



Rupee Depreciation and Its Impact on Indian Economy

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Abstract : India, as one of the world's fastest-growing economies, has witnessed frequent fluctuations in the value of its currency. The depreciation of the Indian Rupee is not merely a financial statistic—it reflects deeper economic shifts driven by inflation, trade deficits, foreign investment flows, and macroeconomic policies. While a weaker rupee can boost exports and remittances, it also raises import costs, fuels inflation, and impacts investor confidence. Striking a balance between the risks and opportunities presented by a weaker currency is crucial for economic stability. By analyzing both the short-term shocks and long-term structural consequences, this paper aims to provide an understanding of rupee depreciation and its broader impact on India's economic outlook, and the trends in rupee depreciation, the key domestic and global factors influencing its movement, and its sector-wise implications.

IndexTerms - Rupee depreciation, Indian economy, Inflation, Trade deficit, Foreign investment, Exchange rates.

I. INTRODUCTION

The Indian rupee, represented by the symbol ₹, carries with it a rich historical legacy that mirrors the socioeconomic transformations experienced by India over the course of several centuries. Its origin can be traced back to the silver rupee employed during the Mughal Empire in the 16th century. Throughout its history, the currency has undergone significant changes, particularly under the influence of colonial rule and the subsequent attainment of independence.

At the time of India's independence in 1947, the Indian rupee was pegged to the British pound, establishing a framework for monetary stability that persisted until its devaluation in 1966. A noteworthy development in this trajectory occurred in 1957 when the rupee adopted the decimal system, marking a critical juncture in its evolution. This transition not only reflects the nation's efforts toward modernization and economic reform but also highlights the rupee's pivotal role in shaping India's financial infrastructure and economic policies.

Historically, the Indian rupee has experienced significant depreciation, with marked implications for the economy across various dimensions. For instance, in 2013, the rupee faced depreciation largely due to stagnant economic reforms and a decline in foreign investment inflows. More recently, in 2024, the currency witnessed a 2.8% decline, influenced by a robust U.S. dollar, decelerating domestic growth, and an expanding trade deficit.

The fluctuations in the value of the rupee are consistently influenced by a complex interplay of global economic conditions, domestic fiscal policies, and trade imbalances. A weaker currency elevates import costs, particularly for essential goods such as crude oil, which subsequently leads to increased production expenses and inflationary pressures. Conversely, a depreciated rupee may enhance the global competitiveness of Indian exports, benefiting key sectors such as information technology and textiles.

The ramifications of rupee depreciation extend to various stakeholders within the economy. For consumers, such depreciation results in heightened prices for imported goods and services, thereby straining household budgets and diminishing overall purchasing power. For the government, a weakened currency complicates fiscal policy making and can restrict the efficacy of monetary interventions aimed at economic stabilization. However, it is important to note that export-oriented industries may derive benefits from enhanced global competitiveness. On a macroeconomic scale, sustained depreciation of the rupee poses significant risks to economic growth and can adversely affect the balance of payments (BOP), which encapsulates the financial transactions between the country and the global economy.

This paper seeks to explore the cumulative impact of these dynamics on consumers, government entities, and the broader economy. By examining the historical context, current challenges, and the intricate relationships between currency value, inflation, and economic health, we aim to provide a comprehensive understanding of the implications associated with the depreciation of the rupee.

2. Domestic Factors contributing to the decline of Rupee Value

Domestic factors significantly influence the depreciation of the Indian rupee, highlighting the relationship between economic fundamentals and currency value. High inflation diminishes the rupee's purchasing power, making it less attractive to investors,

