



# Tru Primer

**17 April 2026**

## **The INR Crisis, RBI's Response & Implications for Foreign Investors**

The INR has depreciated by around 8% since the start of 2025 to ₹93/\$, emerging as Asia's worst-performing major currency since 2025, driven by ~\$38 billion in FPI outflows, US tariffs and a widening current account deficit (CAD). The RBI responded aggressively intervening across both the spot and NDF markets, and imposing restrictions on offshore NDF positions in April-26, but volatility persists. With the INR's trade weighted REER now at around 94, currency instability remains the primary barrier to FII re-engagement, and a durable recovery hinges on a sustained exchange rate stability.

# The INR Crisis, RBI's Response & Implications for Foreign Investors

## Executive Summary

Over the past 15 months, the Indian Rupee (INR) has undergone one of its most significant depreciation episodes in recent memory. After a remarkably stable two-year phase between Jan' 2023 and Dec' 2024, during which the currency depreciated only ~3.5% in absolute terms (far below regional peers), the INR entered 2025 in freefall.

The Indian Rupee (INR) depreciated from ~₹86 in early 2025 to ₹93 by April 2026, making it Asia's worst-performing major currency since 2025. The weakness in INR has been driven by a mix of record FDI outflows, US tariff shock and a widening current as well as capital account deficit.

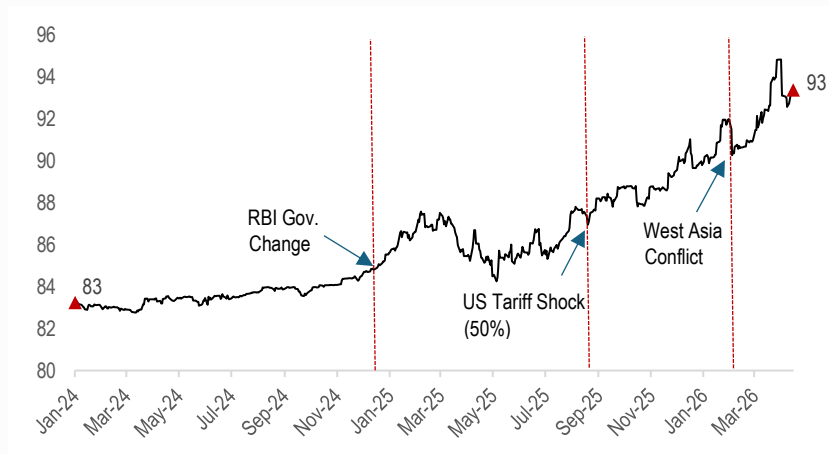
## What Drove the Decline?

Driver	Estimated Impact
US Tariff Shock	High
FPI Equity Outflows (~\$38bn 2025-2026 YTD)	High
Expectations of a widening Current Account Deficit (CAD)	Moderate
RBI Governor Transition (Dec 2024)	Policy uncertainty, brief INR stress
Geopolitical risk (West Asia, crude spike)	Ongoing pressure

The RBI has responded with a multi-pronged intervention strategy spanning spot markets, NDFs, forward books, and regulatory reforms. Despite this, INR remains under pressure, and its instability continues to be a principal deterrent to FII re-engagement.

The 52-week range of USD/INR has spanned from ₹84 to ₹95, a swing of over 13%. As of April 2026, the rate hovers around ₹93/\$, reflecting a year-on-year change of ~9%. **This note examines the forces behind the slide, the RBI's response, and what it means for foreign investors.**

