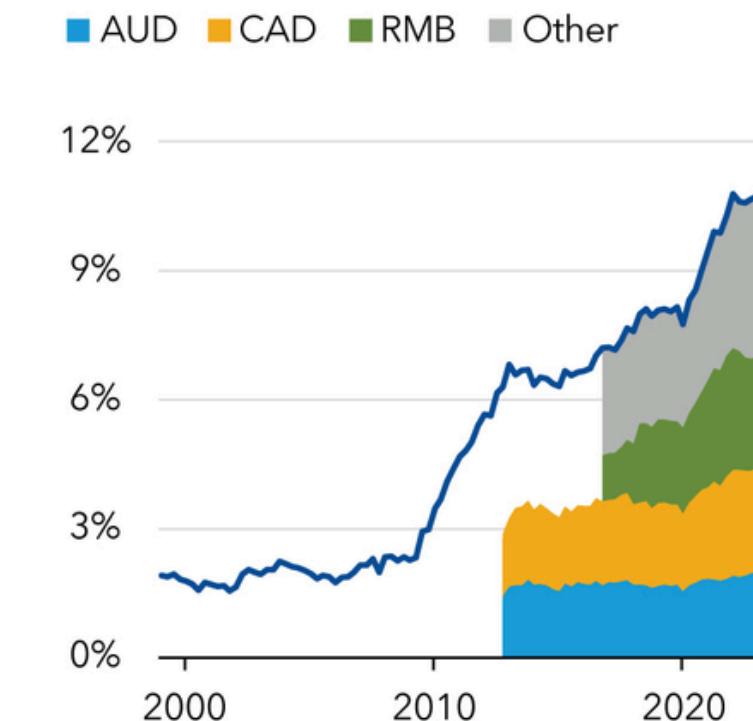
## Nontraditional currencies rise

Falling share of "big four" currencies mirrored by increasing holdings of nontraditional reserve currencies.

### Currency share of FX reserves



### Nontraditional share breakdown



- Reserves in U.S. dollars (59.79%)
- Reserves in euro (19.66%)
- Reserves in Chinese renminbi (2.76%)
- Reserves in Japanese yen (5.26%)
- Reserves in pounds sterling (4.62%)
- Reserves in Australian dollars (1.91%)
- Reserves in Canadian dollars (2.45%)
- Reserves in Swiss francs (0.23%)
- Reserves in other currencies (3.31%)

**Historical Dominance and Widespread Use:** The dollar's long-established role in global trade and finance keeps it the top choice for reserves.

### 3. MACROECONOMIC FACTORS AFFECTING THE RUPEE

01

#### Inflation and Purchasing Power:

- High inflation reduces rupee's purchasing power.
- Rupee becomes less competitive globally.
- Leads to rupee depreciation.
- Foreign investors prefer stable currencies.

02

#### Current Account Deficit and Trade Balance:

- When Imports > Exports → Current Account Deficit.
- Resulting in higher demand for foreign currency (USD).
- Therefore weakening the rupee.

03

#### Capital Flows and Foreign Investment:

- Foreign Portfolio Investment (FPI) outflows impact the rupee.
- Investors convert rupees to dollars.
- Higher dollar demand weakens the rupee.

04

#### Global Economic Factors and Oil Prices:

*Crude oil prices have been unstable, and fluctuations in crude derivatives persist, compounded by a weakening rupee. However, the prices of other raw materials have not risen significantly, helping to mitigate the effects of rising crude prices and the falling rupee.*

High oil prices boost USD. Capital outflows weaken rupee, Oil imports raise dollar demand, Rupee depreciates.

# Macroeconomic Factors Affecting the Rupee

- **Inflation:** If domestic inflation is higher than the US inflation, the rupee is expected to depreciate against the dollar.
- **Asset market approach:** This suggests that the value of the exchange rate depends on the inflow and outflow of capital into and from the domestic economy.

Historically, the US has a lower inflation rate than India. Much of the differential in inflation rates between the US and India can be explained by labour productivity. According to ILO estimates for 2025, India is producing an output of \$25,431 per worker, below America's average of \$153,446 per worker.

