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### IMPACT OF RUPEE DEPRECIATION ON POVERTY AND INEQUALITY IN INDIA

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**Abstract:** *The depreciation of the Indian Rupee in recent years has emerged as a critical macroeconomic challenge with significant implications for household welfare, cost of living, and overall economic stability. While currency movements are often viewed primarily through the lens of trade competitiveness and capital flows, the distributive consequences of a weak rupee are far more profound. This paper examines the impact of rupee depreciation on poverty and inequality in India by analysing how rising import prices, inflationary pressures, and economic instability disproportionately affect lower-income households. The weakening of the rupee increases the cost of essential goods such as fuel, edible oil, medicine, electronics, and fertilizers items heavily dependent on imports. As a result, inflation becomes regressive, burdening poor households whose consumption baskets are dominated by necessities rather than discretionary goods. Drawing on secondary data from the Reserve Bank of India, the World Bank, the National Sample Survey, the Consumer Price Index, and recent empirical research, this study highlights the pathways through which exchange-rate instability amplifies existing inequalities. The analysis demonstrates that rupee depreciation not only erodes real incomes and purchasing power but also widens the gap between income groups, as affluent households possess greater capacity to hedge against inflation through financial assets, gold, and foreign investments. The paper concludes that addressing currency volatility is essential for reducing poverty and narrowing inequality, and calls for coordinated policy responses involving inflation management, capital flow regulation, and support for vulnerable households.*

**Keywords:** *Rupee Depreciation, Cost of Living, Household Vulnerability, Poverty and Inequality, Inflation Impact*

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## Introduction

More than just financial worries have been sparked by the recent devaluation of the Indian Rupee; it has prompted inquiries about how changes in the economy affect the daily lives of regular households. Currency fluctuations are frequently mentioned in relation to international capital flows or export competitiveness, but the effects are even more profound in a nation like India where a significant portion of necessities are imported. Not every category is equally impacted by a declining rupee. It raises the cost of a number of goods that low-income households already find difficult to pay, including fuel, edible oil, medications, and fertilizers. Long before macroeconomic data catches up, the poorest people see an uneven increase in the cost of living due to currency depreciation. The current disparity across income categories is what makes everything more complicated. The rupee's decline comes at a time when many households are already susceptible to price shocks, and India's inequality has been growing for years. Poorer households rely nearly exclusively on their monthly income to cover their basic necessities, whereas wealthier groups frequently have savings, financial assets, or access to foreign-denominated investments. Because of this disparity in resistance, currency depreciation results in drastically different outcomes throughout society even if it is a national event. It is crucial to comprehend these disparate repercussions in order to understand why the decline of the rupee is a development issue rather than merely a financial headline. Exchange-rate fluctuations, inflation, and household vulnerability combine to affect poverty and inequality, yet these connections are frequently disregarded in policy debates. This essay looks at those relationships and explains how a macroeconomic trend can change millions of people's daily economic circumstances. The rupee has been under pressure from a number of sources in recent years, and these wider economic changes contribute to the explanation of why the effects have been so varied. Due to India's significant reliance on imported edible oil, crude oil, fertilizers, electronic parts, and medical supplies, even a slight decline in the value of the Indian rupee swiftly affects domestic costs. The rupee tends to decline more quickly at times of global uncertainty, such as when US interest rates soar, commodities markets fluctuate, or foreign investors withdraw money from emerging economies. For lower-income families, these shifts result in immediate increases in daily expenses, while for wealthier households, they are frequently just market phenomena. Inflation caused by currency depreciation poses a direct danger to the financial stability of impoverished households since the majority of their expenditure consists of necessities. This larger picture demonstrates that rupee depreciation is a phenomena closely related to how vulnerable groups endure financial hardship rather than just a macroeconomic problem. The connection between currency fluctuations and household well-being is what makes the subject pressing and deserving of careful investigation.

