Chapter III

Indian Foreign Exchange Market – An Overview

CHAPTER III

INDIAN FOREIGN EXCHANGE MARKET – AN OVERVIEW

3.1 INTRODUCTION

Indian Foreign exchange market is the largest monetary market in the world and it is regulated by Reserve Bank of India. It is a liquidity market with the large trading volume capacity. The major sources of supply of foreign exchange in the Indian foreign exchange market are receipts on account of exports and invisibles in the current account and inflows in the capital account, such as, Foreign Direct Investment (FDI), Portfolio Investment, External Commercial Borrowings (ECB) and Non-Resident Deposits. In the foreign exchange market there are huge number of daily transactions have been held and it helps to increase volume of trade and growth in the market.

Exchange rate fluctuates often and it is determined by several factors in the economy. Reserve Bank of India has taken initiatives to reduce the volatility of exchange rate in the foreign exchange market. The rapid growth of the market after many economic reforms has increased the trading volume of the market. The market includes all international transactions trading with major currencies of the world. Reserve Bank of India intervenes to regulate the currency market and controls the purchase and sales of the currencies. This leads to an increase in the turnover of the market.

3.2 FOREIGN EXCHANGE MARKET IN INDIA

According to Dr. Paul Einzing, 'Foreign exchange is the system or processing of converting one national currency into another, and of transferring money from one country to another'.

In India, before 40 years ago, foreign exchange market has been brought to carry out the foreign exchange transactions **(Silicon India news, 2018)**. During 1978, Indian foreign exchange market has started operating the foreign exchange transactions and allowed banks to trade under the rules amended by the central government. It is a monetary market which involves foreign exchange transactions with strong, stable and convertible currencies around worldwide. Indian foreign exchange market include the

major players, such as, Commercial banks, Exporters, Importers, Investors, Bankers, Financial Institutions, Firms, Foreign Employees, NRIs, Tourists, Policy Makers, Market Intermediaries, Corporate Treasuries, Money Changers, Monetary Authority of India and others who deal with numerous currencies **(Shanmugasundaram, 2016).** Mostly all foreign exchange transactions are done through the world wide interbank market. It is an over the counter market which transacts the foreign currencies to the forex market participants through the easy access of technologies. The development in communication services largely contributed to make the foreign exchange market more efficient. In India, Mumbai is the main centre of foreign exchange, and there are several other centres in major cities of New Delhi, Kolkata, Cochin, Bangalore, Pondicherry and Chennai.

The three important functions in the foreign exchange market are:

- **Transfer of purchasing power** – It means transfer of purchasing power from one country to another and from one currency to another. The international clearing function performed by foreign exchange market plays an prominent role in facilitating the international trade and capital movement.

- **Provision of credit** – The credit function performed by foreign exchange market plays an important role in the growth of foreign trade. Exporters get pre-shipment and post shipment credit.

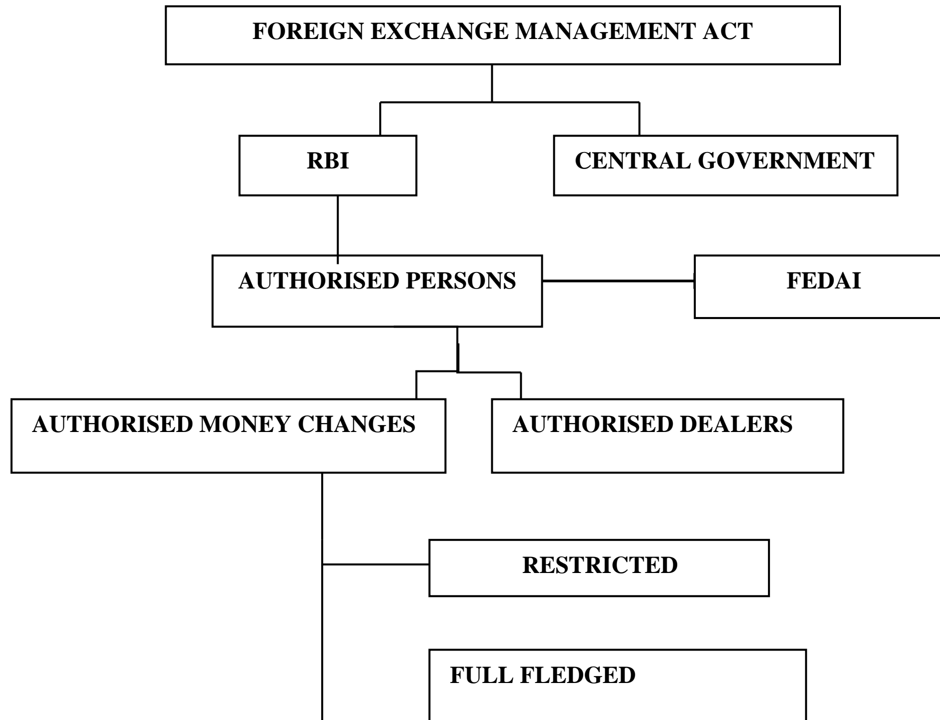
- **Provision of hedging facilities** - It covers foreign trade risks and provides a mechanism to exporters and importers to guard themselves against losses arises from fluctuations in exchange rates.