# 4.GLOBAL ECONOMIC TRENDS IMPACTING THE RUPEE

## Why is rupee sliding?

The main reason behind a weakening rupee is strengthening of the US dollar amid improved macroeconomic scenario in the US. Add to that a spike in the US bond yields due to expectations of shallow rate cuts by the US Fed. High US yields made the US attractive to investors relative to emerging markets like India. Uncertainty regarding the new US government policies have also contributed to the rupee's fall. Oil price volatility due to ongoing geopolitical tensions (Russia-Ukraine war, Middle East crisis, Red Sea shipping issues) and substantial FPI outflows in **equity** markets have also contributed to the rupee slide.

Despite the slide, the rupee has remained among the world's most stable currencies. "Till date, rupee has depreciated by nearly 3 per cent against US dollar, still in lowest echelon when compared with other countries," an **SBI** report stated. The stability earlier in the first half of 2024 was attributed to capital inflows driven by the inclusion of Indian bonds in global bond indices, which cushioned the rupee against greater volatility.

## Key Reasons for Rupee Depreciation (Global Impact):

- US Dollar Strength: Driven by higher US bond yields and a strong macroeconomic scenario in the US.
- Geopolitical Tensions: Russia-Ukraine war, Middle East crisis, and Red Sea shipping issues causing oil price volatility.
- FPI Outflows: Substantial foreign portfolio investor withdrawals from Indian equity markets.
- Policy Uncertainty: Concerns over new US government policies affecting emerging markets.

### A. Global Factors

1. U.S. Federal Reserve's Tightening Monetary Policy The U.S. Federal Reserve has been raising interest rates aggressively to tackle inflation, making the U.S. Dollar more attractive to global investors.

This has led to capital flowing out of emerging markets like India, weakening the rupee as demand for dollars increases.

# Why Is the Indian Rupee Falling at a Shocking Rate in 2025?

With the **Indian Rupee falling**, it has now crossed the 87 mark against the U.S. Dollar (USD) for the first time in history.

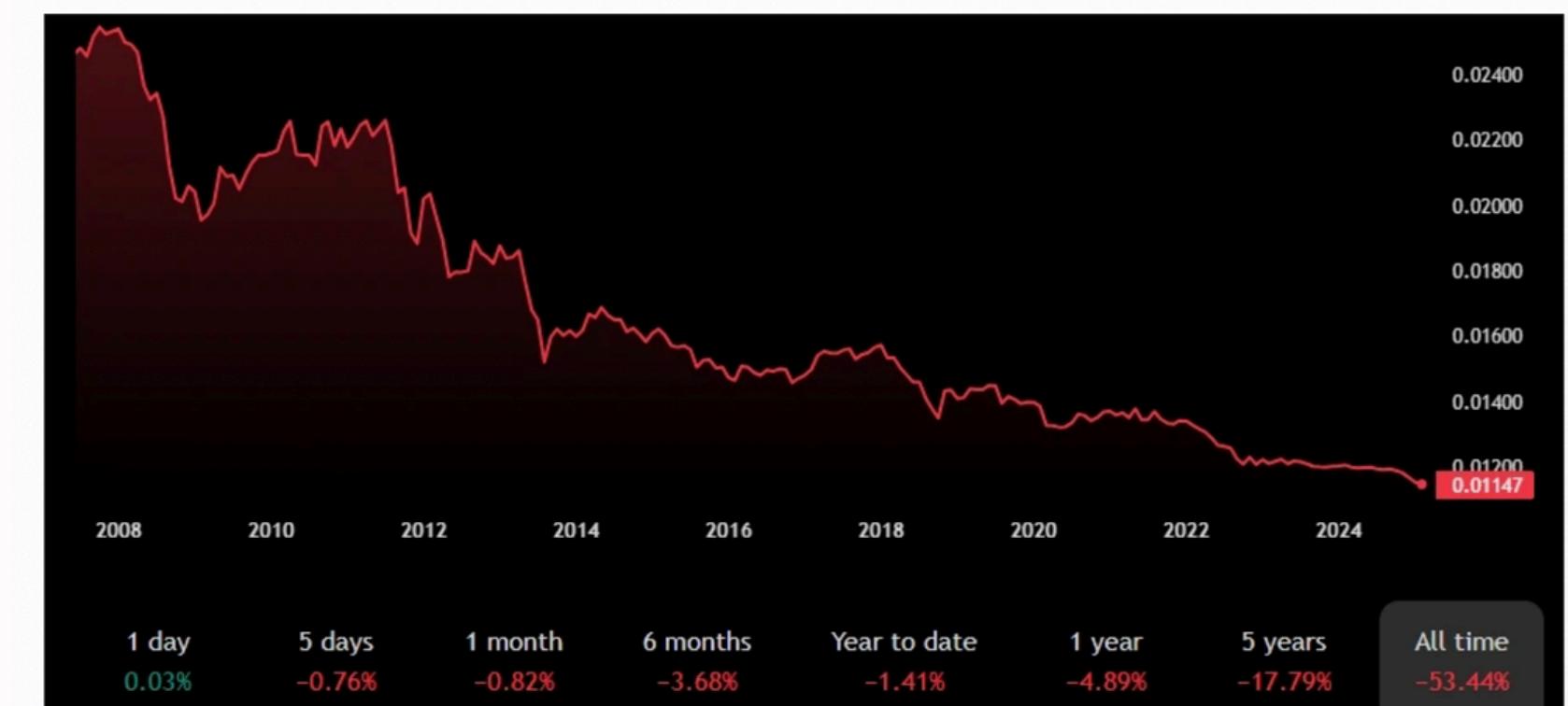
This **sharp drop** has raised concerns across the board—investors, businesses, and policymakers are all watching closely as currency fluctuations directly impact economic stability.

