September 16, 2025

Why is the Indian Rupee depreciating against the US Dollar?

What's the Point?

- After a stable period of 2 years, the Indian Rupee has witnessed a sharp depreciation against the US Dollar in CY25, falling 4.7% from this year's high in May 2025 to an all-time low of ₹88.44 in September 2025.
- This fall has been driven by a stronger demand for US Dollar (USD) compared to Indian Rupee (INR) on account of higher trade deficit and persistent selling by Foreign Portfolio Investors (FPIs) in Indian equity markets, which has been exacerbated by the uncertainty around tariffs imposed by the US Government on India.
- A weaker INR warrants attention because it tends to increase the cost of imports, putting upward pressure on inflation, which can potentially pose a risk to India's macroeconomic stability. However, India currently looks to be comfortably placed with lower inflation, marginally higher imports and comfortable level of forex reserves.

How steep has INR's depreciation against the USD been?

1) **Short-term picture**: INR has depreciated by nearly 3% in CYTD25 (December 31, 2024 to September 12, 2025), which has been much higher than other major Emerging Markets (EMs) (Refer Chart 2).

2) **Longer-term picture**: Despite such a depreciation witnessed in this calendar year, it is important to note that INR has been stable for 2 years between December 2022 and December 2024 – witnessing a depreciation of only 3.5% during that period (Refer Chart 1) on account of higher real yields for India compared to US. This depreciation is much lower than other major EMs, as evident from the Chart 2 below.

Chart 1: Rupee had been stable for an extended period prior to its steep depreciation in CY25YTD

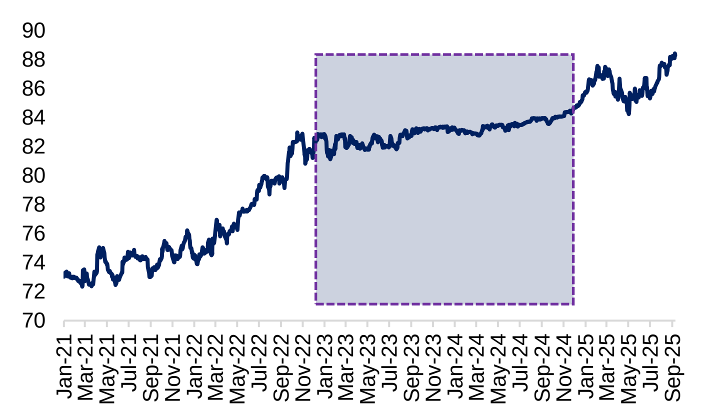


Chart 2: Rupee depreciation had been much lower before the start of CY25

Currencies	Dec-22 to Dec-24*	CY25YTD
Argentine Peso	-82.8%	-28.0%
Turkish Lira	-47.1%	-14.5%
Russian Ruble	-34.6%	35.4%
Brazilian Real	-14.5%	14.6%
South Korean Won	-14.0%	5.6%
South African Rand	-9.6%	8.4%
Mexican Peso	-6.4%	12.6%
Taiwanese Dollar	-6.3%	8.5%
Chinese Renminbi	-5.5%	2.5%
Indian Rupee	**-3.5%**	**-3.0%**
Indonesian Rupiah	-3.3%	-1.7%
Malaysian Ringgit	-1.5%	6.4%
Thai Baht	1.5%	7.5%
Colombian Peso	10.1%	12.7%

Source: Bloomberg. *Absolute Change; Chart 2: Currency depreciation has been arranged in descending order of the period Dec-22 to Dec-24

Major Reasons for such a Depreciation

1) **Tariffs imposed by US Government on India**: The shifting narrative around tariffs has created heightened uncertainty for global trade, currency markets and capital markets. On August 6, 2025, US announced that goods imported from India would face a 50% tariff rate effective from August 27, 2025. Since such a move makes Indian exports goods less competitive, it poses a risk to INR depreciating against the USD. With the threat of imposition of tariffs already looming since its announcement in April 2025, INR has fallen by 4.7% from its highest point of ₹84.25 touched in CY25 on May 05, 2025 to ₹88.22 on September 15, 2025.

2) **FPI Outflows**: FPIs have been net sellers of the Indian equity markets in the recent past. This has happened mainly on account of tariffs reducing the confidence of FPIs on India's growth prospects and forward valuations of Indian equity markets standing at a premium relative to its long-term averages and some EMs. Hence, India's

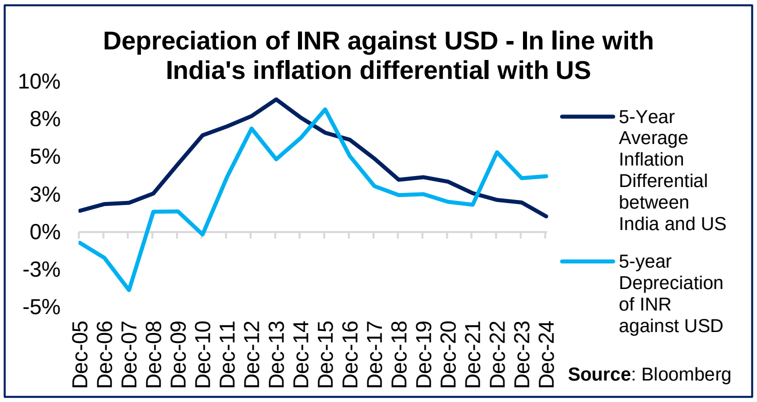
foreign outflows have been meaningful, standing at ₹23,819 crore in FY26YTD (as on September 15, 2025). This sell-off in the equity markets could have contributed to the downward pressure on INR against the USD.

Impact of INR Depreciation against USD – Positive or Negative?

1) **Exports**: As discussed earlier, the recent increase in tariffs by the US Government poses a risk to India's exports, especially merchandise exports. Despite that, a depreciation of INR against USD can help offset some of that risk as depreciation makes exports more competitive. For segments that have been exempted from tariffs, such a depreciation could further boost revenue in INR terms. Services exports have largely remained unaffected, with Information Technology (IT) – a major component of India's services exports – being a key beneficiary.

2) **Imports**: India's import bill for India for 4MFY25 (US$244.9 billion) has stood 5.7% higher than 4MFY24 (US$231.6 billion). While the depreciation of INR against the USD can put a further pressure on India's import bill, the value of imports has not increased significantly. This has happened on account of crude oil prices falling by 14.6% from its FY26 peak level of US$78.9 per barrel (bbl) (June 19, 2025) to US$67.3/bbl as on September 15, 2025 due to concerns around a softening demand for crude oil in US and a probable oversupply.

3) **Inflation Differential**: Theoretically, a country with higher inflation relative to the other can encounter depreciation of its currency owing to decrease in purchasing power. As evident from the chart, India's inflation over the years has been higher than that of US, leading to INR depreciation against USD. However, this differential has been decreasing, and so has the depreciation of INR. Going forward, with India's inflation expected be lower than the past, this differential could be lower, thereby keeping depreciation of INR under check.



Source: Bloomberg

Key Takeaway: Currently, India draws comfort from the fact that forex reserves stand at a healthy level, touching nearly US$698 billion as on September 05, 2025, which is key for servicing import payments and defending INR from further depreciation. While the imposition of tariffs is expected to put a strain on the economic growth in the short-term, India looks to be structurally well placed with the Government and the Reserve Bank of India (RBI) focused on reviving and strengthening it further with pro-growth policies.

Sources: Bloomberg, CMIE, NSDL, RBI and other publicly available information

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