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Relationship between India and Export Import and Export on Exchange Rate Fluctuations

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Abstract

Foreign exchange market is the largest financial market in the world. It is regulated by Reserve Bank of India. It is a market in which national currencies are bought and sold against one another. Exchange rate plays major role in a country's economy. Exchange rate is volatile in nature and it is determined by the market forces of the demand and supply of foreign currency as well as other economic factors. The present study was undertaken to understand the India's imports and export. The study was descriptive in nature and covered a period of 17 years from 1999-2000 to 2015-16.The required secondary data was collected from the reports of Reserve bank of India. The analysis was carried out with the help of statistical tools – descriptive statistics it showed that global financial crisis had a significant impact on India's imports and exports that variations in exchange rate fluctuations.

Keywords*:-, Exchange rate, fluctuations, Imports, Exports*

INTRODUCTION

The business in foreign exchange market in India has shown a steady increase the consequence of the volume of foreign trade of the country, improvement in the communications systems and greater access to the international exchange market. The Foreign Exchange Regulation Act defines foreign exchange as foreign currency and includes all deposits, credit and balance payable in any foreign currency and any drafts, traveller cheques

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and bill of exchange, expressed or drawn in Indian currency, but payable in any foreign currency while import and export.

NEED FOR THE STUDY

From 1999-2000, the exchange rate of rupee against dollar showed a fluctuating trend. The exchange rate depreciated during the first four years of the study (1999-2000 to 2002-03). The period between 2003-04 to 2007-08 witnessed appreciation of rupee against dollar. The exchange rate of rupee against dollar stood at Rs.40.25 per US dollar. But from 2008-09 onwards the rupee depreciated against dollar at a faster rate. In 2015-16, the exchange rate of rupee against dollar stood at Rs.65.46. The participants in the foreign exchange market include individuals, firms, banks, governments and occasionally the international agencies. Individuals are normally the tourists who exchange currencies, as also migrants sending a part of their income to their family members living in their home countries. The firms are generally importers and exporters. There are two tiers in the foreign exchange market: one tier involves the transaction between ultimate customers and the bank while other tier consists of the transaction between banks. The purpose of inter-bank transactions is not only to meet the foreign exchange demand of the ultimate customers but also reap gains out of movement of foreign exchange rates.Hence an effort was made to understand the behavior of exchange rate and to understand the immediate factors impacted on import and export by exchange rate rupee against dollar.

OBJECTIVES OF THE STUDY

The present study was undertaken with the following objectives:

- To study the trends in India's imports and exports

RESEARCH METHODOLOGY

The study was descriptive in nature and covered a period of 17 years from 1999-2000 to 2015-16. The required secondary data was collected from the reports of Reserve bank of India. The analysis was carried out with the help of statistical tools - descriptive statistics.

ANALYSIS AND INTERPRETATION

The current study focuses on identifying the relationship between imports, exports and exchange rate.

The other objectives of the study include understanding the

- Trends in India's Imports &Exports

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Trends in India's Imports

Import refers to purchase of goods by one country to another country or inflow of goods and services from foreign country to home country. The import of goods causes outflow of foreign exchange from the country. The monetary value of imports represents payments to be made to foreigners and is shown as a debit transaction in the balance of payments.

The major imports include the following

a. Crude oil with petroleum
b. Gold and silver
c. Machinery and electronic goods
d. Pearls, precious and semi-precious organic
e. Chemical, medical apparatus and plastic articles

Table.1

Trends in India's Import (1999-2000 to 2007-08) (US $ in Millions)

Year	(Q1)	(Q2)	(Q3)	(Q4)	Total	Mean (Qtly)
1999-2000	12305 (109.70%)	13053 (106.07%)	13976 (107.07%)	16049 (114.83%)	55383	13845.75
2000-01	14043 (87.50%)	15241 (108.53%)	14485 (95.03%)	14143 (97.63%)	57912 (104.56%)	14478.00
2001-02	14517 (102.64%)	14327 (98.69%)	13842 (96.61%)	13591 (98.18%)	56277 (97.17%)	14069.25
2002-03	14198 (104.46%)	15984 (112.57%)	16950 (106.04%)	17332 (102.25%)	64464 (114.54%)	16116.00
2003-04	18673 (107.73%)	18541 (99.29%)	20991 (113.21%)	21798 (103.84%)	80003 (124.10%)	20000.75
2004-05	22955 (105.30%)	28567 (124.44%)	32655 (114.31%)	34731 (106.35%)	118908 (148.62%)	29727.00
2005-06	37962 (109.30%)	38419 (101.20%)	38318 (99.73%)	42357 (110.54%)	157056 (132.08%)	39264.00
2006-07	46613 (110.04%)	48717 (104.51%)	47257 (97.00%)	48083 (101.74%)	190670 (121.40%)	47667.50
2007-08	56346 (117.18%)	59510 (105.61%)	67038 (112.65%)	74895 (111.72%)	257789 (135.20%)	64447.25

Source: Handbook of statistics on the Indian economy, RBI

*Figures in parenthesis indicates the growth rate. Apr- June (Q1), July-Sept (Q2), Oct-Dec (Q3), Jan-Mar (Q4)

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Table 1. Presents the trends in India's import during 1999-2000 to 2007-08. In 1999-2000, the quarterly growth rates of imports showed a rising trend. In 2000-01, the import registered a decline in the first quarter and growth rate was at 87.50 percent compared to the previous quarter and increased to 97.63 percent in fourth quarter. On the other hand a fluctuating trend was noticed during four quarters of 2001-02, 2002-03 and 2003-04.