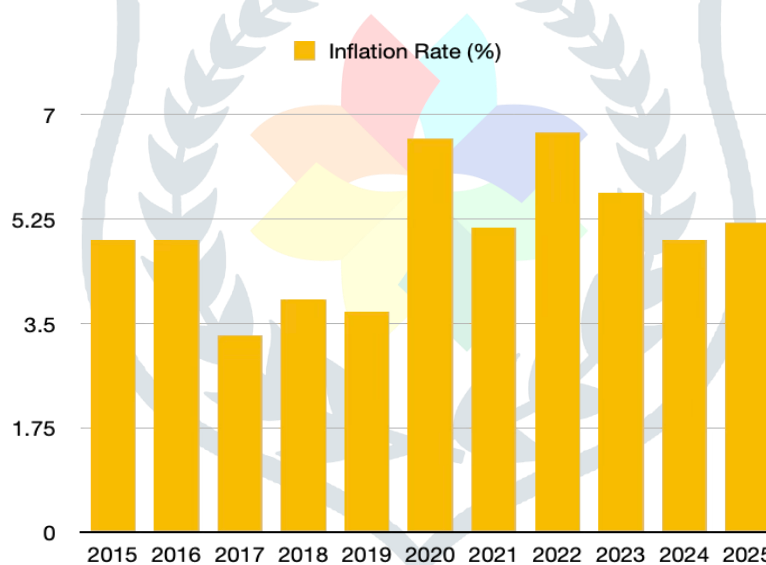
while persistent fiscal deficits raise concerns about economic stability. Political uncertainty and abrupt policy changes can further erode investor confidence. Slow economic growth decreases demand for the rupee, and while high domestic interest rates can attract foreign capital, excessively high rates may indicate economic distress. Current account deficits, resulting from elevated imports relative to exports, exert additional pressure on the rupee. Market volatility, along with weaknesses in the manufacturing and agricultural sectors, hampers export earnings vital for currency strength. Additionally, corruption and bureaucratic inefficiencies hinder economic productivity. Collectively, these internal factors play a crucial role in shaping the rupee's value in global currency markets.

2.1 Imports and exports

The trade balance of India significantly impacts the value of the rupee. When imports exceed exports, the demand for foreign currencies rises, leading to a depreciation of the rupee. Conversely, strong exports increase foreign currency inflow, enhancing rupee demand and stabilizing its value. A depreciating rupee makes imports more expensive while improving the competitiveness of Indian exports in the global market.

2.2 Inflation

Inflation refers to the long-term, consistent increase in the general price levels of goods and services over time. It is a critical economic indicator that affects the cost of living, purchasing power, and overall economic stability. Inflation is caused by various factors such as food prices, monetary policy, supply shortages, and structural issues within the economy.



(Source: Forbes India)

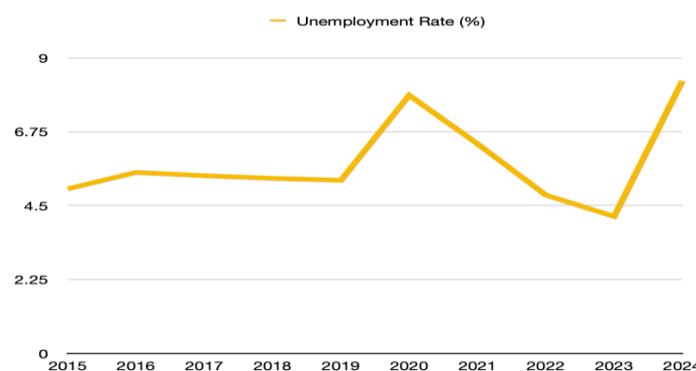
Fig 1: Inflation Rate in India during the period 2015-2025.

As shown in Fig 1. in 2015-2019, inflation remained between 3.3% and 4.9%, mainly due to stable crude oil prices, controlled food inflation, and RBI's inflation-targeting approach. Later, the Implementation of demonetization (2016) and GST (2017) initially caused short-term deflationary effects. Inflation spiked to 6.6% in 2020 due to supply chain disruptions, rising healthcare costs, and high crude oil prices. Inflation declined to 5.7% in 2023 as supply chains normalized and RBI raised interest rates to control demand. In fiscal year 2024-2025, India's retail inflation decreased to 4.9%, down due to tight monetary policy, easing global energy prices, and improved agricultural output.

In 2025, inflation is expected to slightly rise to 5.2%, driven by fiscal expansion policies, global economic uncertainties, and commodity price fluctuations.

2.3 Unemployment

Unemployment significantly affects the depreciation of the Indian rupee by impacting economic growth and investor confidence. High unemployment reduces the economy's productive capacity, leading to lower GDP growth and constrained consumer spending.



(Source: Macro Trends)

Fig 2: Unemployment Rate in India during the period 2015-2024.

