

# THE IMPACT OF EXPORTS AND IMPORTS ON EXCHANGE RATES IN INDIA

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## ABSTRACT

*As far as Import and export of the country is concerned, India stood tenth largest importer and the nineteenth largest exporter in 2018. Hence, understanding the relation between export and import and how they can influence the exchange rate in India remains an interesting topic. The objective of this paper is to analyze impact of exports and imports on exchange rates. This paper studies data on import and export of India and its relation with exchange rates in India. This paper uses data from government website and other sources and applied statistical technique correlation to find relation of export and import with exchange rates.*

**Keywords:** *Export, Import, Exchange Rate, Correlation*

## INTRODUCTION

India was emerging with a fair rate of growth; the official numbers were around 7 percent. But suddenly it started declining. The Harish Damodaran (Senior Fellow, Center for Policy Research) has called the three Fs. Food harvests, World fuel prices haven't risen. Related to this, Subramanian and Felman (2019) tries to examine why the growth rate has declined in 2010's and concludes that, India's long-term growth has slowed since the Global Financial Crisis as the two engines propelling rapid growth investment and exports slowed down and consumption also declined. It resulted into decline in growth sharply over the past few quarters. So, the economy seems locked in a downward spiral. Reality can be seen by high interest-growth differential. The corporate cost of borrowing is higher than the GDP growth rate above 4 percentage points, This has caused revival in the amount of stressed debt, a second wave of the Balance Sheet Crisis. Subramanian and Felman also recommends that it should be checked else if it remains like this then the economy will maintain to spiral downward, as stress reduces growth, which will intensify stress. Moreover, to understand the economy of any country there are certain indicators which helps to analyse both national and global economic activity. These indicators are gross domestic product, consumption, investment and international trade and stability, central government budgets, the money supply, and the balance of payments etc. There are many economic indicators from World Development Index which are used in tackling progress towards SDG goal to promote Decent work and economic growth and Goal 2, which encourage sustainable consumption and production, GDP, as the most commonly used measure of economic activity. Indicators like 'ease of doing business' also gives a fair idea regarding conducive environment for business in the country.

According to the Press Information Bureau, Ministry of Commerce and Industry and World Bank report, India ranks 63rd on Ease of doing business index and 68th on Global Competitiveness Report. India's largest trading partners are China, USA, the UAE, and Saudi Arabia. Export and import together marks up International Trade. An import is a good or service bought in one country that was produced in another country. International trade is made up of imports and exports. A country's balance of Trade is negative if the value of its imports exceeds the value of its exports (BOT), this negative balance is also known as a trade deficit.

Goods and services produced in one nation and sold to buyers in another are known as exports. International trade is made up of exports and imports. Exports are important for fostering economic commerce, boosting exports and imports for the advantage of all trading partners, is one of the basic functions of diplomacy and foreign policy between countries. An export helps to build the fiscal balance. Foreigners can pay in their native currency or in US dollars for exports. It can be used by a country with huge reserves to regulate the value of their own currency. They have enough foreign currency in their possession to flood the market with their own. As a result, the cost of their exports to other countries is reduced. Currency reserves are also used by countries to regulate liquidity and reduce inflation. Since the topic of the research is the impact of exports and imports on exchange rates in India, it is general study to analyse how the exchange rate fluctuates on exports and imports each year and also effect the country's GDP and economy also the paper intends to analyse impact of export and import on exchange rates in India. As a developing country, India has to focus on its export and import business with the aim to bring in globalization.

This paper attempts to analyze relation between export and

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import and its impact on exchange rate of India via secondary data and analyzing it by using CAGR and rate of percentage method to analyze data. This paper successfully fulfils the objective of finding impact of import and export on exchange rate of India.