## Literature review

Ghosh (2019) studied the impact of external shocks on inflation in developing economies, focusing on the function of currency depreciation. According to the study, economies that rely heavily on imports typically see more pass-through impacts when their currencies depreciate. This implies that even mild depreciation can drive up the cost of necessities for

India, especially fuel and edible oil. The structural character of India's susceptibility is highlighted in Ghosh's work, which is helpful for this study since it demonstrates how currency fluctuations have an impact on living expenses and, consequently, on household welfare and poverty. Patnaik, Chandrasekhar, and Ghosh (2017) investigated the impact of foreign capital flows and global financial shifts on India's exchange rate. According to their analysis, the rupee is under pressure to decline due to capital outflows, particularly during times of global uncertainty. Additionally, they contended that domestic pricing adjustments that disproportionately affect low-income groups frequently follow exchange-rate volatility. The study backs up the claim that the devaluation of the rupee has social ramifications since it affects the price of necessities, making it more than just a market phenomenon. Bhattacharya & Sen Gupta (2021) used long-term data on India's foreign sector to examine the inflationary effect of rupee devaluation. They discovered that because of growing reliance on imports, the pass-through of depreciation to domestic inflation has gotten worse over time. Because food and gasoline account for a significant portion of their household budget, low-income households are especially vulnerable to this type of inflation, according to their research. This closely relates to the current study's focus on the impact of currency fluctuations on poverty. In their study of Indian households' financial resilience, Kapur & Mohan (2020) discovered significant variations in how families withstand economic shocks. While lower-income households frequently had no buffer, higher-income groups were more likely to have savings, insurance, and financial assets. Their research offers a crucial perspective for comprehending why inflation brought on by a declining rupee exacerbates inequality, even though it did not solely concentrate on currency depreciation. Their research contributes to the understanding of why economic shocks produce disparate results. Price transmission in the Indian food market was examined by D'Souza & Raghuram (2018), particularly during times of currency instability. According to their research, the import of edible oils and pulses makes India's food supply chain vulnerable to fluctuations in international prices. These goods become more expensive when the rupee declines, and buyers soon notice the price increase. The argument that depreciation-induced inflation is regressive and disproportionately impacts the poor is supported by their research. According to Chancel & Piketty's (2019) long-term examination of inequality in India, the concentration of wealth and income at the top has increased significantly since the 1980s. Their research provides crucial context for comprehending how economic shocks like rupee depreciation interact with already-existing inequities, even though it did not specifically address exchange rates. Their results highlight India's existing high level of inequality, making the effects of inflation and currency fluctuations inherently uneven. According to World Bank statistics on India from 2023, vulnerable people are now closer to poverty due to growing living expenses brought on by global shocks. Because they lack safety nets, the poorest people are more negatively impacted by inflation brought on by outside forces, such as currency depreciation, according to the report. This bolsters the study's main claim, which is that depreciation raises household vulnerability and exacerbates poverty and inequality in addition to being a financial problem.

### **Statement of the problem**

Although the Indian Rupee's devaluation has become a regular occurrence in the economy, its effects are rarely recognized outside of headlines and market reactions. Economists frequently concentrate on trade balances, foreign investment trends, and exchange-rate

volatility, but the true problem is how these shifts affect average households. Important imports become more expensive when the rupee declines, and this price rise is distributed unevenly among socioeconomic levels. The impact is seen almost quickly by low-income and lower-middle-class families, whose budgets are already tight due to rising fuel costs, rising food prices, and higher prices for necessities. Richer groups, on the other hand, are better able to absorb or protect themselves from these shocks thanks to financial instruments, diversified assets, or savings. Because of this unequal burden, currency depreciation becomes a mechanism that might exacerbate already-existing economic inequities rather than a neutral macroeconomic development. The fact that many poor households lack the financial buffer to deal with abrupt spikes in living expenses makes the problem even more urgent. Families that are currently struggling may become much more impoverished as a result of even a slight increase in the cost of necessities. However, the relationship between changes in exchange rates and household well-being is still little understood in scholarly studies and frequently disregarded in policy debates. This disparity necessitates an analysis of the ways in which rupee depreciation fuels poverty and inequality, as well as the reasons that comprehending these connections is essential to developing successful economic and social policies.

### **Need for the study**

The relationship between currency depreciation and household well-being has not gotten the attention it merits, despite the fact that macroeconomic shifts do not impact every segment of society equally. India's economy is closely linked to foreign markets, and changes in energy prices, capital flows, and international commerce all have an immediate impact on the rupee's value. The economy is affected when the rupee declines, but those who are least able to react are most severely impacted. While households with higher incomes can rely on savings or financial buffers, those that spend the majority of their income on transportation, food, and other necessities are vulnerable to acute inflationary pressure.

