1. Ruppee's Depreciation- Economy

Weaker against dollar, euro, yen- Why the rupee's fall is 'real' this time The Indian Rupee has witnessed broad-based depreciation due to global volatility and capital outflows, causing a sharp decline in both Nominal (NEER) and Real Effective Exchange Rates (REER). This shift has moved the Rupee into "undervalued" territory, prompting the IMF to reclassify India's exchange rate regime as a "crawl-like arrangement."

Context and Definition

Current Situation- The Indian Rupee has recently witnessed depreciation against major global currencies, including the US Dollar, Euro, and Japanese Yen. This signals not only global market volatility but also deeper structural economic concerns.

Defining Depreciation-

Concept- It is the decline in the value of the Indian Rupee relative to foreign currencies.

Mechanism- In a depreciating scenario, more units of the domestic currency (Rupees) are required to purchase one unit of foreign currency (e.g., $1 USD).

Key Drivers of Rupee Depreciation

Trade Deficit (Import > Export)- When a country's imports exceed its exports, the demand for foreign currency (to pay for imports) outstrips the supply generated by exports. This excess demand puts downward pressure on the domestic currency.

Capital Outflows- When foreign investors (FPI/FII) withdraw funds from Indian equity or debt markets, they convert Rupees back into foreign currency. This reduces the supply of foreign currency in the market, weakening the Rupee.

Global Dollar Strength- The value of the Rupee is often inversely related to the US Dollar Index. High interest rates in the US attract capital away from emerging markets like India, strengthening the Dollar and depreciating the Rupee.

Inflation Differentials- Based on Purchasing Power Parity theory, if India's inflation is higher than that of its trading partners, the Rupee's purchasing power erodes, leading to depreciation over time.

Geopolitical and Economic Uncertainty- During global crises or domestic instability, investors seek "safe-haven" assets (like the USD or Gold), leading to capital flight from developing economies and subsequent currency depreciation.

Analysis of Current Depreciation (October–November 2025)

Nominal Depreciation- The Rupee has weakened broadly, not just against the Dollar but also against regional peers like the Chinese Yuan (moving from 11.66 to 12.63). The Nominal Effective Exchange Rate (NEER) falling below 85 confirms this is a broad-based decline, not an isolated event.

The "Low Inflation" Anomaly- Unlike typical scenarios where high domestic inflation drives depreciation, India is currently witnessing very low inflation. India's CPI (Oct 2025)- Stood at a low 0.25%.

Comparison with Peers- This is significantly lower than major economies- Brazil- 4.7%, UK- 3.6% ,US & Japan- 3%, Indonesia- 2.9%, Euro Area- 2.1%

Shift to Undervaluation- The unique combination of Nominal Depreciation + Low Domestic Inflation has caused the Real Effective Exchange Rate (REER) to fall. This implies the Rupee is now undervalued, potentially making Indian exports price-competitive in the global market.

Concept- NEER vs. REER

Economists utilize two specific indices to look beyond simple bilateral exchange rates and assess the Rupee's actual competitiveness.

Feature	Nominal Effective Exchange Rate (NEER)	Real Effective Exchange Rate (REER)
Definition	A weighted average of the Rupee's exchange rates against a basket of foreign currencies.	The NEER adjusted for inflation differentials between India and its trading partners.

Composition	Based on a 40-currency basket (Base Year- 2015–16).	Takes the NEER and factors in the relative price levels (inflation) of the trading partners.
Significance	Indicates the external value of the Rupee against a group of trading partners.	Indicates the real external competitiveness of Indian goods in the global market.
Interpretation	A fall indicates nominal weakening.	A fall indicates the currency is becoming undervalued/competitive; a rise indicates overvaluation.
Current Trend	Dropped 6.8%- From 90.75 (Jan 2025) to 84.58 (Oct 2025).	Dropped 9.8%- From a record high of 108.06 (Nov 2024) to 97.47 (Oct 2025).