## REVIEW OF LITERATURE:

Dhasmana and et al (2012) analyzed uses quarterly trade data for 15 countries to examine the relationship between India's real exchange rate and its trade balance with major trading partners. She concludes, real exchange rate volatility is negatively correlated with India's trade balance in the long run. Pham Thi Tuyet Trinh, (2012) in the study the impact of the exchange rate on the trade balance of developing nations was investigated, and several findings were reached. Joseph and et al (2011) used a quintile regression model to create an empirical research regarding the effect of GDP and exchange rate on foreign exchange reserve, based on relevant data from 1985 to 2010. The findings reveal that both GDP and exchange rate have a significant impact on the level of foreign exchange reserves, with the effect of exchange rate being higher than GDP at the median, middle, and lower quintiles, and lower than GDP at the higher quintile. According to Chit, Rizov, and Willenbockel (2010), a country in Southeast Asia revealed that exchange rate volatility is influenced by the policies that policymakers implement. They contend that exchange rate policies have had a significant impact on the character of international trade between countries. Exporters, according to De-Paoli and et al. (2009), have a very erratic and elastic demand curve. There is clearly a link between imports and exports, as well as exchange rate policy. Guruswamy, J (2013) finds that exchange rate has significant impact on real exports imports this implies that higher exchange rate fluctuation tend to reduce real exports in India. The empirical results reveal that GDP has a positive and significant impact on India's real exports in the long run, but the impact turns out to be insignificant in the short-run.

Ahmad et al. (2012) investigate how the Peso/Dollar exchange rate, as well as US and Mexican GDP, influences the US-Mexico trade balance. The Marshall Lerner condition and the J-curve phenomenon are also briefly examined in this paper. Quarterly GDP and real exchange rate data are evaluated using a statistical regression with domestic GDP, foreign GDP, and real exchange rates as independent variables. Shi Jun-Guo and et al. (2012) used a quintile regression model to conduct an empirical study on the effect of GDP and exchange rate on foreign exchange reserve. They discovered that both GDP and exchange rate have a significant impact on the size of foreign exchange reserve, with the effect of exchange rate being higher than GDP at the mean, middle, and lower quintiles and lower than GDP at the higher quintile. Abbas and et al (2012) examined the relationship between the exchange rate and the gross domestic product, inflation, and real interest rate. This study used data from 10 African countries spanning 15 years, from 1996 to 2010. In order to explore their link that causes

exchange rate swings, three independent variables were used: inflation, interest rate, and GDP. Khundrakpam (2008) uses monthly data from the Indian economy to examine the impact of economic reforms on the pass-through of exchange rates to domestic prices. His research does not support the view of a decline in exchange rate pass-through after economic reforms. In addition, we observe not only changes in exchange rates, but also asymmetric reactions to rises and falls. Despite a sharp drop in inflation, import penetration has risen, tariffs have been reduced, quantitative restrictions have been lifted, and import composition has increased. Increased inflation sustainability may be one of the reasons for non-regressive pass-through in the late 1990s. Developing countries are sensitive to exchange rate fluctuations in terms of their impact on foreign trade. Exchange rate uncertainty has serious implications for trade in developing countries due to the low level of financial development. Tenreyro and et al (2007) in their study, the authors found modest evidence of the negative effects of exchange rate uncertainty on exports only in the case of developing country samples. The author tested bilateral exports among 78 sample countries using a separate dynamic panel dataset. Analyzing exports from emerging markets to developed countries, there are almost as many positive connections as there are negative ones. There are also some recent studies on the Indian economy dealing with the transmission of exchange rates to general price levels and inflation. Calvo & Reinhart, (2000) review a set of such studies and reached the similar conclusion that there is a relationship between trade and exchange rate volatility. Viaene and de Vries (1992) show that exchange rate risk can be passed on to the forward rate, and thus the effect on trade can be ambiguous. Alam & Ahmed (2012) indicated that some researchers in the field of economics and even academia have argued that exchange rates should be determined freely by the mechanism of supply and demand. In other words, markets should determine the optimal level of exchange rates. Khundrakpam (2008) investigates the impact of economic reforms on exchange rate pass-through to domestic prices by using monthly data for Indian economy. This paper does not support the view of decline in the exchange rate pass-through after economic reforms. Further it also observes the asymmetric response to appreciation and depreciation and large and small exchange rate changes. The paper explains the non decline in pass-through in the first half of 1990s in spite of sharp fall in inflation rate in terms of factors associated with economic reforms such as rise in import penetration ratio, reduction of tariffs and removal of quantitative restrictions, change in import composition etc. The inflation persistence could be one of the causes behind the non-decline in pass-through in the second half of 1990s. The less developed economies are more sensitive to the exchange rate volatility in term of its effect on foreign trade. The uncertainty of exchange rate affects largely by the trade in the less developed economies because of lower level of financial developments. There are several researches in which they have measured the effect of exchange rate uncertainty on the foreign trade in emerging

economies. Many authors have attempted to measure the effect of exchange rate volatility on trade. One of the pioneer works is that of Hooper and Kohlhagen (1976).

