

Indian Rupee's Fall to a Record Low: Causes, Concerns & Context

In early December 2025, the Indian Rupee (INR) breached the **₹90 per US dollar** mark for the first time in history and continued to fall for seven consecutive trading sessions, touching a new low of **₹90.4370 per USD**.

With a **5.3% year-to-date depreciation**, INR has become **Asia's worst-performing currency in 2025** and is staring at its sharpest annual decline since 2022.

However, experts caution that **a falling rupee does not necessarily reflect a weak Indian economy**. Instead, the depreciation is largely being driven by external shocks, temporary policy uncertainties, and global market behaviour.

1. Why is the Indian Rupee Depreciating?

According to Dr. Soumya Kanti Ghosh (Group Chief Economic Adviser, SBI Research), three major factors—or what he calls a **“trifecta of pressures”**—are responsible:

1.1 Policy Uncertainty: Delay in India-US Trade Deal

- The US announced **sweeping tariff hikes in April 2025**.
- India faces a **50% tariff**—the highest among major economies (China 30%, Vietnam 20%, Indonesia 19%, Japan 15%).
- This has created:
 - uncertainty in export earnings,
 - lower investor confidence,
 - pressure on the rupee.

Around **\$45 billion worth of Indian exports**—mainly labour-intensive sectors—are expected to be hit.

1.2 FPI Outflows

- Foreign Portfolio Investors (FPIs) have been selling Indian equities after two strong years of inflows.
- Outflows reduce dollar supply in India → rupee weakens.
- FPIs are shifting to **US markets** due to:
 - higher US interest rates,

- strong dollar index,
- risk aversion in emerging markets.

1.3 RBI's Non-Interventionist Stance

- Unlike earlier episodes, RBI is **not aggressively selling dollars** to defend INR.
- RBI's approach:
 - intervene only to control *excessive volatility*,
 - avoid targeting a fixed exchange rate.

This hands-off stance allows market forces to play a larger role, resulting in **sharper short-term depreciation**.

1.4 Offshore NDF (Non-Deliverable Forward) Market Influence

- The offshore NDF market has become more influential.
- Traders bet on future rupee movement, causing:
 - speculative pressure,
 - faster rupee depreciation.

1.5 Strengthening of the US Dollar

- A stronger dollar index (DXY) typically weakens emerging market currencies.
- Dollar strength in 2025 is driven by:
 - strong US job data,
 - higher interest rates,
 - global uncertainty → “flight to safety”.

2. Why Experts Say the Falling Rupee is *Not* a Serious Concern

Despite sharp depreciation, experts argue that the rupee remains fundamentally **stable**

and resilient.

2.1 India's Trade Deficit is Not Worsening Alarmingly

- For April–October 2025, the **goods and services deficit** was **\$78 billion**, only slightly higher than last year's \$70 billion.
- This means:
 - India's external sector remains stable,
 - the negative trade narrative is being overplayed by markets.

2.2 Rupee is Among the *Least Volatile* Currencies

- Since April 2025, the rupee has depreciated (~5.5%) the most among major economies.
- But its **volatility index (~1.7%)** shows it remains one of the **most stable** currencies.
- This means:
 - the rupee is sliding gradually, not fluctuating unpredictably,
 - financial markets remain orderly.

2.3 Depreciation is Largely External, Not Domestic Weakness

Factors like:

- tariffs,
- global dollar strength,
- portfolio outflows
are *external*.

India's fundamentals—growth rate, forex reserves, banking system—remain strong.

3. Broader Context: Why Currencies Depreciate

A currency like the rupee falls when:

1. **Demand for USD rises** (imports, debt repayments, FPI outflows).
2. **Supply of USD decreases** (lower export earnings).
3. **Global investors prefer safer assets** (like US treasuries).
4. **Speculation increases** in forex markets.

Depreciation is a normal part of market-driven economies.

4. Is Rupee Depreciation Always Bad?

Not necessarily.

Possible Advantages

- Boosts exports (Indian goods become cheaper abroad).
- Encourages tourism inflow.
- Makes India's IT services more competitive.

Possible Disadvantages

- Costlier imports (especially crude oil).
- Higher inflation.
- Pressure on companies holding foreign debt.

For India, the impact depends on how long and how sharply the fall continues.

5. UPSC Perspective: Key Takeaways

Mains (GS-III)

- Exchange rate volatility reflects global uncertainties, not necessarily domestic weakness.
- RBI's calibrated intervention strategy supports long-term stability.
- Trade wars and tariffs have direct currency implications.
- FPI flows are highly sensitive to global interest rates.

Essay

- “Currency depreciation as a mirror of global power shifts”
- “Managing external sector vulnerabilities in emerging economies”

Interview

Be prepared to explain:

- Why the rupee is falling,
- Whether depreciation is harmful,
- How India can respond (diversify exports, deepen FTA network, maintain forex buffers).

Conclusion

The recent depreciation of the Indian Rupee to an all-time low is largely the outcome of **external shocks, geopolitics, and global financial trends**, rather than domestic economic weakness.

While the fall appears steep, India’s **low currency volatility, stable trade deficit**, and **strong macroeconomic fundamentals** indicate resilience.

For UPSC, the key understanding is that **exchange rate movements must be examined in a holistic global context** rather than through a narrow lens of domestic economic strength.

[Facebook](#)

[Instagram](#)

[Youtube](#)