Structure of Foreign Exchange Market

The Structure of Indian Foreign Exchange Market is given in Exhibit 3.1

Exhibit 3.1

Structure of Indian Foreign Exchange Market



3.3 FOREIGN EXCHANGE REGULATION ACT (FERA), 1973

Foreign Exchange Regulation Act (FERA) 1947, was enacted by Reserve Bank of India to regulate the market under Exchange Control Department to control the foreign exchange transactions outside India, trading activities, transfer of securities between residents and non-residents, acquisition of immovable property in and outside India. Later, it was then replaced with the statutory power by a more comprehensive act Foreign Exchange Regulation Act, 1973. Due to enormous developments in the external sector, such as, extensive increase in foreign exchange reserves, development in foreign trade, rationalisation of tariffs, current account convertibility, liberalisation of Indian investments abroad, increased access to external commercial borrowings by Indian corporates and participation of foreign institutional investors in Indian stock market, have made to reframe the act.

3.4 FOREIGN EXCHNAGE MANAGEMENT ACT (FEMA), 1999

Foreign Exchange Management Act (FEMA) was enacted in 1999 to replace FERA. with effective from June 1, 2000. It was amended to facilitate the trade and payments and to maintain the Indian foreign exchange market. During, 2004 the Exchange Control Department have been changed to Foreign Exchange Department to control the foreign exchange transactions. Foreign Exchange Dealers Association of India (FEDAI) was brought out in the year 1958. It is a self-regulatory association for authorised dealers and inter banks was set up to deal with the foreign exchange transactions in the international business. Financial Benchmark India private limited (FIBIL) is the financial benchmark administrator plays a vital role for the reference rate, interest rates of Indian rupee listed in the website of RBI. A committee was set up by Reserve Bank of India in 2013 to reform the benchmark administration.

3.5 SCENARIO OF EXCHANGE RATE SYSTEM IN INDIA

Due to unstable exchange rates during 1930's and 1940's various movements have been brought to create an effective International Monetary System. In July 1944, a United Nations Monetary and Financial Conference were held at Bretton woods in USA, 44 nations were participated. The outcome of this conference was termed as Bretton Woods System. It established a new monetary order which centered for International Monetary Fund and International Bank for Reconstruction and Development. The basic purpose of this new monetary system was to facilitate expansion of world bank and to use the US dollar as standard of value. Under the system each currency was kept fixed relative to gold or most frequently used reference currency, namely, US dollar. In fixed exchange rate system, the rate doesn't fluctuate because of government intervention. After the breakdown of the Bretton Woods system the world has moved to a floating exchange rate system. The developing countries like Canada, Japan have managed floating exchange rate system, where government intervenes to reduce the currency volatility. India has adopted a managed floating exchange rate system which means the Indian government intervenes when there is a demand for exchange rate is increasing and reduces the money supply based on the market forces prevailing in the economy **(Dr. Pratap Singh 2013)**. Indian rupee was pegged to basket of currencies. Before

liberalisation, the Rangarajan committee recommended that India's exchange rate as a floating exchange rate system. In 1993, Liberalised Exchange Rate System (LERMS) has been brought to liberailse the exchange rate system. After liberalisation, exchange rates are determined by the market exchange rate system where exchange rates are affected by the demand and supply of the currency.

3.6 CURRENCY CONVERTIBILITY

Convertibility of currency can be done with any other currency i.e., rupee can be exchanged for GBP, Euro, USD and YEN. The exchange rates are determined by demand and supply of the currency. Convertibility of current account refers to individuals, corporates, who have the freedom to buy or sell foreign currency for the purpose of foreign travel, medical expenses, college fees, international trade, interest payment, investment in foreign securities, business expenses etc., **(Mahesh. U. Dharu, 2016)**. Capital Account Convertibility (CAC) indicates that rupee can be converted to any other currency and can be invested in foreign assets like shares, real estate etc., which increases the foreign inflows in the country where the convertibility of the currency enables the investors to repatriate their investments.

3.7 INDIAN RUPEE APPRECIATION AND DEPRECIATION

Exchange rate is the rate which is denominated in other currency terms. The extreme variations or changes in the exchange rate are termed as Appreciation and Depreciation of the currency. Currency price of an economy is affected by several factors prevailing at a given time. The most important factors affecting currency price consists of interest rates, international trade, inflation, political stability etc., A decline in the value of a domestic currency is always a matter of concern for a country. It indicates the weakness to the external world, and also make the imported goods more expensive. Rising cost of imports may lead to high inflation, which denotes a worser situation in a country.