**Objective of study:** To analyse the impact of Indian Imports and Exports on Indian Exchange Rates.

**Scope of the study:** Since the topic of the research is the impact of exports and imports on exchange rates in India, it is general study to analyse how the exchange rate impacts on fluctuates on exports and imports each year and also how it effects the country's GDP and economy. As a developing country, India has to focus on its export and import business with the aim to bring in globalization and to expand new economic opportunities for the country.

**Methodology:** The study is essentially based on secondary and published data and the information available from both governmental agencies and professional journals. These data are collected mainly from year 1991, the year 1991 has special significance in the economic history of India because, the country embarked on a program of economic reforms that changed her economic ideology and approach to economic life of the nation. Economic reforms initiated with the new economic policy of July 1991, directed both for the domestic as well as the external sector.

**Techniques:** Correlation, CAGR and Rate of Percentage method is used to analyse the data. Compound annual growth rate, or CAGR, is the mean annual growth rate of an investment over a specified period of time longer than one year. Correlation is a statistical measure which determines co-relationship or association of two variables. Correlation is applied to find out relation between Import and exchange rate and relation between export and exchange rate.

**Tools:** The advance statistical technique correlation is applied. Tools used in this research are MS- excel to analyse and present the data collected from different sources.

## **INDIAN ECONOMY AND GDP:**

India's GDP grew at 4.8 percent in the first half of 2019-2020, down from 6.2 percent in the second half of 2018-2019, according to the National Statistical Office. On the supply side, all sectors contributed to the slowing of GDP growth, with the exception of 'agriculture and associated activities' and 'public administration, defence, and other services,' which grew faster in first half 2019-2020 than in second half 2018-2019. On the demand side, the slowdown in GDP growth was caused by a drop in real fixed investment growth in first half of 2019-2020 compared to first half of 2018- 2019, which was fueled in part by sluggish real consumption growth. Real consumption, on the other hand, began to rise.

In second quarter of 2019-2020, the contribution of net exports to GDP became less negative since the contraction of exports was significantly smaller in real terms than the decline of imports. Imports shrank dramatically as GDP growth slowed and the price of crude oil fell. Despite the fact that GDP growth

has slowed for the sixth quarter in a row, the stock market remains optimistic about the country's development prospects.

## **External Sector Performance**

In October and November 2019, major commodity groups have witnessed optimistic growth in exports over the corresponding month of the previous year while imports of major commodity groups contracted. Despite muted growth of services exports, the trade balance on the services account persistent to be positive in 2019-2020. The surplus trade on services account has been anticipated at US\$ 40.5 BN in first half of 2019-2020 as compared to US\$ 38.9 BN in 2018-2019.

## **India's Foreign Trade**

The technological and infrastructural developments will do well for the trade and economic sector in future. Also, with the Government of India striking important deals with the governments of Japan, Australia and China, the external sector is increasing its contribution to the economic development of the country and growth in the global markets. Moreover, by implementing the FTP 2014-19, by 2020, India's share in world trade is expected to double from the present level of three per cent. India's potential to raise its goods and services exports to Australia is to achieve US\$ 15 billion by 2025 and by 2035 it should be US\$ 35.

For an open emerging market economy like India, improvement in BoP position is critical. A continuous improvement in India's BoP position reflects a global sentiment that increasingly believes in India's growth story. The country which has always remained in current account deficit, introducing not more earnings from outside the country allowing leakage from it by means of overseas payments, In BoP's position continuous improvement reflects the global understanding that believes in India's growth. This belief will serve the country well when it comes to tapping foreign savings to meet the investment needs of a \$5 trillion economy.