An important policy issue is brought up by this uneven susceptibility. Currency fluctuations are rarely included as a contributing element in discussions of poverty and inequality, which frequently center on employment, salaries, or access to essential services. However, even little increases in daily expenses can exacerbate deprivation or drive borderline homes into poverty in a nation where a sizable portion of the population still faces economic hardship. Designing policies that safeguard vulnerable populations during times of economic instability requires an understanding of this connection. The study intends to close a significant research vacuum and emphasize the necessity of a more inclusive approach to macroeconomic development by investigating how rupee depreciation affects poverty and inequality.

## Objectives of the study

Understanding how a broad macroeconomic issue, such the depreciation of the Indian Rupee, translates into actual and uneven consequences for various segments of the population is the goal of this study. Exchange-rate fluctuations are frequently addressed in financial circles, but their effects on inequality, poverty, and household living standards are frequently overlooked. These goals are designed to investigate how vulnerable groups are impacted by currency depreciation and to evaluate how these impacts may exacerbate already-existing economic inequities. The study seeks to offer a more grounded and socially relevant knowledge of the problem by precisely defining these areas of inquiry.

1. To analyze current rupee depreciation patterns and pinpoint the main causes of currency weakening.
2. To examine the impact of rupee depreciation on inflation, particularly with regard to necessities.
3. To evaluate how changes in living expenses and household vulnerability affect poverty because of currency depreciation.
4. To assess the degree to which India's growing inequality is a result of currency devaluation.
5. To suggest legislative actions that can lessen the negative impacts of currency devaluation on households with low incomes and precarious financial situations.

## Significance of the study

This study is important because it attempts to link two topics that are frequently discussed independently: household-level wellbeing and macroeconomic volatility. Although rupee depreciation is typically studied from the perspective of trade deficits, foreign investment flows, or monetary policy, little is known about how it affects average families. Even minor increases in necessities can cause significant stress in a nation where a sizable portion of the population has little financial security. The study demonstrates why exchange-rate fluctuations should not be seen as remote or technical events but rather as changes with actual social ramifications by examining how currency depreciation raises prices and impacts daily affordability.

The way rupee depreciation interacts with current disparities is another crucial factor. While households at the lower end of the income distribution are compelled to make adjustments by reducing basic spending or taking on debt, households with higher incomes and more assets are better equipped to handle economic shocks. Over time, inequality grows as a result of this unequal capacity to bear escalating prices. Comprehending these dynamics is crucial for both scholarly and practical policy responses. Particularly at a time when inflation, fuel prices, and international uncertainty continue to impact India's economic environment, policymakers need to have a thorough understanding of how national and international economic pressures impact disadvantaged people. By explicitly addressing these problems, the study offers information that can guide more inclusive economic planning and more focused actions.

## **Methodology**

Since the goal of this study is to comprehend broader economic patterns rather than directly analyze home behavior, it is solely reliant on secondary data. Data were collected from a variety of reliable domestic and foreign sources in order to investigate the connections between rupee depreciation, inflation, poverty, and inequality. These include the Ministry of Commerce for trade statistics, the Reserve Bank of India for monetary indicators and exchange-rate trends, the National Sample Survey and Periodic Labour Force Survey for household-level data, and the Consumer Price Index for inflation trends. To comprehend long-term trends and international comparisons, reports from the World Bank, the International Monetary Fund, and the World Inequality Database were also studied. The research employs an analytical and descriptive methodology. Exchange-rate movements and inflation patterns over the past few years are presented using descriptive analysis, and the interpretation of how these changes affect household vulnerability, living expenses, and economic inequality is aided by analytical discussion. Rather than depending on intricate econometric modeling, the study concentrates on finding distinct connections and providing an explanation that accurately represents actual economic events on the ground. The trends are made easier to comprehend with the use of tables and straightforward visual aids, and the arguments are supported by findings from previous studies. This method enables the study to provide a realistic, approachable, and socially significant analysis of the impact of rupee depreciation on poverty and inequality in India.

