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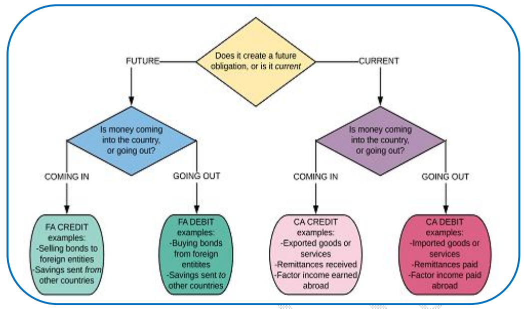
# IMPACT OF EXCHANGE RATES ON BALANCE OF PAYMENT OF INDIA

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**ABSTRACT :**

*The exchange rate is the ratio of one currency to another currency. Exchange rates are also determines the value of one country's currency to another currency and the balance of payment is statistical that comprises transactions between residents and non-residents during a period. The purpose of this study is to examine exchange rates impact on the balance of payment (BOP).the secondary data where use from the RBI (central bank of India) from 2001 to 2018. India's export, import, trade account balance, current account balance and overall balance data were collected for various years. Therefore, this paper analyzes the relationship between exchange rates and balance of payment and how exchange rates affect the balance of payment with the help of data.*

**KEYWORDS :** *exchange rates, balance of payment, impact.*

## INTRODUCTION

The exchange rate is the ratio of currency to another currency, just as the price of the item is determined by the market forces of supply and demand. Other countries will work at different exchange rates the power rules for India have changed during the publication. Introduced in the Indian monetary system of Bretton woods. This system is known as the nominal value system of the remaining exchange rate system. India collapsed Bretton wood system in 1971. Thereafter being linked to the pond sterling for four years after September 1975, it had an initial $90^{th}$ century the LERMS system called for a currency basket until further implementation in march 1992, while it include a dual exchange rate system has been replaced by a single betting system in India the current exchange regime has done an interview with the currency market introduced in 1993 to obtain an effective exchange rate ( REER). The exchange rate affects interest rates, foreign direct investment, and inflation, balance of payment and government operations.

The balance of payment in known as the record of all monetary transactions committee between the citizen and the rest of the world during the period given. The calculation includes your current account, capital account and financial account. The exchange rate is to improve performance of the balance of payments. The exchange rate can be fixed, floating or liquid or fluctuating.

## LITERATURE REVIEW

According to union budget of India 2013 (echapt 6), the foreign sector showed resilience during the global financial crisis of 2008. However, the balance of payments has recently increased. Exports reduce trade and increase current account deficit. Capital flows lead to rapture; the essence of portfolio capital can lead to greater potential for financial instability and instability of the euro. External susceptibility to development from India can also be attributed to India's growing economic integration into the rest of the world, reflected in current and capital accounts. The cumulative shares of exports and imports increased from 14.2% GDP from 1990-91 to 108.0 % from 2011-12

January 20, 2018 by India online website article published. Article is about the balance of payment, released in India, India is friendly and convenient after 2013-14 , so that continues from the first half of 2017-18 , some increase in current account deficit, but (CAD) with relatively low CAD in second quarter. India's external sector remains stable and strong in 2017-18, according to economic studies 2017-18, mentioned by the Arun jaitley in financial and corporate affairs.

On April 3, 2019, a Hindu business line website announced an article on Wednesday that increase in 9 paise from 68.65 per US Dollar, caused by a weakening of the green on the foreign market and a permanent feeder foreign. Rupee opens the interbank market on 68.72 forex markets, then gets more and landed on 68.56.But the local unit American currency at 0926 hrs. It shows gain of 9 paise at last close.

Sourabh Ghosh and Shekhar tomar, RBI said, shocked at the staggering price in 1970,s spends a lot of crumbling economy for nearly 10 years. 40 years later the impact could threaten an economy that relies heavily on imported crude oil. The study explored the impact of the price abuse on current account deficit (CAD), inflation and budget deficits, which are three main indicators of quantitative impact.When the price of rough surprises are hit the Indian economy. The relationship between CAD and GDP is rising sharply, despite GDP growth. The rise in oil prices of $10 is not the end user, which will increase inflation by 49 BPS and if the government decides to take over the entire stock of oil prices, the budget deficit for 43 BPS ( as a percentage of GDP) would be increased.