There was rising trend in growth rate of imports from the year 2005-06. The increase in import was mainly due to import of crude oil and gold. During 2006-07, the imports registered a declining trend compared to 2005-06. But in 2007-08 increase in growth rate of first quarter was 117.18 percent and it declined to 111.72 percent in fourth quarter.

The imports showed a fluctuating trend in each of the quarters during the period 1999-2000 to 2007-08 except 1999-2000 and 2005-06 which recorded an increasing trend in the quarterly imports.

Table.2 Trends in India's Import (2008-09 to 2015-16) (US $ in Millions)

Year	(Q1)	(Q2)	(Q3)	(Q4)	Total	Mean (Qtly)
2008-09	82655 (110.36%)	92752 (112.21%)	74428 (80.24%)	58686 (78.84%)	308521 (119.67%)	77130.25
2009-10	65447 (111.52%)	72994 (111.53%)	78100 (106.99%)	84104 (107.68%)	300645 (97.44%)	75161.25
2010-11	87209 (103.69%)	89005 (102.05%)	97421 (109.45%)	107427 (110.27%)	381062 (126.74%)	95265.50
2011-12	123651 (115.10%)	124088 (100.35%)	120104 (96.78%)	131690 (109.64%)	499533 (131.08%)	124883.30
2012-13	118850 (90.24%)	120366 (101.29%)	132613 (110.17%)	130408 (98.33%)	502237 (100.54%)	125559.30
2013-14	124393 (95.38%)	114548 (92.08%)	112947 (98.60%)	114328 (101.22%)	466216 (92.82%)	116554.00
2014-15	116624 (102.00%)	122745 (105.24%)	118736 (96.73%)	103379 (87.06%)	461484 (98.98%)	115371.00
2015-16	102200 (98.85%)	104746 (102.49%)	98913 (94.43%)	90586 (91.58%)	396445 (85.90%)	99111.25

Source: Handbook of statistics on the Indian economy, RBI

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Figures in paranthesis indicates the growth rate. Apr- June (Q1), July-Sept (Q2), Oct-Dec (Q3), Jan-Mar (Q4)

Table 2. Presents the trends in India's Import during 2008-09 to 20015-16. The quarterly growth rate of imports showed significant decline during 2008-09. From 110.36 percent in Q1 the growth rate of imports declined to 78.84 percent in the Q4 of 2008-09.During 2009-10 the growth rate was 111.52 percent in first quarter and decreases to 107.68 in fourth quarters. In 2010-11 first quarter growth rate was at 103.69 percent and increased to 110.27 percent in fourth quarter. The imports registered an increasing trend during 2012-13 and 2013-14.

In 2012-13 quarterly growth rate of imports increased from 90.24 percent in first quarter to 98.33 percent in fourth quarter. In 2013-14 it was 98.38 percent in Q1 and 101.22 percent in Q4. During 2011-12, 2014-15 and 2015-16 the quarterly imports registered a declined trend.

The total imports during 1999-2000 to 2004-05 registered an increasing trend. From $55383 million it rose to $118908 million registered a increase of 48.63 percent. The period 2008-09 and 2009-10 witnessed a decline trend. The growth rate of import was at -2.55 percent in 2009-10. Similar trend prevailed in the imports during the last four years ending 2015-16.

Trends in India's Exports

Export refers to sale of goods by one country to another country or outflow of goods from home country to foreign country. The export of goods earns foreign exchange to the country. The monetary value of exports represents receipts from abroad is shown as a credit transaction in balance of payment.

The major export includes the following

a) Refined products

b) Engineering goods, chemical

c) Pharmaceutical products

d) Gems and jewellery

e) Agricultural and allied products

f) Textiles and clothing

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Table.3

Trends in India's Export (1999-2000 to 2007-08) (US $ in Millions)

