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Impact of the exchange rate on the economy

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Abstract---It analyzes the effects of changes in the exchange rate of the Rupee–Dollar on major economic statistics in India during the period from 2019 to 2024, including export earnings, household spending, productivity levels and numbers of tourists from abroad. The study looks at secondary data obtained from the Reserve Bank of India, Department of Commerce, CEIC and Ministry of Tourism to run trend and regression analyses which analyze the impact of currency depreciation and appreciation on the Indian economy. Export competitiveness grew thanks to the depreciation of the rupee, so that from USD 330.07 billion in 2019, exports jumped to USD 820.93 billion in 2024. At the same time, import bills grew, leading to higher domestic prices. Although the cost of imports went up, rural earnings rose and helpful measures kept private spending higher, allowing it to jump from INR 83,000 billion to INR 104,079 billion. Because imported goods for production became more expensive, productivity gains were slowed which led to uneven results in labor productivity. At the same time, a weaker rupee made India more attractive to visitors from other countries. This led to 10.28 million tourists in 2024 and tourism earnings rose by over 31% year-on-year. According to the study, creating a managed-floating exchange rate system and making skill, manufacturing and tourism infrastructure more effective helps the country avoid risks and promotes stable growth.

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Introduction

How many units of one currency are traded for another currency constantly affects India's economic health and overseas trades. Changes in the INR/USD rate have a direct impact on import and export costs which can change the trade volume, growth and the stability of the economy. In India, interest rate differences, inflation, political situations, how stable and strong the economy is and decisions on economic policy guide exchange rate movements. If interest rates increase, foreign currency often flows into the country, pushing the rupee to go up. However, lower interest rates tend to make foreign investors withdraw money which may reduce the value of the rupee. Inflation also reduces how much value the rupee gives to foreign investors. Strong and steady political systems make investors certain which affects currency strength in a positive way. The exchange rate is strongly guided by the use of fiscal and monetary policies. By lowering spending or raising taxes, the government can reduce inflation and benefit the Indian currency, however, when it stimulates growth via increased spending or tax cuts, the currency can weaken and drive up prices. The fluctuations of exchange rates affect how much is spent by locals, the country's competitiveness in world markets, inflation, productivity and tourism. Studies demonstrate that uncertainty resulting from volatility might decrease how much households consume (Oskooee, Kutan and Xi, 2015), but it makes exported goods become cheaper, encouraging trade (Thorbecke and Kato, 2011). When a sector is connected to global markets, good exchange conditions can push businesses to use technology and work more efficiently (Jeanneney and Hua, 2010). Also, when the rupee falls in value, it means India becomes a less expensive place for foreign tourists which often raises the amount of money the country earns through tourism (Tung, 2019). The Indian economy allows the market to determine exchange rates, but the Reserve Bank of India (RBI) can step in when extreme swings occur. To promote steady growth, exchange rate policy needs to keep internal economic factors and outside conditions in balance.

Statement of the Study

It looks at the effects the exchange rate between the Indian rupee and the US dollar from 2019 to 2024 have had on India's export prices. The report analyzes exchange rate fluctuations and compares them with export income so as to estimate how changes in the rupee affect the way Indian exporters set their prices.

Significance of the Study

Exporters, policymakers and financial authorities need to know how exchange rates and export prices affect one another. Those exporting gain understanding of how improvements or decreases in the rupee value can influence their competitiveness and income. Policymakers and the RBI may apply these observations to direct the way they intervene or set up trade policies in the forex market. From an academic perspective, the research studies the ways external movements in currencies affect India's industrial and trade capacities.

Research Objectives

Measure the correlation between INR/USD exchange rate movements and export revenues in India from 2019 to 2024.

Research Methodology

Secondary data on annual average USD/INR rates (2019–2024) were collected from the Reserve Bank of India. Corresponding export values (in USD billions) were obtained from the Department of Commerce, Government of India. To adjust for inflation differentiaIs, the Real Effective Exchange Rate (REER) series from RBI was also used. Trend and regression analyses were conducted to examine the direct and indirect impacts of exchange rate changes.

