

RBI Must Prevent Disorderly Rupee Volatility

Amarendu Nandy and Abhisek Sur on how the rupee's fall should be read less as an export opportunity than as a stress test of India's production structure

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The rupee's recent weakness is not merely a dollar story. On May 12, the Financial Benchmarks India/RBI reference rate was ₹95.56 per dollar, ₹112.34 per euro, ₹129.57 per pound and ₹60.71 per 100 yen. Over the previous year, the rupee depreciated by 12.6% against the dollar, 19.1% against the euro and 15.6% against the pound. The fall against the yen was milder, at 5.8%, owing more to yen weakness.

Bureau of Indian Standards data shows India's real effective exchange rate falling from 96.28 in November 2025 to 91.05 in March 2026. The important question is whether this broad-based weakness has made India more competitive, or merely more vulnerable to costlier imports.

If depreciation were working as textbook theory promises, goods exports should be surging. They are not. In 2025–26, merchandise exports rose to \$441.78bn from \$437.70bn, a mere 0.93% increase. Imports rose far more sharply, from \$721.20bn to \$774.98bn. The goods trade deficit widened by \$50bn to \$333.19bn from \$283.50bn. Notably, petroleum imports actually fell 6.4% in 2025–26, partly reflecting discounted Russian crude.

The contrast with services is instructive and uncomfortable. Services exports rose to \$418.31bn, while the services surplus expanded to \$213.89bn. That surplus now offsets 64.2% of the merchandise trade deficit. Effectively, India's external account is being stabilised not by factory floors responding to a weaker currency but by software engineers and information-technology professionals whose output is largely immune to it.

If we dig further, the picture becomes even less flattering. Non-petroleum, non-gems exports rose by about \$15bn, while comparable imports rose by nearly \$44bn. Consider gold: imports rose 24.1% in value to \$71.98bn, yet the quantity of gold imported actually fell, from 757 tonnes to 721 tonnes. The rupee's own depreciation inflated the rupee-denominated import bill without any increase in underlying demand.

If imported inputs are used to produce exports, restricting them can damage the very companies the currency depreciation is supposed to help

The problem, in short, cannot be reduced to crude oil and gold. It lies deeper in the production structure. Indian manufacturing still depends substantially on imported inputs,

intermediates and capital goods. A weaker rupee is not operating on a self-contained export base; it is passing through a system in which many firms must import before they can export.

Therefore, what matters is not the gross export value but the value retained after imported costs have been accounted for.

An Exim Bank study on exchange-rate movements estimated that raw-material import intensity in Indian manufacturing stood at 33.4% in 2022–23, while export orientation was only 6.5%. More significantly, 56.2% of India's merchandise exports came from industries where raw-material import intensity was higher than the manufacturing average. In such sectors, depreciation raises export potential and production costs simultaneously. The net gain is therefore not just uncertain—in many cases, it is negative.

Balancing Act

Take the case of oil. India's crude import dependence stood at around 89% during April–January 2025–26. Petroleum products may show up as exports, but refining begins with imported crude. When crude prices rise and the rupee weakens simultaneously, the apparent export benefit is squeezed by the higher crude bill. The pressure then travels through freight, petrochem, plastics, fertilisers and other linked costs. April 2026 Wholesale Price Index data shows this stress—it jumped to 8.3%, with the fuel and power surging 24.71%.

Electronics illustrates the wider policy problem most explicitly. In 2025–26, electronics imports hit \$116.2bn, up 17.8%. Electronics exports, boosted by production-linked incentive-driven smartphone assembly, reached \$48bn, a 24.4% increase. The import-to-export ratio in electronics is 2.4 to 1. India is assembling phones at scale and shipping them out; it is also importing nearly every chip, display and circuit board that goes inside them.

Pharmaceuticals, chemicals, engineering goods and textiles face variations of the same constraint. Some firms, especially high-value-added ones with pricing power, will benefit from depreciation. Others will see much of the gain offset by higher costs. MSMEs are especially exposed. They have thinner liquidity buffers, weaker bargaining power and less access to affordable hedging.

At the same time, a persistently overvalued rupee would hurt labour-intensive exports, encourage imports and weaken the tradables sector. Some real adjustment may help restore competitiveness where domestic capability already exists. But price competitiveness is not the same as export capability. The former can be delivered by the exchange rate. The latter requires firms, infrastructure, finance, skills, logistics and reliable policy.

RBI should not defend a particular rupee level. Rather, it must contain excessive volatility and protect inflation credibility. Besides, RBI and banks must monitor currency-related balance-sheet stress, especially among firms with imported input cycles and no natural dollar earnings.

Stress Test

Hedging also has to become usable for smaller firms. MSMEs face documentation burdens, collateral requirements and products that rarely match their cash flows. Standardised, low-

ticket hedging products linked to confirmed export orders or import-input contracts would help.

The government should resist broad import controls as a reaction to rupee weakness. Gold and non-essential imports are one matter. Industrial inputs, active pharmaceutical ingredients, components, machinery and precision equipment are another. If imported inputs are used to produce exports, restricting them can damage the very firms depreciation is supposed to help.

The rupee's fall should be read less as an export opportunity than as a stress test of India's production structure. Firms with scale, domestic inputs and pricing power will manage. Firms dependent on imported energy, components and machinery will be squeezed. The answer is to make more of what exporters actually use, domestically and at competitive cost. Until that happens, depreciation will impose too many costs for too modest an export dividend.

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