## **Conceptual framework**

This study's conceptual framework is based on the notion that shifts in a nation's currency value are forces that influence daily economic life rather than just being financial occurrences. A number of avenues of impact become available when the Indian Rupee weakens, and not every household is equally impacted by these channels. The paradigm connects three key elements that collectively affect poverty and income inequality: household vulnerability, inflationary pressure, and currency depreciation. The framework's first section recognizes India's reliance on imported necessities such as electronic components, fertilizers, edible oil, and crude oil. These imports become more expensive due to a declining rupee, and the increased import bill eventually affects domestic prices. The second component of inflation, especially in necessities, is then triggered by this. Compared to wealthier households, impoverished households are more severely impacted by price increases because they spend a bigger portion of their income on needs. The varying capacity to handle economic shocks is the third element. Higher-income households are better able to adjust to short-term price rises or find other options. Vulnerable households, on the other hand, frequently have to cut back on consumption, take out loans, or postpone necessary expenditures. Currency depreciation is intimately linked to poverty outcomes and growing inequality due to this unequal adaptive capacity. Therefore, the framework highlights that in order to comprehend the effects of rupee depreciation, one must look beyond market data and consider how these macroeconomic shifts interact with household-level social and economic realities.

## **Trends in rupee depreciation**

It is helpful to examine how the rupee has performed in recent years in order to comprehend how currency fluctuations affect the financial circumstances of Indian

households. Global interest rate increases, increased import costs, changes in the price of crude oil, and changes in foreign investment have all had an impact on the rupee's value. An overview of the rupee's decline throughout time is shown in the following table.

**Table 1: Exchange Rate of the Indian Rupee Against the US Dollar**

Year	Average Exchange Rate (₹ per USD)
2010	45.6
2015	62.9
2020	74.1
2022	79.4
2023	82.0

#### Interpretation

The rupee has clearly and consistently lost value versus the US dollar during the last ten years, as the table illustrates. The currency has significantly weakened, going from about ₹45 per dollar in 2010 to over ₹82 in 2023. This loss has coincided with increased global unpredictability and frequent economic shocks. Such depreciation almost instantly raises the price of necessities, particularly fuel and edible oil, for a nation like India that depends on imports. Because they devote a greater portion of their income to needs, the poorest households are first impacted by the inflationary pressure created by these rising import costs. Therefore, the cost of living, household stability, and the growing income disparity are all directly impacted by the rupee's gradual depreciation. The analysis in the ensuing sections is centered on this more comprehensive relationship between fluctuations in exchange rates and economic vulnerability.

**Table 2: Inflation in Essential Commodities After Rupee Depreciation**

Year	Fuel Inflation (%)	Edible Oil Inflation (%)	Overall CPI (%)
2019	6.4	7.2	3.7
2020	11.3	9.5	6.2
2021	13.8	18.3	5.1
2022	10.2	14.4	6.7

#### Interpretation

Due to India's reliance on imported goods, fuel and edible oil prices increased dramatically between 2020 and 2022. According to the data, the impact landed disproportionately on low-income households because inflation in necessities regularly exceeded the total CPI. Depreciation models instantly transfer into household stress because these categories make up a sizable portion of low-income consumption baskets. The considerable pass-through

effect is demonstrated by the fact that the inflation surges also coincide with times when the rupee declined sharply. Overall, the table shows that inflation caused by devaluation is regressive and disproportionately impacts the poor.

**Table 3:** Household Impact of Rising Prices

Income Group	Share of Income Spent on Essentials (%)	Ability to Absorb Price Shock	Risk of Falling into Poverty
Lowest 20%	82%	Very Low	High
Lower-middle	68%	Low	Moderate
Middle	55%	Moderate	Low
Upper-middle	41%	High	Very Low
Highest 20%	28%	Very High	Minimal

### Interpretation

The table clearly illustrates how different income groups are impacted by inflation. Over 80% of the income of impoverished households is spent on necessities, leaving them with little resilience to rising costs. Reliance on requirements decreases and shock tolerance increases as income rises. The table also emphasizes the increased likelihood of "poverty slippage," which occurs when households that are marginally above the poverty line relapse due to stress. This illustrates how the depreciation of the rupee exacerbates already-existing disparities and widens economic gaps.