India's unemployment trends from 2015 to 2025 reveal fluctuations driven by various economic factors. As shown in Fig 2, from 2015 to 2019, the unemployment rate remained stable at approximately 5 to 6%. The COVID-19 pandemic caused a notable increase to 7.86% in 2020. Following this, the unemployment rate declined to 4.82% in 2022 and further to 4.17% in 2023. However, in 2024, the rate increased again to 8.30%.

2.4. Interest rate:

Higher interest rates in India can attract foreign investors seeking better returns, increasing demand for the rupee and potentially appreciating its value. Conversely, lower interest rates may lead to capital outflows and a depreciating rupee.

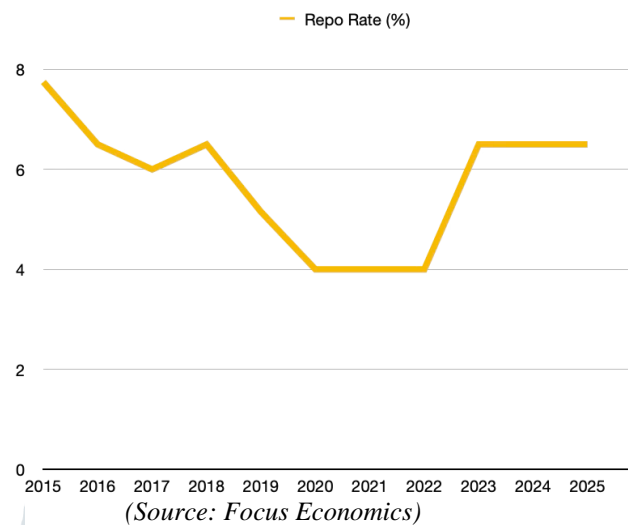


Fig 3: Interest Rates in India during the period 2015-2025.

In 2015, the Reserve Bank of India (RBI) set the repo rate at 7.75%. Over the years, the RBI implemented a series of cuts, reducing it to 5.15% by 2019. The COVID-19 pandemic prompted a further reduction to 4.00% in April 2020 to encourage borrowing. As shown in Fig 3, this rate was maintained through 2021 and 2022 to support economic recovery. However, in response to rising inflation, the RBI began increasing the rate in 2023, reaching 6.50% by December 2024. As of January 2025, the Reserve Bank of India (RBI) maintained the repo rate at 6.50%. (Deloitte's India Economic Outlook, January, 2025)

2.5. Growth Rate

The growth rate of an economy is the annual percentage change in its Gross Domestic Product (GDP), indicating the increase or decrease in the value of all goods and services produced. It is calculated by comparing the GDP of one period to that of a previous one, adjusted for inflation to reflect real GDP.