**Figure 1: USD/INR Exchange Rate**

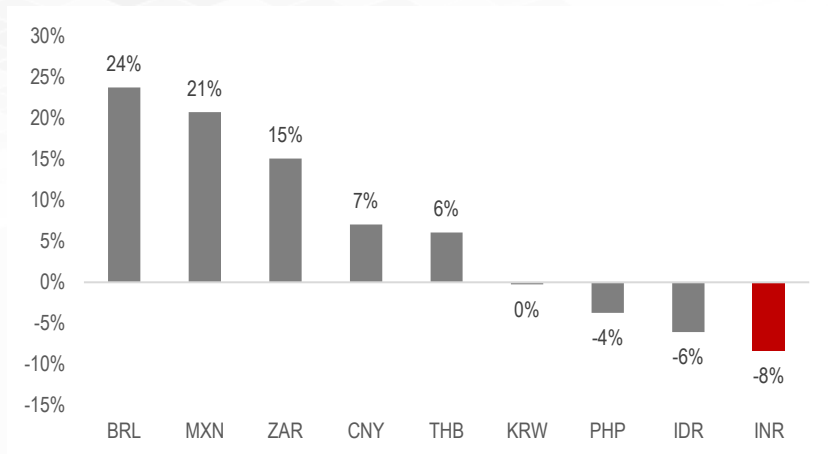


**Source:** Bloomberg, HDFC TRU. **Note:** Priced as of 15<sup>th</sup> April 2026.

### INR Among Global Peers: Asia's Weakest Link

The INR's underperformance since 2025 was not merely relative to the US\$, it stood out even against other beleaguered emerging market currencies. Driven by a uniquely adverse combination of US tariff exposure, persistent capital outflows, and a record trade deficit, the INR depreciated approximately 5%/4% against the US\$ in CY2025/2026 YTD, making it Asia's worst-performing major currency and one of the weakest among broad EM peers.

**Figure 2: EM Currency Performance vs USD (Jan 2025 – April 2026 MTD)**



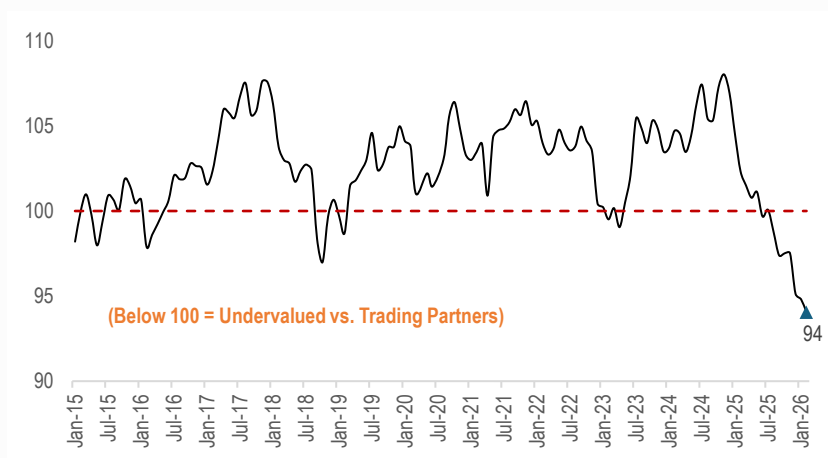
**Source:** Bloomberg, HDFC TRU. **Note:** Priced as of 15<sup>th</sup> April 2026.

### Real Effective Exchange Rate (REER): From Overvalued to Undervalued

The Real Effective Exchange Rate (REER) which adjusts the nominal exchange rate for inflation differentials versus trading partners provides the most important signal of underlying currency valuation. For most of the past decade, the INR's REER hovered above 100 (its fair-value baseline), indicating an overvalued rupee.

The REER peaked at approximately 108 in late 2024 before sliding below 100 in mid-2025 and further to ~94 by early 2026. This represents a meaningful swing in India's competitive position.

**Figure 3: India's 40-currency trade-weighted REER at its lowest level since 2015**



**Source:** Bloomberg, HDFC TRU. **Note:** Priced as of 15<sup>th</sup> April 2026.

## What is a Non-Deliverable Forward (NDF) ?

A Non-Deliverable Forward (NDF) is an over-the-counter (OTC) currency derivative that allows market participants to hedge or gain exposure to a currency, such as the INR, without requiring physical delivery of that currency. Settlement occurs in a freely convertible currency (typically USD), based solely on the net difference between the contracted NDF rate and the prevailing spot fixing rate at maturity.

### A Simple Example:

Suppose a US-based investor expects to receive INR 10m in six months but fears the INR will lose value against the USD. To hedge this risk, they enter into a Non-Deliverable Forward (NDF) with a bank at a contracted "forward rate" of 90.0 INR/USD. Six months later, if the market "spot rate" has shifted to 91.0 INR/USD (meaning the Rupee weakened), the bank calculates the difference between the 90.0 contract and the 91.0 market price. Instead of trading the full INR 10m, the bank simply pays the investor the loss in value, which is approximately \$1,220, settled entirely in US\$. This cash settlement compensates the investor for the INR's decline without either party ever having to deal with local Indian banking regulations or physical currency delivery.