So, what's driving this decline?

A mix of **global economic shifts**, domestic **fiscal challenges**, and deeper structural issues within India's economy. And it's not just about exchange rates—this depreciation affects everything from inflation and trade balances to stock market sentiment and overall growth.

Below is a summary of the INR's exchange rates compared to select major currencies:

Currency	ISO Code	Exchange Rate (1 INR = )	Inverse Rate (1 Unit = INR)
British Pound	GBP	0.009047	110.537156
Swiss Franc	CHF	0.010284	97.240577
Euro	EUR	0.010944	91.370571
US Dollar	USD	0.011465	87.220198
Singapore Dollar	SGD	0.015374	65.04569
Canadian Dollar	CAD	0.016433	60.852374
Australian Dollar	AUD	0.018195	54.959222
Chinese Yuan Renminbi	CNY	0.083328	12.000765
Japanese Yen	JPY	1.71105	0.584436



This chart shows how the value of Indian rupee has fell in the given periods of time.

# Historic Trends: Rupee vs. US Dollar (2005-2025)

Year	INR per USD
2005	44.1
2006	45.31
2007	41.35
2008	43.51
2009	48.41
2010	45.73
2011	46.67
2012	53.44
2013	56.57
2014	62.33
2015	62.97
2016	66.46
2017	67.79
2018	70.09
2019	70.39
2020	76.38
2021	74.57
2022	81.35
2023	81.94
2024	85.56
2025	87.29

## Key Periods of Depreciation of the Indian Rupee

- 2008: Global Financial Crisis
- 2013: Taper Tantrum
- 2018: Rising Oil Prices and Fed Rate Hikes
- 2020: COVID-19 Pandemic
- 2022: Fed Rate Hikes and Geopolitical Tensions
- 2025: Current Depreciation

## **What to Expect in the Coming Months?**

- **Short-Term Outlook:** The rupee may continue to weaken in the near future due to global and domestic challenges.
- **Government Efforts:** Measures like boosting exports and attracting investments could help stabilize the currency over time.
- **Long-Term Recovery:** While the short term looks uncertain, these policy actions may support the rupee's recovery in the long run.

# 5.POLICY RESPONSES & RBI'S ROLE

## RBI's Forex Intervention Strategy



A further depreciation of the rupee would not have had a significant impact on inflation or growth either.