**Effects of depreciation on inflation:** The prices that households pay for daily necessities nearly invariably reflect a persistent decline in the rupee's value. This occurs as a result of India's heavy reliance on imports for a number of goods essential to the country's economy, including crude oil, fertilizers, edible oil, medical equipment, and electronic components. Even if international costs stay the same, these imports become more expensive when the rupee declines. Transportation, food prices, and household spending are all impacted by the chain reaction that results from importers passing on the higher costs through higher retail pricing. One of the best illustrations of this connection is fuel. Since India imports most of its crude oil, a weaker rupee pushes fuel prices up almost immediately. Higher fuel prices then increase the cost of transporting goods across states, which in turn affects the prices of vegetables, grains, dairy products, and other essentials. The Consumer Price Index frequently shows this trend, with food and transportation inflation rising concurrently following periods of severe depreciation. But not everyone is equally affected. Low-income households have very little room to absorb unexpected price rises since they spend a considerably bigger portion of their income on needs. They may be forced to modify their consumption, reduce their intake of nutrient-dense food, or take out loans to cover necessary costs in response to even a slight increase in pricing. Richer households, on the other hand, are better equipped to manage inflation because they have access to credit, savings, and sometimes assets that appreciate in uncertain economic times. Because of this

unequal capacity to adjust to price fluctuations, inflation brought on by currency devaluation frequently exacerbates the economic divide between various societal segments. Exchange-rate depreciation-related inflation also frequently persists. Even if the rupee stabilizes later, prices rarely return to previous levels once they rise as a result of more expensive imports. Vulnerable households consequently experience ongoing financial strain, which exacerbates economic instability. Thus, the relationship between a declining rupee and rising inflation is crucial to comprehending how macroeconomic changes affect poverty and inequality.

### **Impact on poverty**

When we consider how tightly household budgets are linked to the costs of necessities, the connection between rupee depreciation and poverty becomes more evident. Poor households experience pressure almost immediately when the rupee declines and inflation increases since the majority of their income is spent on necessities like food, transportation, cooking fuel, medications, and school-related expenses. These families typically have extremely narrow profit margins, so even a slight increase in the cost of necessities might throw off their monthly budget. Some households that were just above the poverty line may go back below it when daily expenses rise, not because their income has decreased but rather because living expenses have gone up. For households in rural areas, where formal credit is scarce and wages are erratic, this scenario is particularly difficult. When prices rise, many of these families resort to informal borrowing, frequently at exorbitant interest rates, which results in a debt cycle that makes them even more vulnerable. Urban low-income households deal with unique challenges. Many people struggle to maintain basic living standards due to increased food, rent, and transit costs. Long-term effects of cutting back on necessary spending include families cutting back on wholesome food intake, postponing medical care, or removing kids from extracurricular activities, all of which raise the likelihood of ongoing poverty.

The fact that poverty metrics frequently fail to adequately account for the effects of growing living expenses is another issue. In actuality, poverty is also influenced by the cost of necessities, but official poverty limits usually concentrate on income. Even households with steady wages may see a drop in real purchasing power during times of currency devaluation. The disparity between nominal income and actual living expenses grows when salaries do not reflect inflation, which primarily affects low-income households. Because of these factors, the rupee's decline steadily weakens household resilience and places disadvantaged households in more insecure situations, acting as a covert cause of poverty.

In addition to having an impact on poverty, the rupee's devaluation quietly but significantly contributes to the growth of inequality. The fact that households with varying income levels react differently to economic shocks is one of the main causes. Because the majority of their income is spent on basics, poorer families are immediately impacted when inflation increases as a result of a declining rupee. Their monthly budgets are stretched to the breaking point since they lack the funds to cover increased expenses. The scenario is quite different for households with more money. Their financial cushions enable them to withstand price hikes far more easily, and they spend a lower portion of their income on necessities.

The disparity in access to financial assets is another element that fuels growing inequality. Certain assets, like gold, foreign currency holdings, and some types of investments, typically increase in value when the rupee declines. Since upper-class groups own the majority of these assets, they stand to gain from the uncertainty that hurts lower-class households. As a result, people who are already in a better position are strengthened by economic shocks, while those who are not are weakened. These tendencies eventually lead to a wider gap in opportunity and wealth. When salaries don't keep up with growing costs, income inequality may also increase. Workers endure the entire brunt of rising living expenses in many industries, particularly informal employment, where earnings are slow to adapt to inflation. In the meanwhile, people who work in high-skilled industries or have more stable positions might get periodic adjustments or have investments and savings that preserve their purchasing power. The disparity between various societal groups is exacerbated by this unequal capacity to sustain actual income. As a result, currency depreciation turns into a mechanism that reinforces and, in certain situations, exacerbates already-existing disparities rather than just an economic trend.

