

India's \$21bn Exodus: How an Iran War Sent the Rupee to Record Lows

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1. Reading Passage

When the United States and Israel began bombing Iran on February 28, the shockwaves reached Mumbai's stock exchange almost instantly. Within weeks, foreign investors had pulled roughly \$21 billion out of Indian equities – the fastest pace of selling on record, with nearly \$13 billion exiting in March alone. The rupee, which had entered the war trading near 91 to the dollar, slid past 95, a historic low. Government borrowing costs jumped above 7.1 percent, up from 6.7 before the conflict. For an economy still growing at close to 7 percent a year, the reaction was startling. 'When the war started, the first reaction was India is one of the world's largest importers of energy,' Suvodeep Rakshit of Kotak Institutional Equities told reporters. 'It becomes a natural choice, that this is not the country I would want to be invested in.'

The vulnerability is structural. India is the world's third-biggest energy importer, relying on foreign suppliers for roughly two-thirds of its natural gas and most of its crude oil. In the year ending March 31, it spent \$174 billion on such imports – half of the crude and most of the gas typically routed from Gulf states whose exports were largely shut down by the war. With Brent crude briefly touching \$126 a barrel, India's trade deficit swelled to nearly \$120 billion, up from \$95 billion the year before. New Delhi has scrambled to replace Gulf supply with discounted Russian crude, made possible by US sanctions waivers, but the volume gains have been offset by higher prices. The result is a ballooning current account deficit – the gap between what India sells abroad and what it must buy.

Here's the catch: India's neighbors are not all hurting equally. South Korea and Taiwan, the analysis at UBS notes, have actually accumulated dollars during the war by selling microchips into surging US demand for AI infrastructure. India, which is not a meaningful player in the AI hardware trade, has no such cushion. To make matters worse, President Donald Trump's tariffs – imposed in response to India's stance on the Iran conflict – have slashed exports to the United States, until recently India's largest market. The United Arab Emirates is now its second-biggest customer.

The Reserve Bank of India has fought back, burning through more than \$40 billion in foreign-exchange reserves to defend the rupee since late February. The currency briefly recovered, but the relief was partial. Governor Sanjay Malhotra has argued the current account deficit remains 'sustainable,' citing recently signed trade deals with New Zealand and the European Union that should offset some of the US tariff damage. Still, Nomura analysts warn the deficit could double to 2 percent of GDP if oil averages \$87 a barrel through the next fiscal year. Société Générale's Rajat Agarwal notes that dollar-denominated returns on the Nifty 50 – India's blue-chip stock index – are at a four-year low, while the MSCI India index trails its Asia-Pacific equivalent by more than 25 percentage points this year.

The broader question facing New Delhi is whether to keep shielding consumers from the energy shock through subsidies, which has so far prevented a meaningful drop in fuel demand, or to let pump prices rise. Passing the cost through would curb imports and ease pressure on the rupee – but at obvious political cost. As Rakshit put it, somewhere the import bill has to give. Until it does, the world's fastest-growing major economy will keep being treated, by the people whose money

matters most, as somewhere not quite worth the risk.

2. Explanation

The world's fastest-growing major economy just became, in one analyst's words, 'not a country to be invested in.' The reason? A war 2,000 miles away has made India's biggest weakness suddenly impossible to ignore.

What's Going On?

Since the US and Israel began bombing Iran on February 28, foreign investors have yanked roughly \$21 billion out of Indian stocks – the fastest pullout on record. The rupee has crashed past 95 to the dollar, an all-time low, and government borrowing costs have spiked above 7.1%, up from 6.7% before the war.

The trigger is energy. India imports about two-thirds of its natural gas and most of its crude oil – much of it from the Gulf, where exports have nearly stopped. With Brent crude touching \$126 a barrel during the war, India's import bill exploded, its trade deficit ballooned to \$120 billion, and fears of a 'ballooning current account deficit' sent investors running for the exits.

How To Think About It

India's situation is a classic case of an economy with a structural import dependency getting body-slammed by a price shock it cannot control. Two parallels help:

- Think of a restaurant that imports 70% of its ingredients. When global food prices double overnight, the menu prices can't keep up, the owner burns through savings paying suppliers, and regulars notice the chaos and stop booking tables. That's India's energy-import problem and the investor exodus, in miniature.
- Or think of a star student who relies entirely on caffeine to function. They're crushing exams – until the coffee shop closes. The underlying brain is fine; the dependency is the vulnerability. India's 6.9% growth is real, but oil is the caffeine.

Key Things To Know

- \$21bn pulled from Indian stocks since Feb 28 – including nearly \$13bn in March alone, the biggest monthly outflow ever recorded by depository NSDL.
- India spent \$174bn on oil and gas imports in the year to March 31; half of crude and two-thirds of gas normally come from Gulf countries.
- The Reserve Bank of India has burned through more than \$40bn in foreign exchange reserves trying to defend the rupee – and it still hit a record low.
- While South Korea and Taiwan are accumulating dollars by selling AI-related microchips into a US tech boom, India isn't really in the AI export game, so it can't offset the oil bill that way.
- Trump's tariffs on India over its Iran-war stance have slashed exports to the US – previously India's biggest market – making the dollar shortage worse.