10 Jan, 2019 the RBI ( mid- year external sector review) announced that the balance of payment for the rapid rise in oil paid in the world by wind and solid RBI , India with the announcement of Rajeev Jain ,Dhirendra Gajbhiye, Sourmasree Tiware and Anand Shanka, Division of international finance, Department of economic and policy studies, to strengthen the current account deficit of the US federal reserve system and is reflected in the expansion of the policy to strengthen the us Dollar to withdraw from the INF in general. The backups were withdrawn because CAD exceeded the net financial flow. The forecast indicates a high level of sustainable development of CAD H1. The Indian rupee is also under pressure, creating both nominal and physical aspects.

## STATEMENT OF THE PROBLEM

The statement of the problem of this study is to understand impact of exchange rates and how an exchange rate affects the balance of payment in the Indian economy.

## OBJECTIVE OF THE STUDY

The main objective is to understand the relationship between exchange rate and balance of payment. This study will also explore the following objectives:

1) To study the relationship between exchange rates and export, Import. How exchange rates affect the export and import.
2) To analyze the impact of exchange rates on trade account balance, current account balance of balance of payment.

## SCOPE OF THE STUDY

This study is only included following variables there are exchange rate, export, import, trade account balance, current account balance of balance if payment this study is not able to analyze all the macro and micro economic variables which are related to exchange rate and balance of payment

## Formulation of hypotheses

H01:- There is relatively relationship between exchange rates and international import and export; these variables are connected with each other's.

H02:- There is relationship between exchange rates and balance of payment

H03:- exchange rates directly or indirectly impact on balance of payment

## RESEARCH METHODOLOGY

### Source of data collection

Data were collected by only secondary data. This data is obtain from central bank of India which is reserve bank of India (RBI) from the publications of Handbook of statistics on Indian economy and from other secondary sources.

### Sampling size and sampling techniques

This study uses the data obtained from Reserve bank of India's statistics and bulletins. These data include exchange rates Export, Import, trade account balance, invisible account balance, currency account balance and overall balance. This is helpful to understand the impact on exchange rates on component of balance of payments.

### Data interpretation and analysis

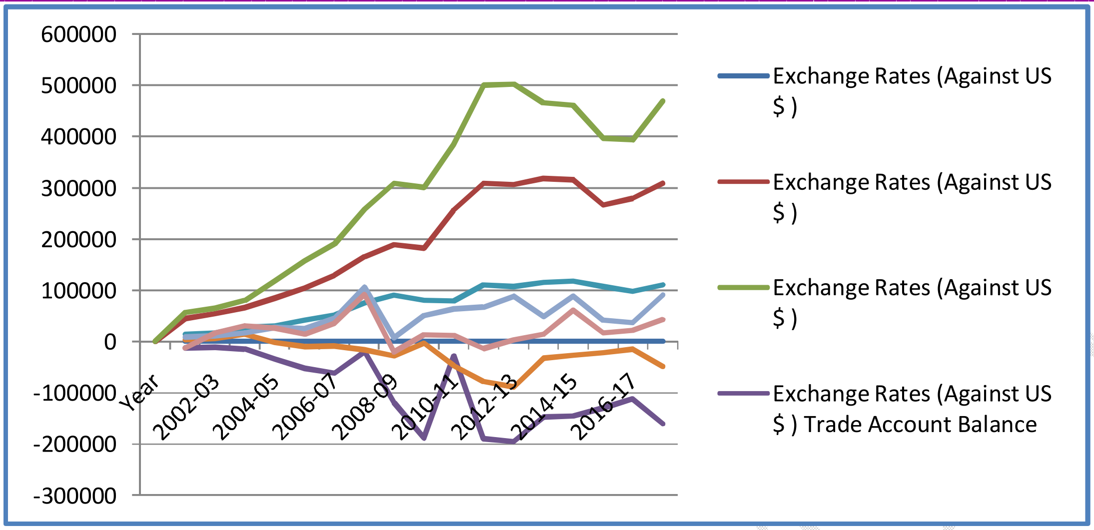
The purpose of this study is to present the raw data of Indian balance of payment and exchange rate for analysis. The data is given below.