Mumbai: The Reserve Bank of India (RBI) may shift its currency intervention strategy to allow the depreciation of the rupee in line with its emerging market peers to retain export competitiveness and cushion the negative impact of its US dollar sales on domestic liquidity.

Traders say that currency hedging by exporters and importers signal further slide as positions have turned with importers rushing to cover their exposure, while exporters are letting their positions open to benefit from the slide.

The rupee may slide as much as 2.5% in the next few months against the US

# THE TIMES OF INDIA

**RBI MPC Meeting 2025 Highlights: Repo rate cut by 25 basis points to 6.25%, says RBI governor Sanjay Malhotra; GDP growth projected at 6.7% - loan EMIs likely to come down**

## Policy Responses to Rupee Depreciation

- Forex Intervention: RBI sells dollars, manages reserves.
- Interest Rate Adjustments: Changes repo rate to attract capital.
- OPEN MARKET OPERATION (OMOs): Buys government securities for liquidity.
- Swap Auctions: Infuses rupee liquidity, manages dollar shortages.
- Long-Term Swaps: Provides durable liquidity support.
- VRR Auctions: Meets short-term bank liquidity needs.
- OMO Purchases: Increases liquidity, stabilizes economy.

- **RBI's Role**: The RBI is using its \$700 billion forex reserves to manage rupee volatility.
- **Market Intervention**: The RBI's interventions account for 1.6% of India's GDP, slightly higher than previous crises.
- **Rupee Performance**: Despite falling 1.5% this year, the rupee is one of the least volatile currencies in Asia.
- **Global Factors**: US policies, global tensions, and market outflows are influencing the rupee's performance.
- **Overvaluation Concerns**: The rupee is overvalued by 7.5%, suggesting a possible gradual depreciation.

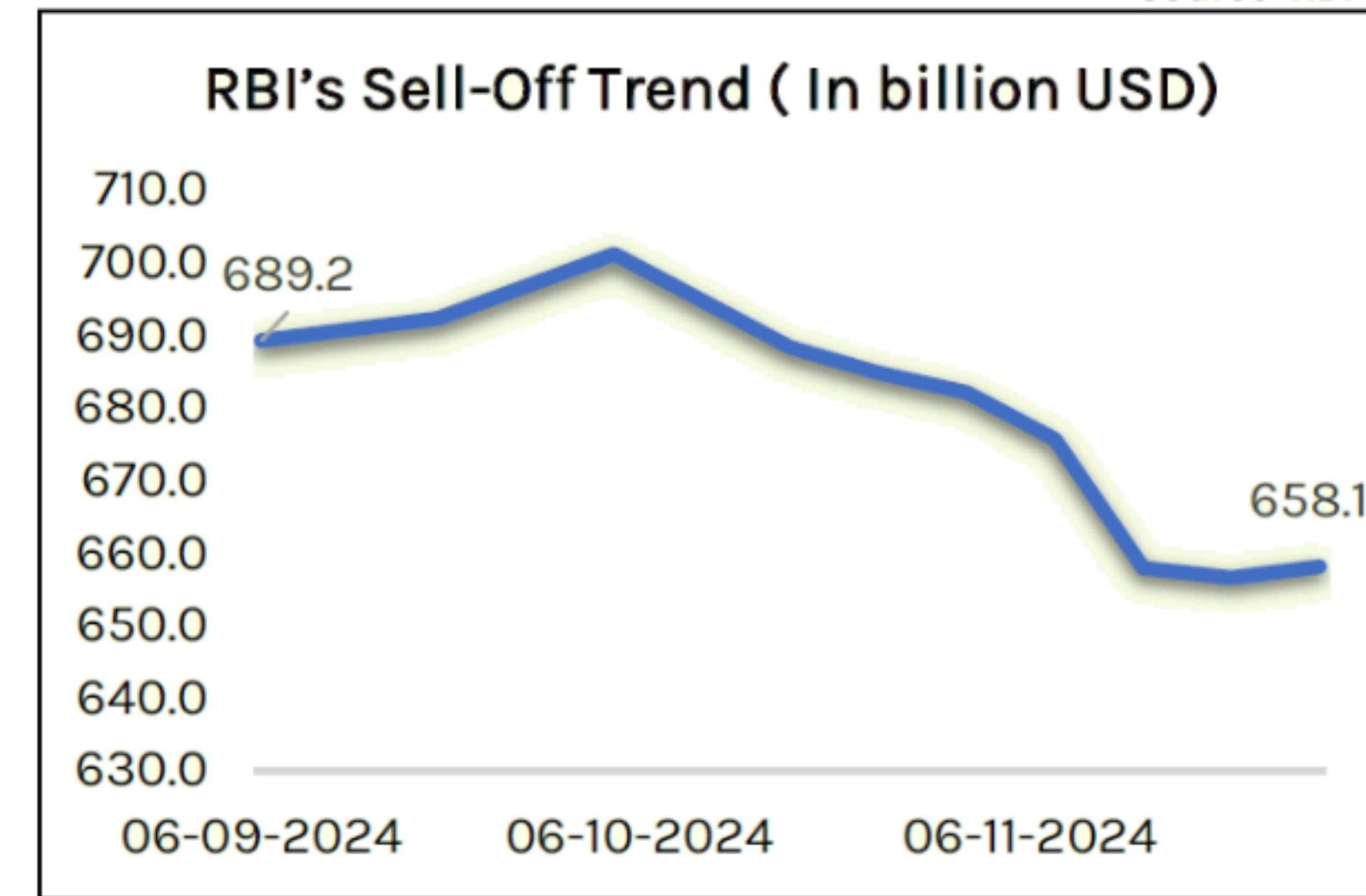
**Future Projections**: Experts predict an 8-10% depreciation of the rupee in the coming years.