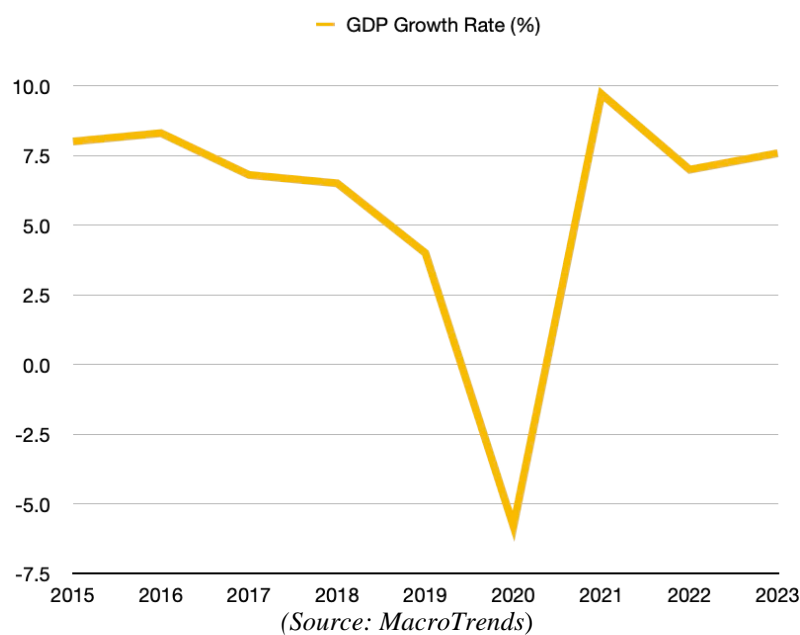
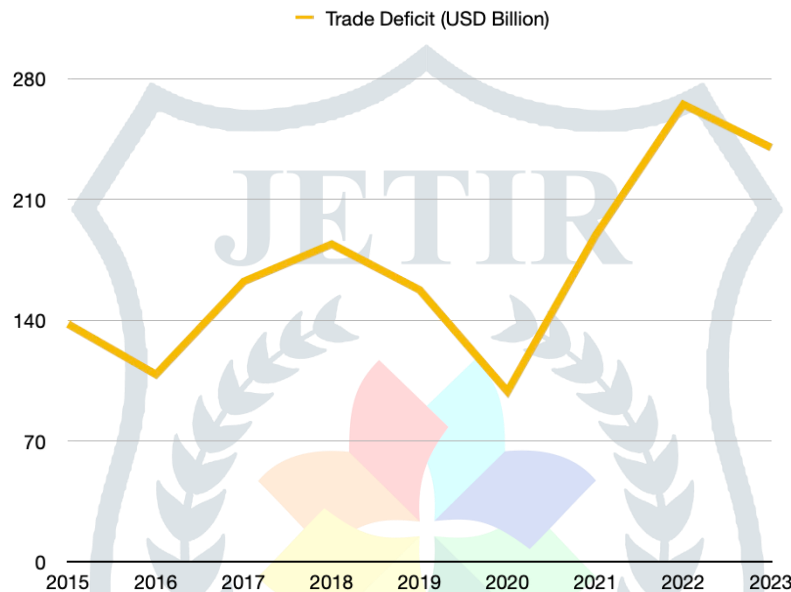


Fig 4: Growth Rate in India during the period 2015-2025.

As shown in Fig 4, from 2015 to 2016, India experienced strong GDP growth of over 8%, fueled by robust domestic consumption and favourable global conditions. Growth slowed after that due to the Goods and Services Tax (GST) and the impacts of demonetization. In 2020, the economy shrank by 5.8% due to the COVID-19 pandemic but rebounded by 9.7% in 2021 as restrictions eased. Growth stabilized around 7% in 2022 and 2023. This slowdown can be attributed to global uncertainties, inflation, and domestic challenges such as unemployment, though the services and manufacturing sectors continue to perform well. (Ministry of Statistics, 2025)

2.6. Trade deficit

A trade deficit occurs when a country imports more than it exports, indicating that its expenditure on foreign goods and services exceeds its earnings from exports. This imbalance is measured by subtracting total exports from total imports over a given period. While trade deficits are not inherently problematic, persistent and widening gaps can raise economic concerns, particularly in terms of currency depreciation. A prolonged trade deficit can exert downward pressure on the Indian Rupee, making imports costlier and contributing to inflationary trends.



(Source: Trading Economics, Economics Observatory)

Fig 5: Trade Deficit in India during the period 2015-2025.

In 2020, the trade deficit declined significantly due to pandemic-induced disruptions in trade and reduced demand for imports. As shown in Fig 5, by 2022, the deficit had reached \$265 billion, reflecting the impact of rising global commodity prices and increased consumption. In December 2024, the trade deficit stood at \$21.94 billion, a notable improvement from the record high of \$37.84 billion in November 2024 (Trading Economics).

2.7. Performance of equity markets

The performance of equity markets is typically gauged through indices like the BSE Sensex and Nifty 50, which track the top companies listed on India's major stock exchanges. The relationship between the equity market and macroeconomic variables can be complex and time-varying. (Ahluwalia, 2023)

The COVID-19 pandemic caused a sharp market decline, with the Sensex experiencing significant losses in March 2020. As of early 2025, the Indian equity markets are experiencing a downturn. The BSE Sensex has decreased by approximately 1.96% since the beginning of 2025. This decline is attributed to weak corporate earnings, significant FPI outflows, and global economic uncertainties. FPIs withdrew ₹64,156 crores from Indian equities in January 2025, influenced by rupee depreciation and rising U.S. bond yields (Livemint, 2025)

2.8. Foreign investments and Foreign exchange reserves

India's foreign exchange (forex) reserves play a pivotal role in determining the value of the Indian rupee (INR) against other currencies. These reserves, managed by the Reserve Bank of India (RBI), consist of foreign currency assets, gold reserves, Special Drawing Rights (SDRs), and the country's reserve position with the International Monetary Fund (IMF). The level of these reserves influences the RBI's capacity to stabilize the rupee, manage inflation, and ensure economic stability.

