

Rupee Under Pressure: Why Rupee Under Pressure Fragile Five Era Comparison Matters

May 2, 2026 • vajiramandravi.com



Rupee under Pressure Latest News

- The Indian rupee has depreciated sharply, touching an **all-time low of ₹95.33** against the US dollar on April 30, 2026, meaning it now takes over ₹95 to buy one dollar.
- This marks a steep decline compared to the beginning of 2026, when the exchange rate was around ₹90 per dollar, and less than ₹85 a year ago.
- Overall, the rupee has **fallen by about 12%** in just **12 months**, significantly higher than its typical annual depreciation of 3–4%.
- The magnitude of this fall is reminiscent of the 2013 currency crisis, when the rupee similarly weakened by around 12% within a short span, indicating heightened pressure on the currency in recent times.

‘Fragile Five’ Economies and Currency Depreciation

- In 2013, a leading global financial services firm Morgan Stanley identified five emerging market economies—**India, Indonesia, Brazil, South Africa, and Turkey**—as the “Fragile Five” due to their vulnerable currencies.
- During this period, their currencies saw **sharp declines against the US dollar**, including the Indian rupee, Indonesian rupiah, Brazilian real, South African rand, and Turkish lira.

Role of US Monetary Policy

- The primary trigger behind this depreciation was the rollback of Quantitative Easing (QE) by the Federal Reserve.
- Under QE, low interest rates in the US encouraged investors to borrow cheaply in dollars and invest in higher-yielding emerging markets.
- However, when the US signalled tightening of monetary policy, capital flows reversed as investors shifted funds back to safer US assets like government bonds.

Underlying Structural Weakness

- These economies were particularly affected because they ran current account deficits—importing more than they exported—and relied heavily on foreign capital inflows to finance this gap.
- When global investment flows reversed, the demand for their currencies fell sharply relative to the US dollar, leading to significant depreciation.

Rupee in 2026: Revisiting the ‘Fragile Five’ Comparison

- While India has projected itself as a leading global economy, even reaching the top five in GDP rankings in recent years, recent trends show renewed pressure on the rupee.
- Over the past 12 months, the Indian currency has depreciated by about 12.1% against the US dollar, making it the second-worst performer among the original “Fragile Five” economies.

Comparative Performance of Other Economies

- Unlike 2013, the current scenario shows divergence among these economies.
- Brazil and South Africa have witnessed currency appreciation—around 12% and 10% respectively—indicating stronger external positions or capital flows.
- Indonesia has experienced only a modest depreciation of about 4%, suggesting relative stability.
- Turkey remains the worst performer, with its currency—the **lira**—falling by 17% in the past year.
 - More significantly, the lira has undergone a prolonged crisis, losing over 1000% of its value since 2018, highlighting deep structural economic issues.

Rupee Depreciation: Comparing 2026 with the 2013 Crisis

- The rupee’s fall in 2026 closely mirrors the decline seen during the 2013 crisis in terms of scale.
- It depreciated by about 9.6% in FY 2025–26, almost identical to the 9.5% fall recorded in FY 2013–14.

- However, a **key difference** lies in the trend: the 2013 decline came after consecutive sharp falls in the preceding two years (around 13% in FY12 and 6% in FY13), whereas the recent depreciation followed a period of relatively moderate currency movement.

Underlying External Sector Pressures

- The drivers of the current depreciation resemble those of 2013, particularly in terms of **balance of payments stress**.
- Both periods witnessed a **widening current account deficit**, indicating higher outflows on imports of goods and services.
- At the same time, the capital account also weakened, with reduced or negative inflows, reflecting capital outflows from the economy.
- The simultaneous occurrence of deficits in both current and capital accounts created significant pressure on the rupee in both periods.
- This meant that not only was India spending more foreign exchange on imports, but it was also losing capital to global markets, intensifying the currency's decline.

Role of Forex Reserves

- In such situations, the only buffer available is the drawdown of foreign exchange reserves.
- As in 2013, India has had to rely on its reserves to manage the imbalance between inflows and outflows, highlighting the structural similarity between the two episodes despite differences in preceding trends.

Source: IE

Source: <https://vajiramandravi.com/current-affairs/rupee-under-pressure/>

© Vajiram & Ravi. For personal use only.