The Impact of Exchange Rate on Export Prices
The INR/USD exchange rate significantly influences India's export dynamics. Table 1 and Chart 1 show how export values have changed alongside the rupee's fluctuations:

Year	Avg. USD/INR Exchange Rate	Total Exports (USD Billion)
2019	70.93	330.07
2020	74.11	314.31
2021	74.57	420.00
2022	77.97	676.53
2023	82.14	770.18
2024	85.47	820.93

Sources: Reserve Bank of India (RBI), Department of Commerce, Government of India

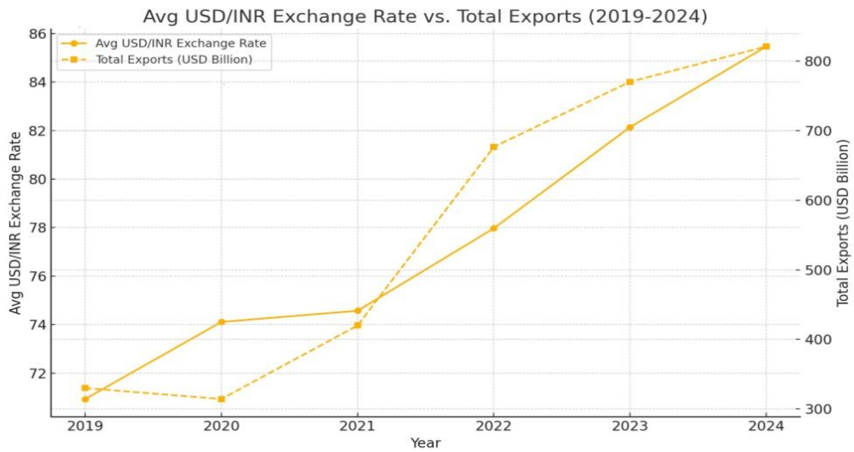

Chart: 01 Exchange Rate and Export Trends (2019–2024)

Between 2019 and 2024, the rupee depreciated from 70.93 to 85.47 against the dollar. As Indian goods became cheaper for foreign buyers, export revenues increased markedly from USD 330.07 billion to USD 820.93 billion. While depreciation supported export volumes, factors such as global demand and domestic production capacity also played significant roles. The RBI has intervened periodically to smooth out extreme currency swings, aiming to protect export competitiveness and prevent imported inflation. According to RBI's REER data, the rupee was about 7.21% overvalued in October 2024, indicating that exporters faced challenges beyond nominal exchange rate shifts.

The Impact of Exchange Rate on Domestic Consumption
Exchange rate depreciation raises the cost of imported goods, affecting consumer prices and spending decisions. Table 2 illustrate private consumption trends alongside exchange rate changes:

Year	Avg. USD/INR Exchange Rate	Private Consumption Expenditure (INR Billion)
2019	70.93	83,000
2020	74.11	76,801
2021	74.57	85,939
2022	77.97	93,343
2023	82.14	97,562
2024	83.68	104,079

Sources: Reserve Bank of India, Federal Reserve Economic Data (FRED)

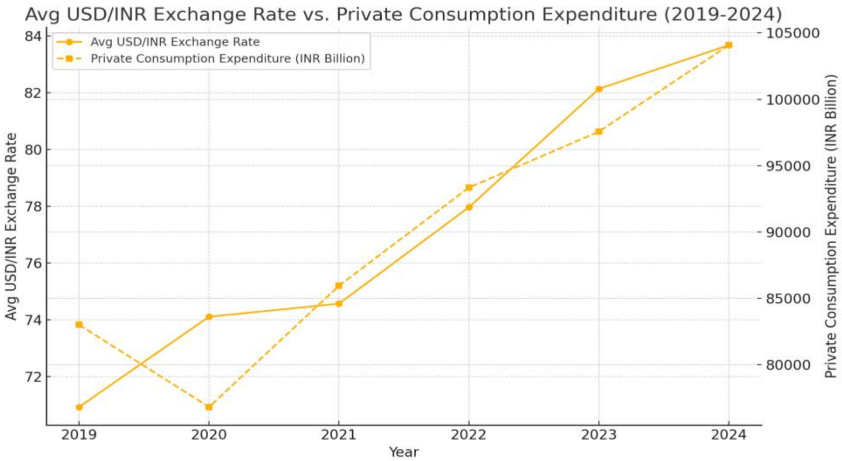

Chart: 02 Exchange Rate and Consumer Spending (2019–2024)

From 2019 to 2024, the rupee's depreciation from 70.93 to 83.68 increased imported goods' prices. Despite potential inflation pressures, private consumption rose from INR 83,000 billion to INR 104,079 billion. This resilience reflects rising rural incomes and government policies aimed at boosting domestic demand.