Over the past decade, India's forex reserves have exhibited significant fluctuations, reflecting both domestic economic policies and global economic conditions. The period from 2015 to 2025 witnessed notable volatility in India's forex reserves, particularly in 2024 when reserves peaked at \$704.89 billion in September, followed by a decline to \$625.87 billion by January 2025. This fluctuation impacted the INR's value, leading to depreciation pressures. A weaker rupee increases the cost of imports, contributing to inflation and affecting the trade balance. Higher import costs lead to increased production and transportation expenses, pushing up overall price levels. If exports don't increase accordingly, the trade deficit widens, putting pressure on the economy.

2.9. Commodity prices

Fluctuations in the prices of import and export commodities can lead to corresponding changes in the demand and supply dynamics of foreign exchange, thereby impacting the rupee's exchange rate.

Crude Oil: As a major importer of crude oil, India is sensitive to global oil price movements. An increase in crude oil prices escalates India's import bill, leading to a higher demand for U.S. dollars to settle these transactions. This increased demand can cause the rupee to depreciate. Conversely, a decline in oil prices can reduce the import bill, easing pressure on the rupee.

Gold: India is one of the largest consumers of gold globally. Elevated gold prices can widen the current account deficit due to increased import costs, exerting downward pressure on the rupee. On the other hand, lower gold prices may help in narrowing the deficit, potentially supporting the rupee's value

Agricultural Commodities: The export of agricultural products like spices and sugar plays a role in influencing the rupee's value. A depreciating rupee makes Indian exports more competitive in the global market, potentially increasing demand and supporting domestic prices. For instance, a weaker rupee can attract exporters and broadly lift prices of spices and other commodities with strong export demand.

3. Impact of Rupee decline on various sectors of the economy

The depreciation of the rupee has impact on various sectors of the economy. Some of the sectors are discussed below.

3.1 Information Technology (IT) and Service Sector

The IT and service sectors, which are primarily export-oriented, frequently gain from a weaker rupee. A weaker rupee improves the cost-effectiveness of Indian IT services in the global market, potentially leading to increased rupee income when foreign earnings are converted.

Over the past ten years, the Indian IT sector has expanded significantly. The sector's contribution to India's GDP has increased, with export income on a steady rising trend. For example, IT exports were over \$87 billion in fiscal year 2013-14, but are expected to reach \$150 billion by 2022-23. According to recent reports, the information technology sector continues to do well. However, experts warn that the benefits of rupee devaluation may be limited given to high import content in shipments and current global market concerns. Exporters face higher costs for raw materials and other dollar-denominated expenses, which might outweigh the benefits of a weak rupee. (The Economic Times, 2025).

3.2 Micro, Small, and Medium Enterprises (MSMEs) and Manufacturing

Micro, Small and Medium Enterprises, particularly those dependent on imported raw materials, face significant challenges during periods of rupee weakness. The rising cost of imports increases production expenses, which many MSMEs find difficult to transfer to consumers due to competitive market dynamics. This scenario may erode profit margins and affect the sector's overall sustainability.

The MSME sector has been a key contributor to India's economy, contributing for a significant part of employment and industrial output. In the fiscal year 2018-19, the Gross Value Added (GVA) contributed by Micro, Small, and Medium Enterprises in India recorded a growth of approximately 13 percent.

In the year ending September 2024, small businesses in India added approximately 11 million jobs, increasing total employment to 120.6 million. Despite this growth, wage increases have been modest, with a 13% rise to 141,071 rupees annually, which has not kept pace with the 5.5% retail inflation rate. This indicates that while employment is rising, real income growth remains a concern. (Reuters, 2024)

3.3 Energy and Oil Sector

India's heavy reliance on imported crude oil makes the energy sector particularly vulnerable to declining rupee. A weaker rupee increases the cost of oil imports, leading to higher fuel prices locally. This not only affects consumers but also affects the operational costs of energy dependent businesses, thereby contributing to inflationary pressures.

