Data Taste Revealed

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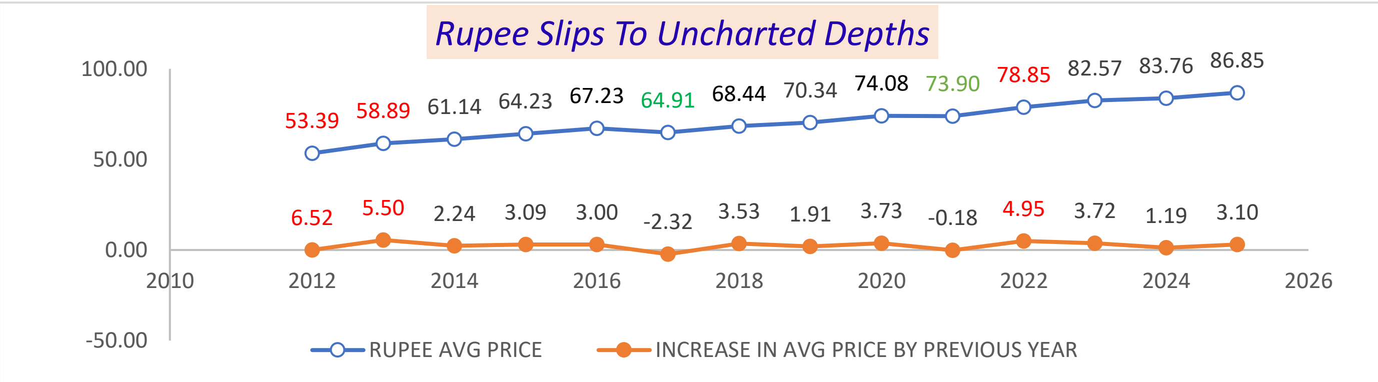
Economic Research Vertical: Canara Bank: Head Office

Discussion — **Currency Under Strain: Assessing the Rupee's Descent to Record Lows**

Data Source — **Historical Data from Investing.com**

Reflections

- A weaker rupee tends to increase import costs (especially for oil and gold), which can exert upward pressure on inflation and limit room for monetary easing.
- For exporters (especially in IT, pharma, textiles) a weaker rupee is a partial advantage due to higher INR revenue for dollar earnings; but for import-heavy sectors, margins can be squeezed.
- In 2012, Rupee fell heavily due to the Eurozone crisis, high CAD from oil and gold imports, slowing growth, and weak investor confidence.
- In 2013 also Rupee Depreciated sharply, triggered by US Fed tapering, heavy capital outflows, record CAD, low reserves, and high inflation.
- In 2022, Rupee weakened significantly amid Fed rate hikes, strong dollar, Russia-Ukraine war-led oil surge, FPI outflows, and inflation pressures.
- The rupee's future path will depend a lot on global conditions (US interest rates, dollar strength, trade wars) and domestic factors like export performance, trade deficit management, and RBI intervention strategy.



Key Takeaway:

- ***The rupee's fall is structural rather than episodic, reflecting India's persistent trade and current account deficits, high import dependence (especially on crude oil), and inflation differentials.***
- ***Global shocks — such as the 1991 balance of payments crisis, 2013 taper tantrum, and recent Fed tightening cycles — have repeatedly exposed external vulnerabilities.***
- ***Despite depreciation, the rupee has remained relatively stable in real effective terms, supported by prudent RBI interventions and growing foreign reserves.***
- ***Capital flow volatility and reliance on short-term foreign investment continue to influence exchange rate movements more than trade fundamentals.***
- ***Over time, the rupee's decline has also enhanced export competitiveness, though structural reforms are needed to reduce import intensity and strengthen manufacturing.***

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