Why It Matters

If you've heard adults call India 'the next China' – this is a stress test of that thesis. India's growth story depends on foreign capital pouring into its stock market and factories. When global investors decide a

country is 'uninvestable,' that capital dries up, growth slows, jobs disappear, and the currency weakens further – making imports (phones, fuel, college tuition abroad) more expensive for ordinary Indians. It's also a preview of how every oil-importing country, including much of Europe, gets squeezed when the Middle East burns.

The Bigger Picture

Watch three things. First, whether the government finally lets fuel prices rise at the pump – economists say that's the only sustainable way out, but it's politically toxic. Second, whether new trade deals with the EU and New Zealand can offset US tariff damage, as RBI governor Sanjay Malhotra is betting. Third, the Nifty 50 versus its Asia-Pacific peers: India is currently lagging the regional benchmark by more than 25 percentage points this year – a gap that will either close fast if oil retreats, or define a lost year for Indian markets.

3. Key Terms Glossary

Current account deficit

When a country imports more goods, services, and income than it exports – meaning it has to borrow from foreigners or run down reserves to pay the difference. A 'ballooning' one signals the country is becoming dependent on foreign lenders.

Foreign exchange reserves

The stockpile of foreign currency (mostly US dollars) a central bank holds. It uses these reserves to buy its own currency on open markets when the currency is falling – a tactic called 'intervention.'

Bond yield

The interest rate a government pays to borrow. When yields rise (e.g., from 6.7% to 7.1%), it means investors are demanding more compensation to lend – usually because they see more risk.

Capital flows

Money moving across borders to buy or sell financial assets like stocks and bonds. 'Outflows' mean foreigners are selling and taking money out – which weakens the local currency.

Depository (NSDL)

The institution that holds and tracks securities ownership in India – National Securities Depository Limited. It publishes the official data on what foreign investors are buying or selling.

Brent crude

The global benchmark price for oil, named after a North Sea oilfield. Most international oil contracts are priced in reference to it.

MSCI index

Stock market indexes built by Morgan Stanley Capital International that let investors compare the performance of different countries' or regions' equities on a common (usually US-dollar) basis.

Risk-off sentiment

Market mood where investors flee assets they perceive as risky (like emerging-market stocks) and pile into 'safe havens' like US Treasuries or gold.

4. Reading Comprehension Quiz

Circle the best answer for each question.

Q1. The passage primarily argues that:

- A) India's central bank has successfully defended the rupee against speculative attacks
- B) India's heavy reliance on energy imports has turned a foreign war into a domestic financial crisis
- C) Foreign investors are abandoning emerging markets across Asia in equal measure
- D) Trump's tariffs are the single largest cause of India's currency collapse

Q2. According to the passage, the rupee fell to a record low primarily because:

- A) The Reserve Bank of India deliberately devalued it to boost exports
- B) Indian consumers panicked and converted savings into dollars
- C) Surging oil costs and foreign investor selling drained dollar demand from India
- D) Pakistan and China coordinated currency attacks against India

Q3. Which choice best states the central idea of the passage?

- A) India's stock market has decoupled from broader Asian equity trends
- B) Geopolitical conflict has exposed India's structural vulnerability to energy prices
- C) Central bank intervention is the most effective tool against currency crises
- D) Trade agreements with Europe will soon resolve India's economic problems

Q4. As used in the passage, the word 'shield' most nearly means:

- A) physically defend with armor
- B) protect from financial harm
- C) hide information from public view
- D) decorate with a symbolic emblem

Q5. As used in the passage, the word 'sustainable' most nearly means:

- A) environmentally friendly over the long term
- B) able to be maintained without crisis
- C) supported by international institutions
- D) growing at an accelerating pace

Q6. Which statement about South Korea and Taiwan can most reasonably be inferred from the passage?

- A) Their currencies have also collapsed against the dollar this year
- B) They face the same energy import dependence as India
- C) Their tech-export strength has insulated them from the kind of pressure India faces
- D) They have refused to participate in US-led sanctions against Iran

Q7. The passage suggests that allowing fuel prices to rise at the pump would:

- A) Have no meaningful effect on India's import bill
- B) Reduce import demand and ease pressure on the rupee, but at political cost
- C) Trigger a complete collapse of the Indian stock market
- D) Be welcomed by Indian voters as a sign of economic discipline

Q8. The author's primary purpose in the passage is to:

- A) Predict the precise timing of an Indian recession
- B) Celebrate India's resilience under geopolitical pressure
- C) Explain how an external shock has exposed structural weaknesses in India's economy
- D) Argue that foreign investors are overreacting to a temporary crisis

Q9. Which can most reasonably be inferred about India's economic exposure compared to its regional peers?