India's crude oil output has decreased over the last decade, with a reported 4% compound annual growth rate (CAGR) fall. Production decreased from 32.2 million tonnes in 2018–19 to 29.6 million tonnes in fiscal year 2021–2022. (Beeindia, 2023). As of the latest data, India's import dependency on crude oil was 88.1% between April and November 2024, slightly up from 87.6% in the same period the previous year. In November 2024, the trade deficit hit a record high of \$37.8 billion, up from \$20.7 billion in November 2023. This was made worse by the depreciation of the rupee, which raised the price of oil imports. (The Economic Times, 2025)

3.4 Impact on Imports and Exports

Over the past decade, India's trade landscape has experienced notable shifts. The total value of exports and imports has fluctuated due to various global and domestic factors, including currency depreciation, policy changes, and international demand.

Key Imports and Exports (2015-2025):

India's trade portfolio comprises a diverse range of commodities. The following Table 1 and Table 2 presents the most significant imports and exports over the past decade

Table 1: - Major Imports of India (2015-2025)

Commodity	Average Annual Import Value (USD Billion)
Crude Oil	100
Electronic goods	50
Gold	35
Electrical Machinery and Equipment	30
Organic Chemicals	20

Source: World Bank's World Integrated Trade Solution (WITS)

Table 2: - Major Exports of India (2015-2025)

Commodity	Average Annual Export Value (USD Billion)
Engineered goods	70
Petroleum products	60
Gems and Jewellery	40
Pharmacy products(optical, technical and medical apparatus)	25
Textiles and Garments	20

Source: World Bank's World Integrated Trade Solution (WITS)

Impact of Rupee Depreciation on Import Prices (2024-2025):

The depreciation of the rupee during 2024-2025 has led to increased costs for several key import commodities. The following Table

Commodity	Percentage increase in import cost
Crude Oil	10
Electronic goods	8
Gold	12
Machinery and spare parts	7
Organic Chemicals	9

3 illustrates the percentage increase in import prices due to currency depreciation.

Table 3: - Import Commodities Affected by Rupee Depreciation (2024-2025)

Source: Global Trade Research Initiative (GTRI)

Impact of Rupee Depreciation on Export Prices (2024-2025):

While a weaker rupee can enhance the competitiveness of Indian exports by making them cheaper in global markets, the high import content in certain export commodities can offset these benefits. The following Table 4 highlights export commodities affected by rupee depreciation:

Table 4: Export Commodities Affected by Rupee Depreciation (2024-2025)

Commodity	Average Annual Export Value (USD Billion)
Engineered goods	Dependence on imported components leads to increased manufacturing expenses
Gems and Jewellery	Increased cost of imported raw materials reduces profit margins
Pharmacy products	Higher prices for imported active ingredients affect production cost

Source: Global Trade Research Initiative (GTRI)

The depreciation of the Indian rupee has varied effects across different sectors, influencing imports and exports in several ways. While certain sectors may experience enhanced competitiveness in international markets, the increased cost of imports, especially for commodities integral to export-oriented industries, can mitigate these advantages. Below is a more polished summary of how specific goods and services are impacted.

3.5 Impact on the Indian Stock market

The devaluation of the Indian rupee (INR) in relation to the US dollar has a major effect on the Indian stock markets, particularly the benchmark indexes, the Nifty 50 and the BSE Sensex. A falling rupee can have both positive and negative effects on a number of industries, which can have an impact on overall market indices

Export-Oriented Sectors: Export-Oriented Sectors: Businesses that rely heavily on exports, such as pharmaceuticals and information technology (IT), frequently profit from a declining rupee. Increased rupee revenue from their foreign exchange profits may help indexes and sustain the value of their stocks.

Import-Dependent Sectors: Conversely, a declining rupee raises costs for industries that depend on imports, such as consumer electronics and oil and gas. Increased import costs have the potential to reduce profit margins and lower stock values in certain industries.

Historical Analysis (2015-2025):

The following table summarizes key instances over the past decade where significant rupee depreciation coincided with notable movements in the NIFTY and SENSEX indices

Table 5: - Change in the NIFTY and SENSEX indices with respect to change in Rupee value.