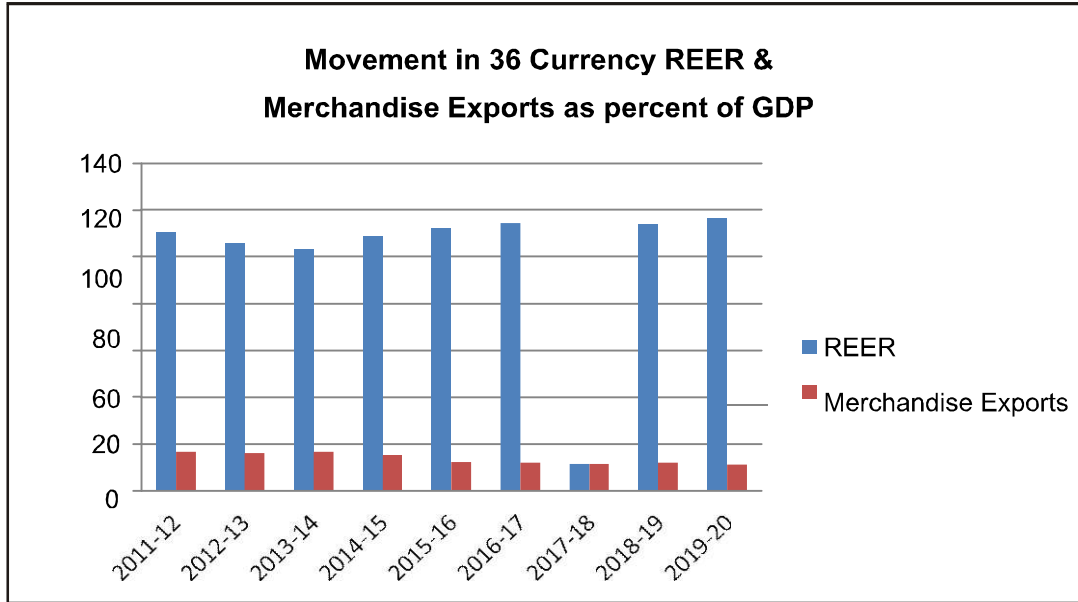
## **Current Account Deficit (CAD)**

Since 2014-15, India has continuously run trade surpluses with two of its top trading partners, the United States and the United Arab Emirates. In contrast, India has been running a trade deficit with other key trading partners such as China PRP, Saudi Arabia, Iraq, Germany, Korea RP, Indonesia, and Switzerland since 2014-15. Until 2017-18, India held a trade surplus with Hong Kong and Singapore, before going into a trade deficit in 2018-19 (ref: Top 10 trading partners, www.worldbank.org).

## **Merchandise Exports**

The decrease in the export-to-GDP ratio is due to the rise in the real exchange rate. The increasing integration of India's exports with the global value chain has had an impact on the impact of a slowdown in world output and appreciation of India's real currency rate on India's exports. The integration with the global value chain has increased.

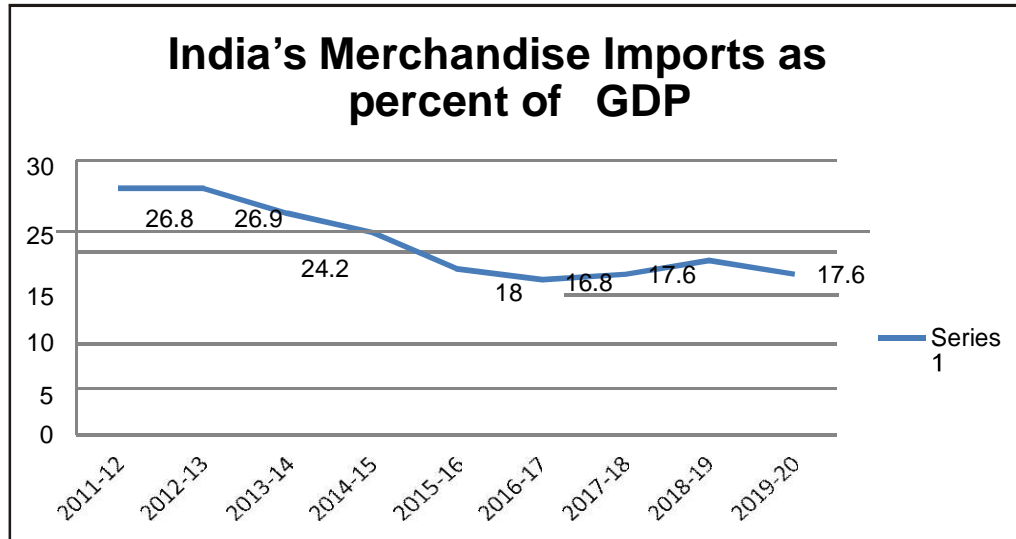
**Fig.1. Movement in 36 Currency REER & Merchandise Exports as per cent of GDP**



Source: [www.rbi.org.in](http://www.rbi.org.in)

In 2019-20 (April-November), continued to be the largest exported commodity in petroleum products, in value terms. In terms of growth, it was drug formulations, biologicals which grew the highest between 2011-12 and 2019-20 (April November) refer Fig.1.