## RBI's Initiatives to Stabilize the Rupee

The RBI has taken proactive measures to stabilize the rupee, including deploying state-owned banks to sell dollars in the market and promoting rupee-based international trade agreements, such as with the UAE. These steps aim to reduce reliance on the US dollar, strengthen the rupee, and mitigate its vulnerability to external fluctuations. However, the challenges of high import dependence and geopolitical factors continue to exert pressure on the currency, underscoring the need for structural economic reforms.

Source: RBI



## 6. IMPACT ON INDIAN ECONOMY



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## Rupee at 89/\$? Global uncertainty and impact on Indian financial market

*USD/INR is expected to trade with a depreciation bias, around 88-89 by the end of FY26*

### Implications for India

India faces the risk of reciprocal tariffs from the US due to its goods trade surplus of \$35 billion with the US (in FY24) and higher average tariffs on US imports (12%) compared to US tariffs on Indian imports (3%). The CareEdge Ratings analysis suggests that if the US imposes an additional 8% tariff on Indian imports, direct export losses could be limited to around \$3.1 billion annually (approximately 0.1% of GDP), assuming that likely weakening of rupee will partially blunt the impact of higher tariffs.



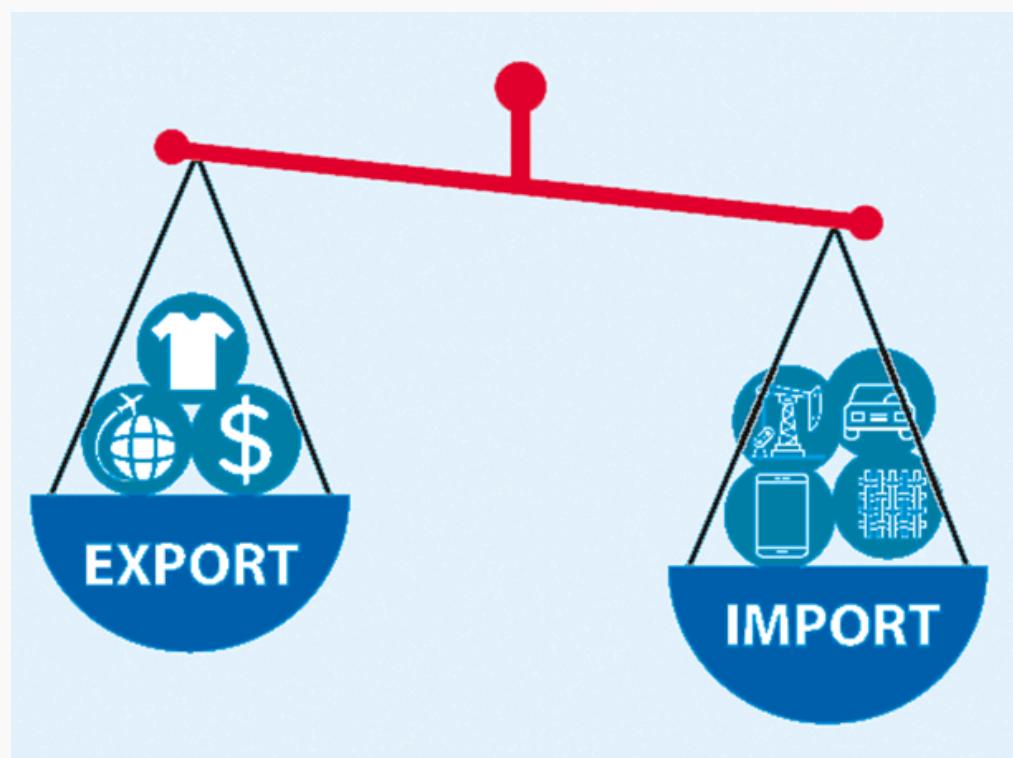
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*The depreciation of the Indian rupee against the US dollar has increased import costs, fueling inflation and widening the trade deficit. Additionally, capital outflows and rising debt servicing costs for companies with dollar-denominated loans are straining India's economic stability and growth prospects.*

**Risk of Higher Tariffs on Indian Goods:** India sells a lot of goods to the United States, and the U.S. has been putting higher taxes (called tariffs) on goods coming from other countries like China, Mexico, and Canada. India could also face higher tariffs from the U.S. because India sells more goods to the U.S. than it buys from them, and U.S. tariffs on Indian goods are already higher than the tariffs India charges on American products. If the U.S. raises these tariffs by another 8%, India could lose around \$3 billion in exports. But this loss would only make up a small part (about 0.1%) of India's overall economy.



**Weaker Exports and Slower Growth:** Beyond the direct impact of tariffs, India's overall exports (goods and services) could suffer because of global trade issues. If the global economy slows down, countries may buy less from India. This can also affect Indian businesses, investment, and even consumer spending.