Year	USD/INR Exchange Rate	NIFTY Change(%)	SENSEX Change(%)	Remarks
2015	Rs 63.33 - Rs 66.33	-4.1	-5.0	Global factors led to capital outflows, causing rupee depreciation and market declines.
2018	Rs 63.88 - Rs 72.19	3.2	5.9	Despite rupee weakening, strong corporate earnings propelled market gains.
2020	Rs 71.28 - Rs 74.10	14.9	15.7	Pandemic-induced volatility; markets recovered due to fiscal stimulus despite rupee dip
2022	Rs 74.50 - Rs 79.90	-2.0	-1.9	Inflation concerns and global tensions led to rupee fall and modest market corrections.
2024	Rs 79.00 - Rs 84.13	-3.5	-3.8	Political uncertainties and foreign outflows pressured both rupee and equity markets.

(Source: RBI, NSE and BSE)

The relationship between rupee depreciation and Indian stock market performance is complicated. While export-oriented sectors may benefit from a weaker rupee, overall market sentiment is often negative due to concerns about inflation, higher import costs, and foreign capital outflows. Investors should keep these dynamics in mind when making investment decisions, as the impact of currency fluctuations varies by sector and time period.

3.6 Impact on Traders and Investors:

Market volatility poses challenges for traders and investors, leading to potential losses and necessitating strategic adjustments. Long-term investors may experience fluctuations in portfolio values, while short-term traders might encounter increased risks. Such volatility can erode investor confidence, leading to cautious investment approaches and potential capital withdrawal

4. Measures taken by RBI to stabilize rupee value

In the past six months, the Indian government and the Reserve Bank of India (RBI) have implemented several measures to stabilize the rupee amid global economic challenges. In February 2025, the RBI reduced the benchmark repo rate by 25 basis points, marking the first rate cut in nearly five years, aiming to stimulate economic growth as inflation showed signs of easing. Additionally, the RBI has actively intervened in the foreign exchange market to curb the rupee's volatility. In February 2025, the Central Bank of India was reported to have sold dollars through state-run banks to support the rupee, which had reached record lows due to concerns over potential U.S. trade tariffs. Furthermore, the RBI has conducted buy/sell dollar-rupee swaps to manage liquidity and support the rupee. In early February 2025, traders noted that the Central Bank engaged in such swaps alongside spot dollar sales to bolster the rupee's value. These measures reflect a comprehensive approach by Indian authorities to address the challenges facing the rupee and to promote long-term economic stability.

5. Can the Rupee bounce back?

Stronger economic growth and better exports would stabilize the rupee. During 2024-25, the Reserve Bank of India (RBI) took some short-term measures to stabilize the rupee in the backdrop of global economic uncertainties, volatile crude oil prices, and geopolitical tensions. In February 2025, the RBI was reported to have sold dollars through state-run banks to support the rupee amid concerns over potential U.S. trade tariffs. Despite these challenges, the rupee's future trajectory will depend on various factors, including global economic conditions, domestic fiscal policies, and the effectiveness of interventions by the RBI. While the current outlook suggests continued pressure on the rupee, strategic policy measures and favorable economic developments could facilitate its recovery over time.

6. Conclusion

In conclusion, the depreciation of the Indian Rupee is a multifaceted issue influenced by a mix of domestic and global factors such as inflation, trade deficits, interest rates, and economic growth trends. While a weaker rupee can potentially enhance the competitiveness of Indian exports and initiate gains in sectors like IT, it simultaneously prompts higher import costs, exacerbates inflation, and strains investor confidence. The Indian economy has shown resilience through various phases of fluctuating currency value, driven by key measures from the Reserve Bank of India, which involves adjusting interest rates and executing market interventions aimed at stabilizing the rupee. Despite periods of economic recovery and growth, the future trajectory of the rupee remains contingent on persistent challenges, including global economic conditions and commodity price fluctuations. As India navigates its path forward, maintaining a balance between leveraging opportunities presented by a depreciating currency and mitigating its adverse impacts, this endeavour will be crucial for promoting economic stability and growth in the long run. Through strategic policy reforms and economic planning, there is potential for the Indian Rupee to recover and reinforce its standing in the global market.

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