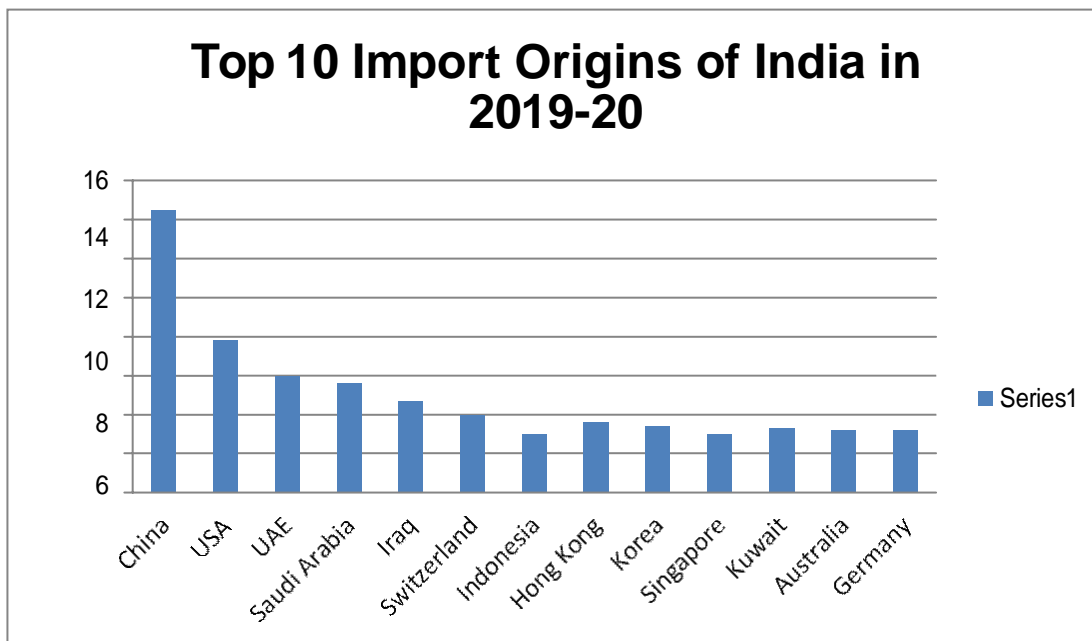
**MERCHANDISE IMPORTS**



**Fig. 2: India's Merchandise Imports as percent of GDP**

Increases in the ratio of merchandise imports to GDP have a net negative effect on the BoP position. Over time, India's ratio has decreased, resulting in a net beneficial influence on the BoP position. Crude oil imports account for a significant portion of the import basket that ties India's overall imports to crude prices. As the price of crude rises, so does the proportion of crude in total imports, increasing the imports-to-GDP ratio (refer Fig-2).

China continues to be India's greatest exporter, followed by the United States, the United Arab Emirates, and Saudi Arabia. Hong Kong, Korea, and Singapore have recently become as important exporters to India. In the face of high customs duties, the impact of faster GDP growth is reduced.



**Fig. 3: Top 10 Import Origins of India in 2019-20 (April-November) Exchange Rate**

An exchange rate is the price of a country's currency relative to the currencies of other countries (refer Fig.3). It impacts the prices of both exports from and imports into the country. It also impacts the flow of investments, and is crucial for determining the value of existing overseas investments..

### Exchange Rate and Exports

The 3 aspects of exchange rate which can have reasonable impact on exports—the level of exchange rate, fluctuation in it, and the direction of the movement in exchange rates. The level of exchange rate may have an impact on exports if it is at variance from the underlying “equilibrium” value of the exchange rate. Such currency misalignments could impact a country's trade through its impact on relative import prices.