- A) India is more exposed to commodity price shocks than to global trade slowdowns
- B) India has more diversified export markets than any Asian economy
- C) India's economy is identical in structure to South Korea's
- D) India has fully decoupled from global financial markets

Q10. Which choice provides the best evidence for the answer to the previous question?

- A) The reference to the Reserve Bank spending \$40bn defending the rupee
- B) The statement that India is 'less dependent on exports than its regional peers' but spent \$174bn on energy imports
- C) The mention of Trump's tariffs cutting exports to the US
- D) The note that the Nifty 50 is down 7 per cent this year

My Score: _____ / 10

5. Answer Key with Explanations

Q1. The passage primarily argues that:

Answer: B

The passage's central thesis links the Iran war to India's energy-import dependency and the resulting capital flight. D is the main trap (Trap C: tariffs are mentioned and real, but the passage frames them as a secondary blow, not the primary cause). SAT Tip: When asked for the central idea, look for the claim that connects the most paragraphs – single-paragraph facts are usually traps, not theses.

Q2. According to the passage, the rupee fell to a record low primarily because:

Answer: C

The passage repeatedly ties rupee weakness to the energy import bill plus the \$21bn equity outflow. A is the main trap (Trap A: opposite direction – the RBI was defending the rupee, not devaluing it, burning \$40bn in reserves). SAT Tip: For cause-effect questions, scan the passage for the actual mechanism described, not a plausible-sounding alternative your real-world knowledge supplies.

Q3. Which choice best states the central idea of the passage?

Answer: B

The passage builds its argument around how the Iran war revealed India's import dependency. A is the main trap (Trap B: it borrows the passage's vocabulary about underperformance versus Asia, but elevates a symptom into a thesis). SAT Tip: Central-idea answers should encompass the whole passage – if a choice fits only one section, it's too narrow.

Q4. As used in the passage, the word 'shield' most nearly means:

Answer: B

The passage describes the government 'shielding' consumers from the energy shock by subsidizing fuel prices – a financial protection. A is the main trap (Trap B: 'shield' commonly means literal armor, but here it's metaphorical financial protection). SAT Tip: On vocab-in-context questions, substitute each option into the sentence – the right answer preserves the original meaning, while the most common dictionary meaning is often the trap.

Q5. As used in the passage, the word 'sustainable' most nearly means:

Answer: B

The RBI governor calls the current account deficit 'sustainable,' meaning it can continue without forcing a financial reckoning. A is the main trap (Trap B: in environmental contexts 'sustainable' means eco-friendly, but in finance it means manageable). SAT Tip: Technical fields reuse common words with narrow meanings – always anchor to the sentence's subject matter, not the word's most familiar usage.

Q6. Which statement about South Korea and Taiwan can most reasonably be inferred from the passage?

Answer: C

The passage contrasts India with South Korea and Taiwan, which 'accumulate dollars' through AI-related chip exports – implying their economies are cushioned in a way India's isn't. A is the main trap (Trap A: it reverses the implied direction – those countries are doing relatively well, not collapsing). SAT Tip: Inference questions reward what the passage logically implies, not what is true in the wider world; if a choice contradicts the passage's framing, it's wrong even if real-world plausible.

Q7. The passage suggests that allowing fuel prices to rise at the pump would:

Answer: B

Analysts in the passage note passing prices through to consumers would curb demand and relieve the rupee – and the government's reluctance signals political risk. D is the main trap (Trap C: voter discipline narratives are real-world commentary, but the passage clearly implies political pain, not popularity). SAT Tip: When the passage describes something a government 'should' do but hasn't, the implied reason is almost always political, not economic.

Q8. The author's primary purpose in the passage is to:

Answer: C

The passage methodically connects the Iran war to oil prices, to capital flight, to currency weakness – an explanatory structure. B is the main trap (Trap A: 'resilience' is a word the passage might use, but the overall tone is sober diagnosis, not celebration). SAT Tip: For purpose questions, look at the passage's verbs and structure – does it explain, argue, predict, or celebrate? Each has a different signature.

Q9. Which can most reasonably be inferred about India's economic exposure compared to its regional peers?

Answer: A

The passage notes India is 'less dependent on exports than its regional peers' but devastated by energy import costs – a structural tilt toward commodity-price vulnerability. C is the main trap (Trap B: it borrows comparison language but flips the relationship; the passage contrasts India with Korea, it doesn't equate them). SAT Tip: Inference choices that say 'identical,' 'fully,' or 'always' are usually wrong – real arguments rarely support absolute claims.

Q10. Which choice provides the best evidence for the answer to the previous question?

Answer: B

B directly pairs lower export exposure with massive energy-import exposure – exactly the asymmetric vulnerability the prior question described. A is the main trap (Trap B: it uses passage vocabulary about reserve spending but speaks to symptoms, not the underlying structural tilt). SAT Tip: On evidence-pairing questions, find the line in the passage that directly states your prior answer – don't pick evidence that's merely related to the topic.