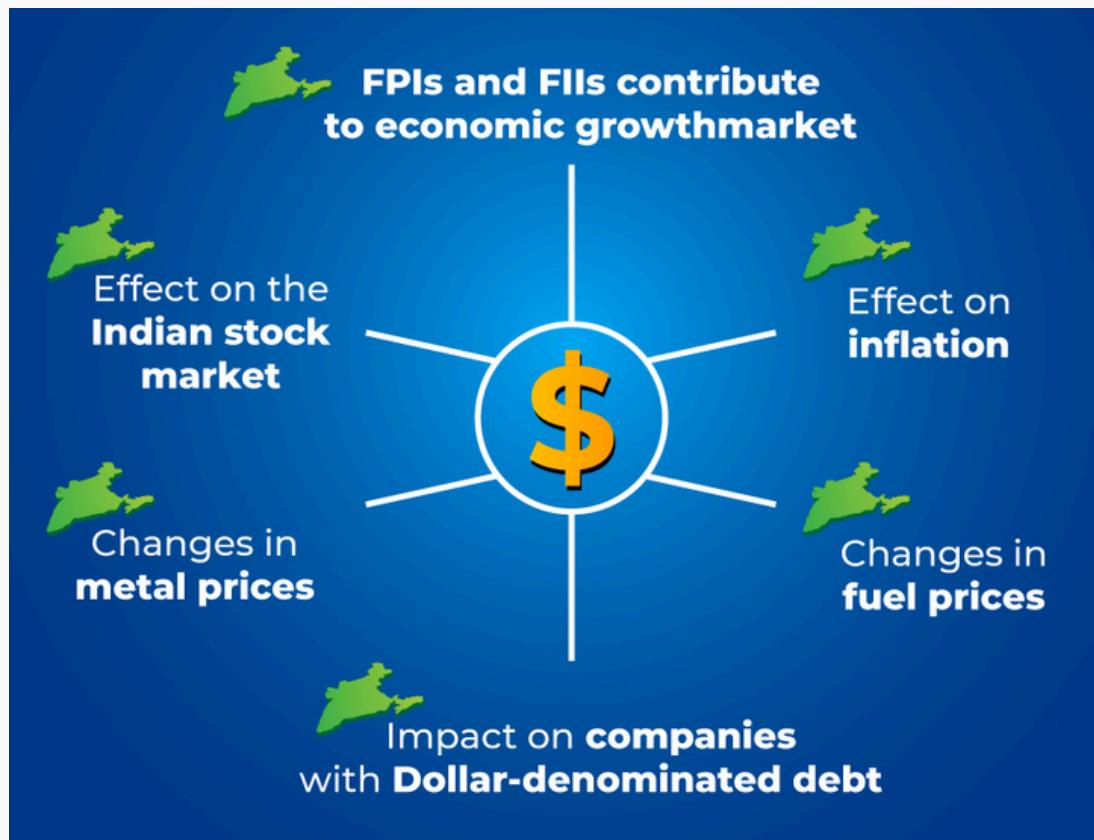


**Current Account Deficit (CAD) Could Widen:** India may also see a slight increase in its current account deficit (CAD). This is the gap between the money India earns from exports and the money it spends on imports. For FY26, this gap could widen to about 1.1% of India's total economic output. However, services like IT exports and lower oil prices could help reduce the negative effects.

**Pressure on the Indian Rupee (INR):** The Indian rupee has been losing value against the U.S. dollar, partly because foreign investors have been pulling their money out of Indian markets. If the rupee keeps weakening, it will make imports more expensive and could add pressure on India's economy. Experts at CareEdge Rating predict that the rupee might weaken even more in the coming years, though the Reserve Bank of India (RBI) may step in to try to stabilize it.

CareEdge Ratings projects the USD/INR exchange rate to depreciate further to around 88-89 by FY26 amidst global uncertainties. However, the Reserve Bank of India (RBI) is expected to intervene to limit excessive volatility.

With a falling Dollar index, foreign investors find **India** a lucrative investment avenue to earn higher returns on their investments. As such, FPIs/FII<sup>s</sup> flow into the **Indian economy** and contribute to economic growth. The flow of capital to companies from their international joint venture partners goes up as FPIs and FII<sup>s</sup> increase. This allows companies to grow and expand themselves. Exports also increase, leading to a favorable Balance of Payments position for the country.



## 7.CONCLUSION

### **FACTORS DRIVING RUPEE DEPRECIATION:**

- a. Strengthening US dollar due to global economic trends.
- b. Geopolitical tensions and their impact on markets.
- c. Foreign Portfolio Investment (FPI) outflows from India.
- d. Domestic fiscal and structural challenges.

### **IMPACTS OF RUPEE DEPRECIATION:**

- a. Increased inflation due to higher import costs.
- b. Widening trade deficits.
- c. Concerns over economic stability.

### **RBI'S ROLE:**

- a. Active intervention through forex reserves and policy measures to stabilize the rupee.



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*In summary, the Indian rupee's depreciation is driven by global economic trends, geopolitical tensions, and domestic challenges. While it raises concerns about inflation and trade deficits, proactive measures by the RBI and government, coupled with structural reforms, can stabilize the currency and support long-term growth.*

## 7.CONCLUSION

### **GOVERNMENT INITIATIVES:**

- a.Focus on boosting exports and attracting foreign investments as medium-term solution

### **FUTURE OUTLOOK:**

- a.Short-term pressures may persist, but proactive policies and global recovery could stabilize the rupee.
- b.India's resilience in managing currency volatility highlights its potential for sustained growth with effective reforms.