The second important aspect of exchange rate is the strengthening or weakening of the currency over time. These changes in exchange rate can impact the economic activity in countries through the trade channel or the financial channel. According to BIS (2016), the impact of fluctuations in exchange rate through the two channels— trade channel and financial channel, are contrary in nature. Under the trade channel, an

exchange rate appreciation typically has a contractionary impact on domestic economic activity because appreciation in exchange rate increases the cost of exports and reduces the domestic import costs, leads to a reduction in export demand. On the other hand, appreciation of currency could also strengthen the balance sheets of domestic borrowers in foreign currency, thereby easing the domestic financial conditions. As a result, the financial channel may have an expansionary effect on the economic activity. An accurate assessment of the impact of exchange rate movements on economic activity is therefore difficult. Even an assessment of the impact through the trade channel is not straightforward.

The third important facet of exchange rate is its volatility. Stability of exchange rate is considered important for overall macroeconomic stability of economies. Several emerging market economies have adopted a policy of managed floating exchange rate to avoid sharp appreciation or depreciation of currencies. Emerging economies often do not possess appropriate institutional requirements to undertake effective monetary policy under pure floating exchange rates, necessitating a managed floating approach to exchange rate determination.

**Table - 1: Impact of India's imports or exports on India's exchange rate**

YEAR	EXPORTS	IMPORTS	TRADE BALANCE	RATE OF CHANGE	
				(Per cent)	
				EXPORT	IMPORT
1990-91	18143	24075	-5932	9.2	13.5
1991-92	17865	19411	-1546	-1.8	19.4
1992-93	18537	21882	-3345	3.5	19.4
1993-94	22238	23306	-1068	20.0	6.5
1994-95	26330	28654	-2324	18.4	22.9
1995-96	31797	36678	-4881	20.8	28.0
1996-97	33470	39133	5663	5.3	6.7
1997-98	35006	41484	6478	4.6	6.0
1998-99	33218	42389	9171	-5.1	2.2
1999-2000	36822	49671	12849	10.8	17.2
2000-01	44560	50536	5976	21.0	1.7
2001-02	43827	51413	7586	-1.6	1.7

Source: RBI official website.

The table (refer Table-1) above represents Impact of India's imports and exports on India's exchange rate. On the basis of data (refer Table 1) from 1990-1991 to 2001-2002, CAGR has been calculated.

$$\text{CAGR} = (\text{LOGEST}(\text{range}) - 1) * 100$$

$$\text{Exports (1990 to 2002)} = 9.380707$$

$$\text{Imports (1990 to 2002)} = 9.847342$$

$$\text{Rate of Percentage} = \frac{\text{Final Value} - \text{Initial Value}}{\text{Initial Value}} * 100$$

$$\text{Exports (1990 to 2002)} = 58.6031\% \text{ decrease}$$

$$\text{Imports (1990 to 2002)} = 53.1733\% \text{ decrease}$$

**Table-2: India's Exports, Imports and Balance of Trade from 2002-03 to 2008-09**

India's Exports, Imports, and Balance of Trade from 2002-03 to 2008-09						
Year	value in Rs. crores			percentage growth		
	Exports	Imports	Balance of Trade	Exports	Imports	Trade deficit
2002-03	255137	297206	-42069	22.06	21.21	16.27
2003-04	293367	359108	-65741	14.98	20.83	56.27
2004-05	375340	501065	-125725	27.94	39.53	91.24
2005-06	456418	660409	-203991	21.60	31.80	62.25
2006-07	571779	840506	-268727	25.28	27.27	31.73
2007-08	655864	1012312	-356448	14.71	20.44	32.64
2008-09	840755	1374436	-533681	28.19	35.77	49.72

Source: RBI official website.

The table above represents India's Exports, Imports and balance of Trade from 2002-03 to 2008-09. On the basis of data (refer Table 2) from 2002-03 to 2008-09, Percentage growth has been calculated. The balance of Trade is also said as the trade balance, the international trade balance, commercial balance, or the net exports. The Table (refer Table-2) shows that from 2002-03 to 2008-09 trade deficit was highest in 2004-05. CAGR has been also calculated based on the above data.