Rural consumption has outpaced urban spending, with rural per capita consumption growing 9.2% annually versus 8.3% for urban areas. RBI's forex interventions and targeted rural development schemes have helped maintain consumption stability despite currency-induced price pressures.

The Impact of Exchange Rate on Productivity

Exchange rate movements also affect sectors dependent on imported capital goods and technology. Table 3 and Chart 3 illustrate labour productivity trends alongside exchange rate changes:

Year	Avg. USD/INR Exchange Rate	Labour Productivity Growth (%)
2019	70.93	3.5
2020	74.11	-2.8
2021	74.57	3.99
2022	77.97	-1.5
2023	82.14	2.1
2024	83.68	2.5

Sources: Reserve Bank of India, CEIC Data

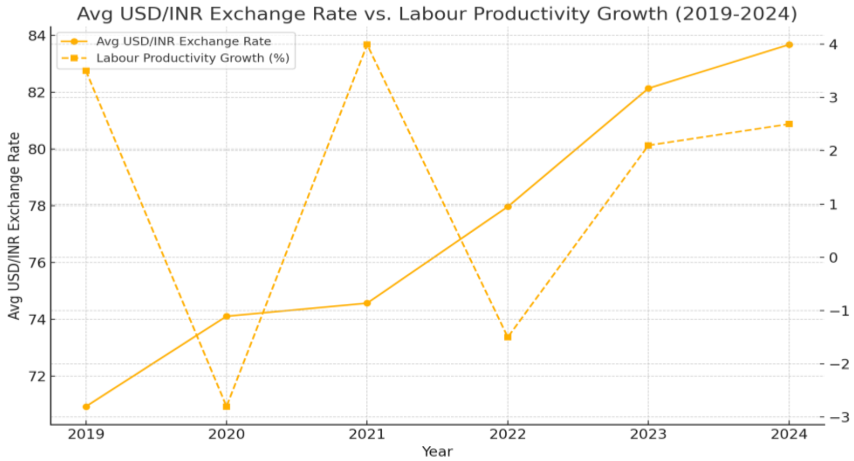

Chart: 03 Exchange Rate and Productivity Trends (2019–2024)

During 2019–2024, the rupee's fall from 70.93 to 83.68 raised the cost of imported machinery and technology, which can hinder productivity gains. Labour productivity saw downturns in 2020 and 2022, partly due to COVID-19 disruptions. While RBI's efforts to curb volatility helped to some extent, underlying structural issues such as skill gaps and limited technological adoption remain critical for improving productivity.

The Impact of Exchange Rate on Foreign Tourist Arrivals

Tourism is sensitive to currency shifts. Table 4 and Chart 4 show how tourist arrivals changed as the rupee fluctuated:

Year	Avg. USD/INR Exchange Rate	Foreign Tourist Arrivals (Millions)
2019	70.93	10.93
2020	74.11	2.74
2021	74.57	1.52
2022	77.97	6.19
2023	82.14	9.52
2024	83.68	10.28