Implications of a Weaker Rupee

Inflationary Pressures (Imported Inflation)- Depreciation makes imported goods significantly costlier.
Key Sectors- Electronics, edible oils, and critically, crude oil.
The Domino Effect- Since India imports over 80% of its oil needs, higher fuel prices increase transportation costs, which in turn raises food and manufacturing costs, stoking overall inflation.
Corporate Profitability (India Inc.)- Companies with high import dependency (needing raw materials from abroad) face higher input costs. Companies with External Commercial Borrowings (ECBs) face higher debt servicing burdens as they must pay back loans in expensive dollars.

Trade Balance & Export Competitiveness

Positive- A weaker Rupee theoretically makes Indian exports cheaper and more attractive globally.
Negative- This benefit is currently dampened by a global demand slowdown and supply chain disruptions.
Structural Deficit- Because India relies on high-value inelastic imports (Oil, Electronics), the trade deficit often widens despite depreciation.
Capital Flows & Investor Sentiment- High currency volatility acts as a deterrent for Foreign Portfolio Investors (FPIs). Risk aversion combined with higher US interest rates has accelerated capital outflows, creating a vicious cycle of further depreciation.

Institutional Stance- IMF and RBI

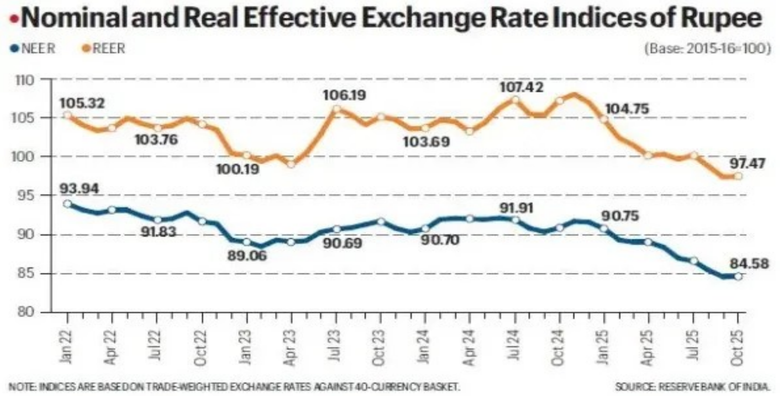
International Monetary Fund (IMF) Classification
Report Date- November 26, 2025.
New Classification- India's regime is now termed a 'Crawl-like arrangement'.
Previous Classification- Shifted from 'Floating' to 'Stabilised' in November 2023.
Meaning- This regime implies the currency value is allowed to adjust gradually within a narrow 2% band around a specific trend. It suggests controlled flexibility—avoiding abrupt shocks while allowing market forces to work slowly.

Reserve Bank of India (RBI) Stance

Strategy- The RBI has adopted a flexible approach, intervening only to smooth out "excessive volatility" rather than targeting a specific exchange rate level.
Rationale for Flexibility-
Easing Inflation- With inflation at 0.25%, there is less pressure to keep the Rupee artificially strong to combat imported price rises.
Export Support- Allowing the Rupee to weaken helps preserve export competitiveness amid global trade tensions.
Intervention Consequences
Forex Reserves- Frequent intervention involves selling Dollars, which draws down the Forex reserves. The RBI cannot defend the Rupee indefinitely.
Policy Dilemma- A weaker Rupee aids exports but risks reigniting inflation, complicating the Monetary

Policy Committee's decisions

Future Outlook



Continued Undervaluation- If the trend of gradual nominal depreciation persists alongside subdued domestic inflation, the REER may decline further. This keeps the Rupee undervalued, which is strategically beneficial for exporters.

Risk Factors- While current inflation is low, a sustained weak Rupee will eventually raise import costs. If global commodity prices spike, this could bring inflation roaring back.

The Balancing Act- The months ahead require the RBI to manage the "Impossible Trinity"- maintaining currency flexibility, controlling inflation, and managing capital flows without depleting reserves. The current undervaluation offers a temporary window of opportunity for trade balance improvement.

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