$$\text{CAGR} = (\text{LOGEST}(\text{range}) - 1) * 100$$

$$\text{Exports (2002 to 2009)} = 22.1729$$

$$\text{Imports (2002 to 2009)} = 29.24969$$

$$\text{Rate of Percentage} = \frac{\text{Final Value} - \text{Initial Value}}{\text{Initial Value}} * 100$$

$$\text{Exports (2002 to 2009)} = 69.6538\% \text{ decrease}$$

$$\text{Imports (2002 to 2009)} = 78.3761\% \text{ decrease}$$

**Table-3 : Trade Data for period 2009-10 to 2018-19**

Trade Data for period 2009-10 to 2018-19						
(Values in Rs Crore)						
S.No	Year	Exports	%Growth	Imports	%Growth	Trade Balance
1	2009-2010	8,45,534	0.57	13,63,736	-0.78	-5,18,202
2	2010-2011	11,36,964	34.47	16,83,467	23.45	-5,46,503
3	2011-2012	14,65,959	28.94	23,45,463	39.32	-8,79,504
4	2012-2013	16,34,318	11.48	26,69,162	13.8	-10,34,844
5	2013-2014	19,05,011	16.56	27,15,434	1.73	-8,10,423
6	2014-2015	18,96,348	-0.45	27,37,087	0.8	-8,40,738
7	2015-2016	17,16,384	-9.49	24,90,306	-9.02	-7,73,921
8	2016-2017	18,49,434	7.75	25,77,675	3.51	-7,28,242
9	2017-2018	19,56,515	5.79	30,01,033	16.42	-10,44,519
10	2018-2019(QE)	23,14,429	18.29	35,48,004	18.23	-12,33,575

Source: RBI official website.

The above mentioned table shows (refer Table-3.) shows Trade data for period 2009-10 to 2018-19 (QE). On the above data, to understand the growth pattern, percentage growth has been calculated by applying simple calculation.

$$\text{CAGR} = (\text{LOGEST}(\text{range}) - 1) * 100$$

$$\text{Exports (2009 to 2019)} = 8.965077$$

$$\text{Imports (2009 to 2019)} = 8.147663$$

$$\text{Rate of Percentage} = \frac{\text{Final Value} - \text{Initial Value}}{\text{Initial Value}} * 100$$

$$\text{Exports (2009 to 2019)} = 63.4668\% \text{ decrease}$$

$$\text{Imports (2009 to 2019)} = 61.5633\% \text{ decrease}$$

**Table 4: EXCHANGE RATE OF THE INDIAN RUPEE VIS-À-VIS THE SDR,US DOLLAR, POUND STERLING, D. M. / EURO AND JAPANESE YEN(Financial Year – Annual Average Rates)**

(<sup>1</sup> per unit of foreign currency)

(? per unit of foreign currency)					
Year	SDR	US Dollar	Pound Sterling	Japanese Yen	Deutsche Mark/Euro
	Average	Average	Average	Average	Average
1	2	3	4	5	6
1999-00	58.9335	43.3327	69.8510	39.0606	44.7909
2000-01	59.5459	45.6844	67.5522	41.4052	41.4832
2001-02	60.2150	47.6919	68.3189	38.1790	42.1811
2002-03	64.1257	48.3953	74.8193	39.7363	48.0901
2003-04	65.6876	45.9516	77.7389	40.7077	53.9896
2004-05	66.9282	44.9315	82.8644	41.8046	56.5523
2005-06	64.4898	44.2735	79.0472	39.1438	53.9124
2006-07	67.2538	45.2495	85.6430	38.7307	58.0514
2007-08	62.6506	40.2607	80.8412	35.3497	57.0599
2008-09	71.2770	45.9933	78.3164	46.1676	65.0581
2009-10	73.7333	47.4433	75.7810	51.1358	67.0513
2010-11	69.7228	45.5626	70.8812	53.2682	60.2325
2011-12	75.3132	47.9229	76.3912	60.7484	65.8939
2012-13	83.0262	54.4099	85.9713	65.8530	70.0693
2013-14	92.2602	60.5019	96.3058	60.4026	81.1745
2014-15	90.7955	61.1436	98.5731	55.8266	77.5209
2015-16	91.3452	65.4685	98.7260	54.5934	72.2894
2016-17	92.6156	67.0720	87.6897	62.0350	73.6087
2017-18	90.8989	64.4549	85.5129	58.1822	73.4378
2018-19	98.0361	69.9229	91.7865	63.0468	80.9580
2019-20	97.6267	71.3212	90.1588	65.2442	78.7997

Notes : 1. The data on exchange rate for Japanese Yen is in <sup>1</sup> per 100 Yen.2. The end year rate for 1998-99 pertain to March 26, 1999 of Deutsche Mark rate.3. Data from 1977 to1977-78 are based on official exchange rates.4. Data from 1992-93 onwards are based on FEDAI (Foreign Exchange Dealers' Association of India) indicative rates.5. Data are based on FEDAI (Foreign Exchange Dealers' Association of India) indicative rates till April 2012. RBI reference rates are used w.e. f. May 2012.6. The Euro replaced the Deutsche Mark w.e.f. January 1, 1999.