**Balance of payment of India** (US $ million)

| Year | Exchange Rates (Against US $ ) | Export | Import | Trade Account Balance | Invisible Account Balance | Current Account Balance | capital Account Balance | overall Balance |
|---|---|---|---|---|---|---|---|---|
| 2001-02 | 47.6919 | 44703 | 56277 | -11574 | 14974 | 3400 | 8551 | -11751 |
| 2002-03 | 48.3953 | 53774 | 64464 | -10690 | 17035 | 6345 | 10840 | 16985 |
| 2003-04 | 45.9516 | 66285 | 80003 | -13718 | 27801 | 14083 | 16736 | 31421 |
| 2004-05 | 44.9315 | 85206 | 118908 | -33702 | 31232 | -2470 | 28022 | 26159 |
| 2005-06 | 44.2735 | 105152 | 157056 | -51904 | 42002 | -9902 | 25470 | 15052 |
| 2006-07 | 45.2495 | 128888 | 190670 | -61782 | 52217 | -9565 | 45203 | 36606 |
| 2007-08 | 40.2607 | 166162 | 257629 | -19467 | 75731 | -15737 | 106585 | 92164 |
| 2008-09 | 45.9933 | 189001 | 308520 | -119519 | 91604 | -27914 | 7395 | -20080 |
| 2009-10 | 47.4433 | 182442 | 300644 | -188203 | 80022 | -3818 | 51634 | 13441 |
| 2010-11 | 45.5626 | 256159 | 383481 | -27322 | 79269 | -48053 | 63740 | 13050 |
| 2011-12 | 47.9229 | 309774 | 499533 | -189759 | 111604 | -78155 | 67755 | -12831 |
| 2012-13 | 54.4099 | 306581 | 502237 | -195656 | 107493 | -88163 | 89300 | 3826 |
| 2013-14 | 60.5019 | 318607 | 466216 | -147609 | 115313 | -32296 | 48787 | 15508 |
| 2014-15 | 61.1436 | 316545 | 461484 | -144940 | 118081 | -26859 | 89286 | 61406 |
| 2015-16 | 65.4685 | 266365 | 396444 | -130079 | 107928 | -22151 | 41128 | 17905 |
| 2016-17 | 67.072 | 280138 | 392580 | -112442 | 98026 | -14417 | 36447 | 21550 |
| 2017-18 | 64.4549 | 308970 | 469006 | -160036 | 111319 | -48717 | 91390 | 43574 |

Source: Reserve bank of India Handbook statistics

As per given above data the exchange rate measured the rate at which Indian rupee is converted to the U.S. Dollar between the period of 2001-2018. Given above in the balance of payment on India as we can see there is the exchange rates are fluctuating and import is higher than export since 2001 to 2018. Trade account is in deficit since 2001 to 2018. India Import more that export.




Current account balance was in surplus from 2001-02 to 2003-04, from the year 2004 to 2018 the current account is facing deficit issues . In the year 2001-02 , 2008-09 , 2011-12 the Overall balance is showing in deficit but rest of the BOP showing in surplus because of capital account. In the year 2007-08 exchange rates was very lower at 40.2607 and in the year 2016-17 it was very higher at 67.0720, it means in the 2007-08 the rupee was depreciated which means the value of rupee was increased against UD$. And it the year 2017-18 the rupee was appreciated which means the value the rupee was reduced against US$ .

## FINDING OF THE STUDY

From the given above data, this research found the following:

1) There is fluctuation in exchange rates
2) India import more that export, India's import is always higher than export.
3) Exchange rates impact on export and Import
4) If there will be growth in the number of import it turns to more demand for foreign currency and because of this the value of domestic will reduce and exchange rates will appreciate.
5) The main reason of appreciation in the domestic currency ( rupee) against foreign currency ( US$ ) is import is higher than export.

## CONCLUSION

We discussed the various years' exchange rates, export, import and balance of payment and how the exchange rates impact on the balance of payments. If there will be higher the import there will be appreciation in the domestic currency (rupee) and reduction in the value of domestic currency in the international trade. There is too much demand for foreign currency. Because of exchange rates the trade account balance is showing in deficit and it affects the balance of payment of India and also affects the current account of balance of payment. Current account facing deficit issues and it turns to deficit in the balance of payment but because of capital account India's balance of payment showing in surplus. Balance of payment is closely related to the boosting the growth and development of the economy.

## SUGGESTIONS OF THE STUDY

There is closely relationship between exchange rates and balance of payment. Balance of payment help to boost growth and development of economy. Foreign exchange regime have to focus on their foreign exchange market policies and focus on lower the import and higher the export. If there will increase in export and lower the import it will help to equilibrium in the exchange rates and improve the value of domestic currency (rupee) against foreign currency and also help to surplus in the trade account and current account of balance of payment.

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