### Why the Offshore NDF Market Matters:

The offshore USD/INR NDF market is one of the most liquid EM currency derivative venues globally, with average daily turnover estimated at \$40–50 billion, considerably exceeding the onshore forward market. Sentiment and pricing in the NDF market can transmit directly to onshore spot and forward rates, creating a channel through which offshore speculative pressure amplifies domestic INR moves. This linkage is the primary reason the RBI has increasingly turned to NDF market regulation as a policy lever.

## The RBI's Policy Response to INR Volatility

The Reserve Bank of India (RBI) has recently navigated a period of intense currency pressure, as the Indian Rupee (INR) hit historic lows, crossing the ₹95/\$ mark in March-2026. The RBI's "defense of the rupee" was triggered by a "perfect storm" of global and domestic factors that threatened macro-stability.

### Why These Measures Were Necessary?

Factor	Description
<b>The Oil Shock</b>	With Brent crude climbing past <b>\$100–\$115 per barrel</b> due to West Asia tensions, India's import bill surged, creating a massive demand for dollars.
<b>Geopolitical Risk</b>	Escalating conflicts in the Middle East led to global "risk-off" sentiment. Investors fled emerging markets like India for the safety of the US Dollar.
<b>Capital Outflows</b>	Foreign Portfolio Investors (FPIs) pulled over <b>\$12bn</b> in March 2026 alone, the sharpest exit in years, as they sought higher yields and lower risk in the US.
<b>The "NDF" Influence</b>	Speculative trades in offshore markets were beginning to dictate the price of the rupee at home. The RBI intervened to regain "sovereignty" over the currency's value.

To curb volatility, the RBI has deployed a combination of direct market intervention and new regulatory "speed bumps." The RBI maintains that it does not target a specific level for the INR (e.g., isn't "defending 95"). Instead, it intervenes to ensure that the movement is gradual and orderly.

### Summary of the Recent Measures Taken by the RBI

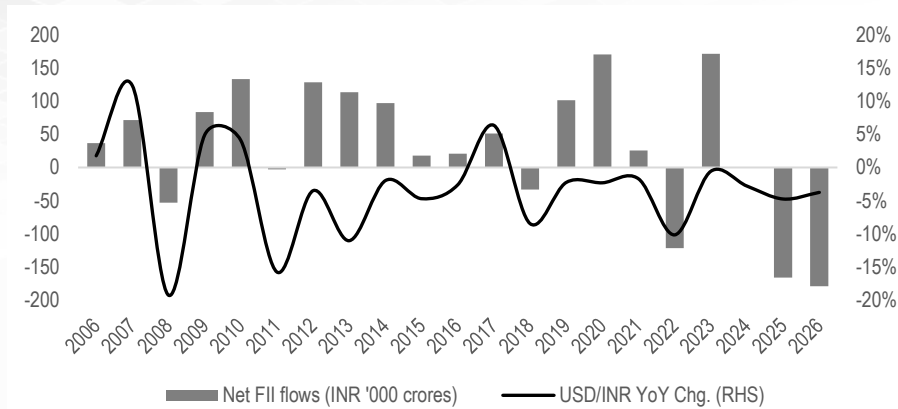
Measure	What changed?	Simple Logic
<b>Net Open Position of \$100m*</b>	Lowered from ~25% of capital to a flat \$100m.	Prevents banks from "hoarding" dollars and betting against the Rupee.
<b>NDF Ban</b>	Banks can no longer offer offshore NDFs to locals.	Stops the "contagion" where offshore panic pulls domestic prices down.
<b>Anti-Churning</b>	Prohibited rebooking of cancelled contracts.	Stops traders from repeatedly "rolling over" bets to stay in a trade forever.

\*Note: Previously, banks could hold "open" positions (which is the difference between their dollar assets and liabilities).

## FII flows, INR instability and the Global Capital Nexus

Currency instability is not merely a macro-economic inconvenience, it is a primary deterrent for foreign institutional investors (FIIs/FPIs) allocating to Indian equities and debt. The data tell a clear story – episodes of sharp INR depreciation closely track peak periods of foreign capital outflows, creating a self-reinforcing cycle that policymakers are working hard to break.

**Figure 4: Annual FPI Net Flows (INR '000 crores) vs. USD/INR (YoY Chg.)**



**Source:** Bloomberg, NSDL, HDFC TRU. **Note:** Priced as of 15<sup>th</sup> April 2026.

### The Correlation Is Stark

In March 2026, FPIs pulled a record ₹117,775 cr (~\$12.7 billion) from Indian equities in a single month, the largest monthly withdrawal ever recorded, triggering a sharp move in USD/INR (down 4% m/m). By end CY2025, cumulative FPI equity outflows reached \$18.9 billion. Through this period, the rupee fell from ₹85 to around ₹90, reinforcing the very uncertainty that was driving outflows in the first place.