Year	(Q1)	(Q2)	(Q3)	(Q4)	Total	Mean
1999-2000	8334 (87.29%)	9671 (116.04%)	9325 (96.42%)	10212 (109.51%)	37542	9385.50
2000-01	10550 (103.30%)	11279 (106.91%)	11207 (99.36%)	12416 (110.78%)	45452 (121.06%)	11363.00
2001-02	10550 (84.97%)	11006 (104.32%)	10822 (98.32%)	12325 (113.88%)	44703 (98.35%)	11175.75
2002-03	12131 (98.42%)	13528 (111.51%)	13169 (97.34%)	14946 (113.49%)	53774 (120.29%)	13443.50
2003-04	13358 (89.37%)	14992 (112.23%)	17599 (117.38%)	20336 (115.55%)	66285 (123.26%)	16571.25
2004-05	17840 (87.72%)	18875 (105.80%)	20888 (110.66%)	27603 (132.14%)	85206 (128.54%)	21301.50
2005-06	23998 (86.93%)	24995 (104.15%)	25579 (102.33%)	30580 (119.55%)	105152 (123.40%)	26288.00
2006-07	29663 (97.00%)	32701 (110.24%)	30824 (94.26%)	35700 (115.81%)	128888 (122.57%)	32222.00
2007-08	34356 (96.23%)	38273 (111.40%)	40985 (107.08%)	52549 (128.21%)	166163 (128.92%)	41540.75

Source: Handbook of statistics on the Indian economy, RBI

*Figures in paranthesis indicates the growth rate. Apr- June (Q1), July-Sept (Q2), Oct-Dec (Q3), Jan-Mar (Q4)

Table 3. Presents the trends in India's Export during 1999-2000 to 2015-16. In 1999-2000, the quarterly growth rate of exports showed a rising trend. From 2000-01, the export registered a decline in first quarter and growth rate was at 103.30 percent compared to previous quarter and it increased to 110.78 percent in fourth quarter. During 2006-07 the exports registered a declining trend when compared to 2005-06. The reason for decline in export is demand for goods are reduced in international market. But in 2007-08 the growth rate of export decreased in first quarter at 96.23 percent and in fourth quarter the growth rate increased to 128.21 percent.

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Table.4

Trends in India's Export (2008-09 to 2015-16) (US $ in Millions)

Year	(Q1)	(Q2)	(Q3)	(Q4)	Total	Mean
2008-09	57454 (109.33%)	53630 (93.34%)	39436 (73.53%)	38481 (97.57%)	189001 (113.74%)	47250.25
2009-10	39166 (101.78%)	43403 (110.81%)	47170 (108.67%)	52702 (111.72%)	182441 (96.52%)	45610.25
2010-11	55301 (104.93%)	52029 (94.08%)	65898 (126.65%)	77240 (117.21%)	250468 (137.28%)	62617.00
2011-12	78642 (101.81%)	79560 (101.16%)	71400 (89.74%)	80172 (112.28%)	309774 (123.67%)	77443.50
2012-13	75001 (93.55%)	72573 (96.76%)	74236 (102.29%)	84772 (114.19%)	306582 (98.96%)	76645.50
2013-14	73909 (87.18%)	81243 (109.92%)	79795 (98.21%)	83660 (104.84%)	318607 (103.92%)	79651.75
2014-15	81532 (97.45%)	83093 (101.91%)	80102 (96.40%)	71818 (89.65%)	316545 (99.35%)	79136.25
2015-16	68025 (94.71%)	67573 (99.33%)	64937 (96.09%)	65831 (101.37%)	266366 (84.14%)	66591.50

Source: Handbook of statistics on the Indian economy, RBI

*Figures in paranthesis indicates the growth rate. Apr- June (Q1), July-Sept (Q2), Oct-Dec (Q3), Jan-Mar (Q4)

Table 4 Presents the trends in India's Export from 2008-09 to 2015-16. The quarterly growth rate of exports showed significant decline during 2008-09. From 109.33 percent in Q1 the growth rate of exports declined to 97.57 percent in the Q4 of 2008-09.During 2009-10 the growth rate was 101.78 percent in first quarter and increases to 111.72 in fourth quarters. In 2010-11 first quarter growth rate was at 104.93 percent and increased to 117.21 percent in fourth quarter.

The quarterly growth rate of imports registered an increasing trend during 2011-12 and 2012-13.In 2012-13 quarterly growth rate of exports increased from 93.55 percent in first quarter to 114.19 percent in fourth quarter. In 2013-14 it was 87.18 percent in Q1 and 104.84 percent in Q4. During 2014-15 and 2015-16 the quarterly exports registered a declined trend.

The total exports during 1999-2000 to 2004-05 registered an increasing trend.

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From $10212 million it rose to $27603 million registered a increase of 23.40 percent. The period 2008-09 and 2009-10 witnessed a decline trend. The growth rate of export was at -3.47 percent in 2009-10. Similar trend prevailed in the exports during the year 2014-15.

CONCLUSION

The study was an attempt to identify the relationship between India's imports, export on exchange rate fluctuations taking into account the data for a longer period of 17 years. The exchange rate fluctuations affect the import and export of the country. The exchange rate of Indian rupee against US dollar has witnessed excessive volatility leading to sharp depreciation during 2012-13 to 2015-16. The study revealed that the global financial crisis had a significant impact on India's imports and exports. Exchange rate of rupee against dollar is positively correlated with import and export. The monetary policies of RBI and fiscal policies of central government should help the export oriented industries, corporations in enhancing their productive efficiency to earn foreign exchange.

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