Source: Author's compilation from RBI official website.



**Table-5: Export and USD exchange rate in India**

Year	Exports	Import	USD Exchange
2000-01	44560.3	50536.5	45.6844
2001-02	43826.7	51413.3	47.6919
2002-03	52719.4	61412.1	48.3953
2003-04	63842.6	78149.1	45.9516
2004-05	83535.9	111517.4	44.9315
2005-06	103090.5	149165.7	44.2735
2006-07	126414.1	185735.2	45.2495
2007-08	162904.2	251439.2	40.2607
2008-09	185295.0	303696.3	45.9933
2009-10	178751.4	288372.9	47.4433
2010-11	251136.2	369769.1	45.5626
2011-12	305963.9	489319.5	47.9229
2012-13	300400.6	490736.6	54.4099
2013-14	314415.7	450213.6	60.5019
2014-15	310352.0	448033.4	61.1436
2015-16	262291.1	381007.8	65.4685
2016-17	275852.4	384357	67.0720
2017-18	303526.2	465581	64.4549
2018-19	330078.1	514078.4	69.9229
2019-20	313361.0	474709.3	71.3212

Source: Author's compilation and calculation.

(r=correlation)

Correlation between Export and Exchange Rate in India (r)=0.733745

Correlation between Import and Exchange Rate in India (r)=0.688355

If the correlation coefficient is 1, it means every positive increase in one variable will lead to optimistic boost of a fixed proportion in other. For example, increase in export will lead to increase in foreign exchange, it's directly proportional but up to what extent the change in value will affect that can be determined by the value of correlation coefficient. The larger the value of coefficient the stronger is the relationship.

Similarly, if value of correlation coefficient comes out to be -1 then it stands for every positive increase in one variable will lead to negative decrease in the fixed proportion to other and suppose if value comes Zero then it means the two are not at all related.

In this paper, after analyzing the data the correlation coefficient between export and exchange rate in came out as 0.733745 and correlation coefficient between import and exchange rate came out as 0.688355. So, Indian exchange rate shows positive correlation with its imports and exports.

## CONCLUSIONS

Foreign exchange has played critical role in Indian economic development. During British rule, India becomes importing completed substances and exporting the raw materials. India exported raw substances since starting, however later the quantum of its export modified consistent with progress of overseas alternate. It's far to be found that India is now in a function to take advantage of each favourable demand state of affairs and appealing price situation within the global markets at some point of studies duration 2001 to 2010. India's foreign exchange is working below positive legal guidelines. The exporters are eligible for various benefits under special laws governing the export from GDP growth. As a substitute India's economic boom has been at once affected by monetary and economic elements specially the increase of government revenue and financial growth. Study also shows that developing country's exports of manufactures may be much more greatly affected due to a combination of greater exchange rate volatility and greater sensitive of their exporters to that volatility. When a large domestic economy liberalizes and gets increasingly integrated with the global economic, the influence of the external sector, including the exchange rate movement could become substantial during the transition. The finding support

those who point out that exchange rate volatility have a negative impact on trade.

Manufacturing goods as well as the proportion of high value and differential products, petroleum products has increased in India's export basket reflecting that Indian economy is being diversified and non-traditional items of exports are gaining importance. India's entry into new markets and robust performance in engineering goods, gems and jewellery and textile segments are the reason behind the growth spurt. The analysis suggests that the major downward risk on the growth rate of exports may arise from the fall in the growth rate of India's real GDP. Any slow-down in India's GDP growth would also lead to a fall in the growth rate of exports since the GDP has a potential capacity for export. The most effective policies to promote exports are not really different from those that can accelerate the country's overall economic growth. Hence this paper successfully provides general understanding and analysis of the impact of Indian Imports and Exports on Indian Exchange Rates. The issue related to the rate of exchange rates has been a matter of discourse since long time. Lots of literature review has been performed which includes theoretical and empirical studies over the years and it shows through available data and results of statistical techniques is they are correlated to the imports and exports of the country. Hence, Imports and exports of any country show positive correlation with the exchange rates.