Period	FPI Net Flow (Equity)	USD / INR Move	INR % Chg.
Oct–Nov 2024	\$13.8 bn	83.8 → 84.5	-1%
July–Sep 2025	\$8.7 bn	85.8 → 88.8	-3%
CY2025 Total	\$18.9 bn	83.8 → 90.9	-5%
March 2026	\$12.7 bn	90.9 → 94.8	-4%

**Source:** Bloomberg, NSDL, HDFC TRU.

### Our View: Stability Is the Prerequisite

The INR's trajectory over the past 15 months encapsulates the challenge facing India's policymakers at the intersection of domestic growth ambitions and global capital markets. The currency has moved from being overvalued (REER ~108) to undervalued (REER ~94), a rare and potentially significant reversal that, if sustained, could reignite export competitiveness and attract value-driven capital.

The RBI has deployed its toolkit with increasing sophistication – direct intervention, NDF reforms, forward book management, and a calibrated monetary stance. The Apr-26 NDF market crackdown marks a qualitative step-up in willingness to constrain offshore speculation, even at the cost of some market liquidity.

However, the fundamental equation for FII re-engagement is clear; currency stability or at least predictability, must be restored before large-scale foreign capital returns to Indian equity and debt markets. The data confirms that INR volatility and FPI outflows are two sides of the same coin. Breaking this cycle is not just a monetary policy priority, it is essential for India's ambition to deepen its role in global capital markets and sustain its growth trajectory.

## **Disclaimer**

---

This communication is being sent by the Investment Advisory Group of HSL IA., registered under SEBI (Investment Advisors) Regulations, 2013 under the Registration number INA000011538.

This note has been prepared exclusively for the benefit and internal use of the recipient and does not carry any right of reproduction or disclosure. Neither this note nor any of its contents may be used for any other purpose without the prior written consent of HSL IA, Investment Advisory Group (HSL IA). In preparing this note, we have relied upon and assumed, without any independent verification, accuracy and completeness of all information available in public domain or from sources considered reliable. This note contains certain assumptions and views, which HSL IA considers reasonable at this point in time, and which are subject to change. Computations adopted in this note are indicative and are based on current market prices and general market sentiment. No representation or warranty is given by HSL IA as to the achievement or reasonableness or completeness of any idea and/or assumptions. This note does not purport to contain all the information that the recipient may require. Recipients should not construe any of the contents herein as advice relating to business, financial, legal, taxation, or other matters and they are advised to consult their own business, financial, legal, taxation and other experts / advisors concerning the company regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this note and should understand that statements regarding future prospects may not be realized. It may be noted that investments in equity and equity-related securities involve a degree of risk and investors should not invest any funds unless they can afford to take the risk of losing their investment. Investors are advised to undertake necessary due diligence before making an investment decision. For making an investment decision, investors must rely on their own examination of the Company including the risks involved. Investors should note that income from investment in such securities, if any, may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Neither HSL IA nor any of its employees shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. This note does not constitute an offer for sale, or an invitation to subscribe for, or purchase equity shares or other assets or securities of the company and the information contained herein shall not form the basis of any contract. It is also not meant to be or to constitute any offer for any transaction. HSL IA and its affiliates, officers, directors, key managerial persons and employees, including persons involved in the preparation or issuance of this material may from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein. HSL IA may at any time solicit or provide commercial banking, credit, advisory or other services to the issuer of any security referred to herein. Accordingly, information may be available to HSL IA, which is not reflected in this material, and HSL IA may have acted upon or used the information prior to, or immediately following its publication.

HSL IA neither guarantees nor makes any representations or warranties, express or implied, with respect to the fairness, correctness, accuracy, adequacy, reasonableness, viability for any particular purpose or completeness of the information and opinions. Further, HSL IA disclaims all liability in relation to use of data or information used in this report which is sourced from third parties.

Please note that HDFC Securities has a proprietary trading desk. This desk maintains an arm's length distance with the HSL IA team and all its activities are segregated from HSL IA activities. The proprietary desk operates independently, potentially leading to investment decisions that may deviate from research views.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

For grievance redressal contact Customer Care Team Email: [customercare@hdfcsec.com](mailto:customercare@hdfcsec.com) Phone: (022) 3901 9400

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

This information is for educational/information purposes only.