



Rupee Depreciation: Causes and Sectoral Impact

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Rupee Depreciation (a fall in the value of the Indian Rupee, e.g., from ₹80/\$ to ₹83/\$) is a key indicator of India's external sector stability and its vulnerability to global and domestic economic pressures.

Background and Example

Causes: Depreciation is primarily driven by:

1 Capital Outflows: Aggressive interest rate hikes by the **US Federal Reserve** make US assets more attractive, leading **Foreign Portfolio Investors (FPIs)** to pull money out of riskier emerging markets like India, increasing the demand for the US Dollar.

2 Trade Deficit: India's persistent high **Current Account Deficit (CAD)**—driven largely by high-value imports like **crude oil** and **gold**—creates a structural deficit of the dollar, putting pressure on the Rupee's value.

Negative Impact (Imported Inflation): Since India imports a significant portion of its energy and high-end manufacturing inputs, a weaker Rupee translates directly into higher import costs.

Example: A rise in global crude oil prices combined with a depreciating Rupee means Indian oil companies pay significantly more Rupees for the same barrel of oil, leading to higher petrol and diesel prices, thus fueling **Cost-Push Inflation** across the economy.

Positive Impact (Export Competitiveness): A weaker Rupee makes Indian goods and services cheaper for foreign buyers.

Example: The **Information Technology (IT) and IT-enabled Services (ITES)** sectors benefit significantly, as they earn in US Dollars. When the Rupee depreciates, their dollar earnings translate into a higher amount of Rupees, boosting their revenue and profitability, which aids in reducing the trade deficit.

RBI's Role: The Reserve Bank of India manages this volatility through a **Managed Floating Exchange Rate** regime, primarily by **selling US Dollars** from its Foreign Exchange Reserves to counter sudden, speculative falls in the Rupee's value.