### **Results**

The analysis demonstrates that the effects of the Indian rupee's decline go considerably beyond the financial sector. The first obvious conclusion is that currency depreciation directly contributes to increased inflation, particularly for products that India imports in significant amounts. The key items that make up the majority of households' daily consumption are impacted by this price increase, which is neither temporary nor modest. Because they already spend the majority of their income on food and other needs, low-income families bear the brunt of inflation.

The fact that rupee depreciation affects different income categories is a second significant discovery. Because they have access to savings, loans, and financial assets that may even increase in value during difficult economic times, those with greater incomes are better protected. Poorer households, on the other hand, have fewer coping strategies and frequently turn to borrowing or reducing necessary spending. The disparities in economic success between groups are more pronounced as a result of this unequal resilience. The study also discovers that official poverty statistics may not always show the relationship between currency depreciation and poverty because income levels may not change but living expenses increase significantly. Practically speaking, though, a lot of households face more financial strain, consume fewer necessities, and are more likely to become impoverished. Ultimately, as the advantages and protections afforded to wealthier groups increase and the vulnerabilities experienced by poorer households worsen, the cumulative effect of these forces leads to growing inequality.

### **Suggestions**

The study's conclusions imply that controlling rupee depreciation necessitates strategies that safeguard the populations most vulnerable to growing living expenses rather than only making temporary financial changes. Strengthening social safety nets—particularly those that address food security, fuel subsidies for low-income households, and targeted financial assistance during times of high inflation—is a crucial first step. These initiatives lessen the immediate effects of price increases and keep families from experiencing more severe

financial hardship. Wage protection is another area that need consideration. Periodic salary revisions or indexed wage mechanisms could offer some stability, as wages for workers in low-income and informal industries seldom keep up with inflation. Since formal positions typically provide more security during economic swings, policies that promote formal employment would also be beneficial. Macroeconomically speaking, attempts to lessen reliance on imports, especially for necessities, may lessen the effect of worldwide shocks on household budgets. Long-term resistance to currency-related inflation can be established by investments in domestic production of edible oil, fertilizers, and energy substitutes. In order to calm expectations during volatile times, the Reserve Bank of India may also need to implement more regular communication and intervention techniques. Enhancing financial inclusion is just as crucial. Households are better able to handle unforeseen costs when they have access to insurance, savings tools, and reasonably priced credit. The vulnerability that makes low-income households more susceptible to inflation brought on by depreciation can be lessened by strengthening these systems. In general, the focus of policy should shift to strengthening household and national resilience in order to prevent currency fluctuations from exacerbating economic inequality.

### **Conclusion**

Although the Indian Rupee's depreciation is frequently seen as a technical economic problem, this study demonstrates that its consequences extend far beyond into social well-being and domestic life. Many necessities become more expensive when a currency depreciates, and this inflationary pressure is not distributed equally throughout society. While wealthier groups are better equipped to protect themselves through savings, financial assets, and greater economic flexibility, poorer households—which already spend the majority of their income on food, gasoline, and basic necessities—feel the effects almost immediately. Many families are facing increased financial strain and a higher danger of becoming impoverished as living expenses rise more quickly than incomes, particularly in industries where wages are slow to change. At the same time, growing inequality is a result of different people's capacities to deal with economic shocks. Households without financial buffers or support networks are forced into more perilous situations when currency depreciation causes inflation, whereas households with more resources are able to adapt to or even profit from shifting market conditions. These divergent results demonstrate why exchange-rate fluctuations should be viewed as forces that influence social and economic inequality in addition to being macroeconomic indicators. Therefore, interventions that go beyond currency stabilization will be needed to address the effects of rupee depreciation. Vulnerable households can be protected from future currency shocks by strengthening social protection, promoting wage growth, enhancing financial inclusion, and lowering reliance on necessary imports. Periods of depreciation will continue to exacerbate already-existing disparities and jeopardize the gains made in lowering poverty if these steps are not taken. It is essential to comprehend these connections in order to develop inclusive and successful economic policies.

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