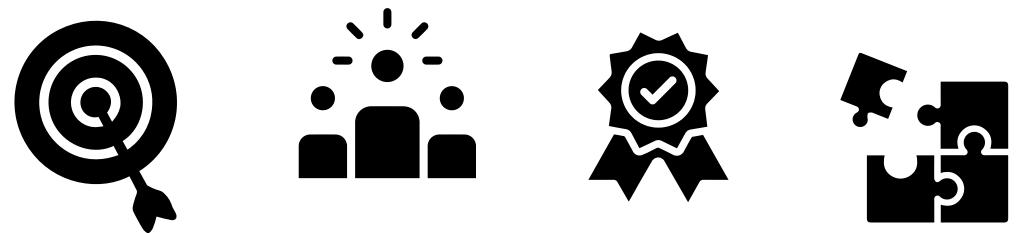
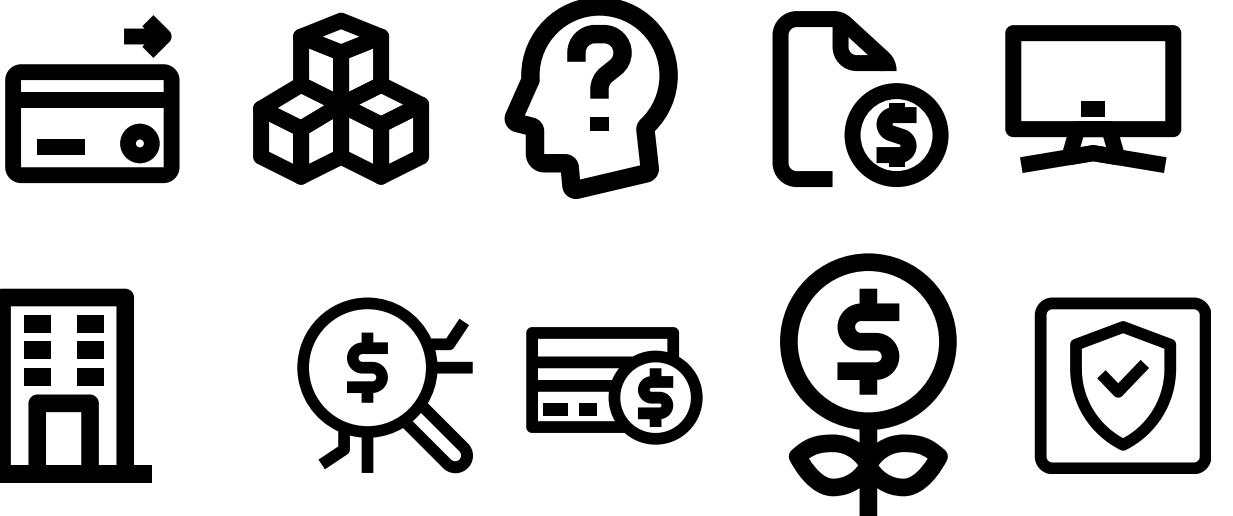
### **STRUCTURAL CHALLENGES:**

- a.High import dependence and trade imbalances need long-term solutions.
- b.Importance of structural reforms to reduce vulnerabilities.

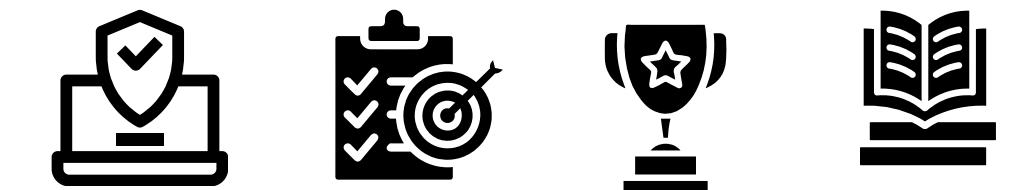


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# Resource Page



- [https://www.business-standard.com/finance/news/rbi-pulls-back-rupee-from-brink-of-88-per-dollar-125021001242\\_1.html](https://www.business-standard.com/finance/news/rbi-pulls-back-rupee-from-brink-of-88-per-dollar-125021001242_1.html)
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