Rupee Undervalued? REER at 91.26 and the RBI Governor's Remarks

Economy, Currency and External Sector | News context: 22 July 2026 (RBI Bulletin) and 26 July 2026 (the Governor's interview) | Published: 18 October 2026

Background and Context

Looking at the rupee's value only against the dollar does not give the full picture. India has many trade partners and their inflation rates also differ. So, to measure the state of a currency, the effective exchange rate indices (NEER and REER), which the RBI publishes, are seen.

Why in the News

In an interview given to The Hindu BusinessLine on 26 July 2026, RBI Governor Sanjay Malhotra said that the rupee is "not overvalued" and could be called undervalued in terms of both the nominal and the real effective rate; he also said that the RBI does not target any particular exchange rate or band and intervenes only to stop excessive volatility. The "State of the Economy" article of the RBI's bulletin of 22 July 2026 said that the rupee strengthened in real effective terms in June. The Indian Express (28 July) analysed this with REER figures.

Key Concept: NEER, REER and the Meaning of "100"

NEER is an index of the weighted average exchange rate of the rupee against the currencies of trade partners; REER adjusts it for the difference in inflation. According to The Indian Express, the RBI's index is based on a basket of 40 currencies, its base year is 2015-16 (value 100) and the weights are decided by trade shares. The further the REER is below 100, the more the rupee is considered really weak compared with the base year. Taking 100 as "fair value" is a simplification, because it is only the value of the base year; this is our comment.

Key Facts and Figures

REER, November 2024	108.03 (The Indian Express; above 100, that is, overvalued)
REER, May 2026	89.08 (The Indian Express; according to Informist, RBI data)
REER, June 2026	91.26, that is, about 8.7% below 100 (The Indian Express; Informist called the same figure the RBI's)

RBI's bulletin	The rupee strengthened in real effective terms in June; strengthening in nominal effective terms and high domestic inflation were given as the reasons; in July (up to 20 July) the gain reversed, in line with the currencies of other emerging economies
Against the dollar (news)	All-time low of 96.96 (20 May 2026); crossed 96 again on 14 July; about 95.9 after 24 July (The Indian Express)
The Governor's statement	The rupee is not overvalued; can be called undervalued in both nominal and REER terms; no targeted rate/band (The Hindu BusinessLine)

Three Separate Things: Rate, Valuation and Policy

Dollar rate versus effective rate: The rupee going past 96 against the dollar is a rate against one currency. NEER and REER combine many currencies and the inflation difference, so the two do not always move in the same direction. In the RBI's bulletin, the rupee strengthening in real effective terms in June and weakening against the dollar again in July is an example of this difference.

The meaning of undervalued: A REER below 100 means the rupee is really cheaper compared with the base year. According to The Indian Express this is likely to increase export competitiveness; how much, is undecided in the same article.

The RBI's policy: According to the Governor, the RBI does not target any rate or band and intervenes to reduce excessive volatility. Calling the rupee "undervalued" is therefore an opinion on valuation, not an announcement of a rate.

Why This Topic Matters

Exports and imports: According to The Indian Express, a really weaker rupee can help export competitiveness and domestic manufacturing against imports, but whether this will happen remains to be seen. The same article linked West Asia tension and oil prices with the rupee's weakness. We have not measured the relative effect of these factors.

Clarity of monetary policy: A central bank's statement on valuation is read as a market signal. According to The Hindu's explanation, central bankers generally comment less on the fair value of a currency. This comment is based on the portion of that explanation that was read.

Points of Debate and Cautions

Limits of the index: REER depends on the base year and the basket. Considering the 100 of 2015-16 as "fair" is a simplification; a different base or a different basket, such as the St. Louis Fed's index of 64 countries that The Indian Express mentioned, may give a different picture.

Source of the figures: The REER figures 108.03, 89.08 and 91.26 were not read by us directly from an RBI chart or table. They are cited from The Indian Express and Informist; from the RBI bulletin we read only the sentence on direction. In The Indian Express the figure for November 2024 is 108.03 and for May 2026 is 89.08.

Later position: We have not checked REER or the dollar rate after July 2026; so the article says nothing on whether the rupee is still undervalued today. The Governor's expectation is also of that time.

Way Forward

Things to watch ahead are these: the direction of REER in the RBI's upcoming bulletins, West Asia tension and oil prices. On these we have no issuer-confirmed information after July 2026.

Difference in Concept

Keep four things separate: (1) the statement of the RBI's bulletin, which tells only the direction; (2) the Governor's interview, which is an opinion on valuation; (3) the REER figures, which are cited from news sources; and (4) our comment that taking 100 as fair value is a simplification.

Mains Perspective

GS-III: Economy, external sector, monetary policy. In the answer write the difference between NEER and REER clearly and state the sources separately.

UPSC CSE Mains Style: Original Practice Question

What are NEER and REER? In the context of July 2026, discuss the meaning of calling the rupee "undervalued", its possible effect on exports and imports, and the limits of this assessment.

(Answer in 150 words) | 10 marks

Answer Outline

Introduction: NEER-REER.

Main Body: Figures; the Governor's statement and the RBI's policy; effects; limits.

Conclusion: Assess the rupee's competitiveness by keeping NEER, REER and the likely effects on exports and imports together; do not treat an index below the base year as final proof of a fair exchange rate, and keep the Governor's statement separate from RBI policy.

Sources

- RBI Bulletin, State of the Economy (22 July 2026): the statement on the rupee in real effective terms was read
- The Hindu BusinessLine: Inflation remains RBI's foremost priority: Governor Sanjay Malhotra (26 July 2026)
- The Indian Express: The rupee is no longer overvalued: Why this may help India (28 July 2026)
- Informist Media: Rupee REER rises in June after six months of decline (22 July 2026)
- The Hindu: Why does RBI seem to believe that rupee is undervalued? (29 July 2026; only the opening portion was read because of the paywall)

From the RBI's bulletin only the sentences on the rupee's strength in real effective terms in June and weakness against the dollar in July were read; not the chart or table with the REER figures. The Governor's statement is taken from The Hindu BusinessLine. The REER numbers and the details of the 40 currencies and the base year are from The Indian Express; Informist has called 89.08 and 91.26 the RBI's. Only the opening portion of The Hindu's explanation was open.

Remember: According to the RBI's bulletin, in June 2026 the rupee strengthened in real effective terms; the Governor says the rupee can be called undervalued, but this assessment has limits and we took the figures from news sources.