Sources: Reserve Bank of India, Ministry of Tourism, Government of India

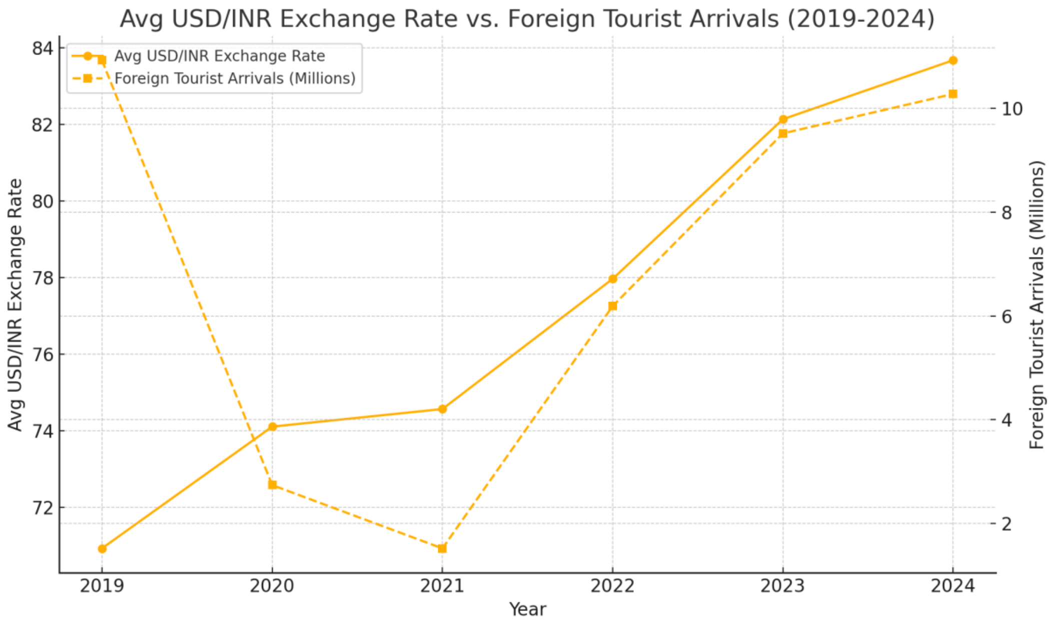

Chart:04 Exchange Rate and Foreign Tourist Arrivals (2019–2024)

Between 2019 and 2024, the rupee weakened from 70.93 to 83.68. A weaker rupee makes India more affordable to foreign visitors, but pandemic-related travel restrictions in 2020–2021 suppressed arrivals. As travel eased, arrivals rebounded to 10.28 million in 2024, supported by pent-up demand and favorable exchange rates. Tourism receipts reached USD 28.077 billion in 2023, up 31.5% from USD 21.360 billion in 2022, highlighting tourism's sensitivity to both exchange rates and global events.

Findings

- The rupee's depreciation from 70.93 in 2019 to 85.47 in 2024 enhanced export competitiveness, contributing to export growth from USD 330.07 billion to USD 820.93 billion.
- Export performance was also influenced by global demand conditions and India's production capabilities, beyond currency movements.
- RBI interventions mitigated extreme volatility, maintaining export competitiveness and managing inflationary risks.
- Depreciation increased import costs, exerting inflationary pressures, yet private consumption rose from INR 83,000 billion to INR 104,079 billion, underpinned by strong rural demand.
- Sectors dependent on imported capital goods experienced constrained productivity growth, with labour productivity dipping during COVID-19 disruptions.
- Persistent productivity challenges stem from structural issues like skill shortages and technology adoption gaps.
- A weaker rupee made India more appealing to foreign tourists, with arrivals recovering strongly to 10.28 million in 2024.
- Tourism earnings rose substantially as arrivals increased, reflecting tourism's economic significance.

Suggestions

- Maintain prudent exchange rate management through targeted RBI interventions to stabilize the rupee and support exporters while controlling inflation.

- Promote income-generating policies, particularly in rural areas, to sustain consumption growth and reduce inflationary pressures from import costs.
- Implement structural reforms to enhance labour skills, encourage technology adoption, and develop domestic manufacturing of capital goods.
- Strengthen tourism infrastructure, enhance safety protocols, and improve marketing to leverage favorable exchange rates and increase foreign visitor inflows.

Conclusion

Exchange rate fluctuations exert multi-dimensional effects across India's economy. Rupee depreciation between 2019 and 2024 boosted export competitiveness and tourism attractiveness but elevated costs in import-reliant sectors, impacting productivity and consumption patterns. Effective exchange rate management, combined with structural reforms in skills, technology, and infrastructure, is essential for balanced and sustained economic growth.

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