Rupee Appreciation

Currency appreciation refers to an increase in the value of one currency in relation to another currency in the foreign exchange market. Currency appreciation against other currency may be due to changes in the Government policy, interest rates, trade balance

and business cycles. The value of a currency is not measured in absolute terms. It is always measured relative to a domestic currency against the select foreign currency. Mostly countries use currency appreciation as a strategy to improve their economic prospects. Rupee appreciation has been experienced before the financial crisis in the economy, due to strong inflow of foreign exchange from foreign investors in the country. Appreciation of the currency is a positive sign for the economy, which indicates that the rupee is stable and strong. Moreover, the impact of appreciation of Indian currency will be benefited to the importers. The rupee appreciation means that the rupee has become more valuable in comparison to the foreign currency. If the Indian Rupee moves from Rs. 67 per USD to Rs. 50 per USD then the rupee is said to be appreciated. Appreciation of currency helps to buy more number of foreign currency.

Rupee Depreciation

Rupee depreciation means that rupee has become relatively less worthy with respect to dollar i.e., rupee has lost some value with the foreign currency. If the Indian Rupee moves from Rs. 57 per USD to Rs. 68 per USD then the rupee is said to have depreciated. Depreciation in rupee has become a big burden for the Indian Government because it has depreciated largely with respect to the US Dollar. Currency depreciation is the loss of value of a country's currency with respect to one or more foreign reference currencies, typically in a floating exchange rate system. It usually denotes the unofficial increase of the exchange rate due to market forces in the economy. Indian rupee stood at Rs. 39 per USD in the year 2007- 08 and it has hugely depreciated to Rs. 67 per USD during the year 2016-17.

3.8 EXCHANGE RATE VOLATILITY

Volatility represents the degree to which a exchange rate changes over time. The change occurs more quickly and it changes over time. Volatile exchange rates make international trade and investment decisions more difficult because volatility increases exchange rate risk. Exchange rate risk refers to the potential to lose money because of a change in the exchange rate. Volatility is the measurement of risk of a particular instrument or an asset. It refers to the uncertainty and risk due to changes in the value of stock, asset, security and investment **(Jenkins, 2012)**. Foreign exchange rate volatility

refers to the quantity of variations in the foreign exchange rate due to an inflow and outflow of the respective currencies. Volatility is of two types: Historical Volatility and Implied Volatility **(Downey, 2011).** Historical volatility is a number of deviations in the past market price of an asset or movements in the currency value, whereas Implied volatility helps to predict the future exchange rate movements.

3.9 HISTORY OF EXCHANGE RATE OF INDIAN RUPEE VS SELECT CURRENCIES

- **History of Indian rupee / US Dollar**

USD (United States dollar) is an official currency of the United States and its overseas territories. It is a Federal Reserve Note and consists of 100 smaller cent units. It is one of the currencies which is widely used for international transactions and world's most dominant reserve currency. Several countries use US dollar as their official currency and in many other countries as de facto currency. India considers US dollar as the intervention currency in the market for the international trading purpose. The measures taken by the Federal Reserve in the US economy will eventually affect the exchange rate of Indian rupee against US dollar.

- **History of Indian rupee / Pound Sterling**

GBP (Great British pounds) is the fourth leading foreign currency after US dollar, Euro and the Japanese Yen. During the period 2007 to 2009 after the crisis the pound has a higher value in the history of the exchange rate, which has created instability in the world economies. After independence, in the year 1950 India`s currency was linked to British pounds upto 1973. During the month of September 1975, Indian rupee faced devaluation and the relation with pound has been stronger. Due to high inflation rate, low economic growth and inadequate foreign exchange reserves have made the government more stringent in the economy. The currency has been devalued and brought changes in exchange rate regime.

- **History of Indian rupee / Euro**

Euro currency has pioneered as an accounting currency in the European countries. It has become single currency of 12 European nations from the year 2002. The currency

movement has improved the stability in the economy considering euro as the tool for the fiscal policy. It has improved the European nation's economic growth. It has been regarded as reserve currency and it has strengthened the European economy. The movement of euro currency has easened the exchange rate volatility among different European nations.

- **History of Indian rupee / Japanese Yen**

Japanese Yen is the official currency of Japan. It is the third most traded currency in the foreign exchange market after the US dollar and Euro. It has been used widely as a reserve currency next to US dollar, Euro and GBP. The stable monetary exchange rate system has become as floating exchange, which has made the currency Yen to be a floating currency.

3.10 FOREIGN EXCHANGE MARKET TURNOVER IN INDIA

Foreign exchange market is the most liquid financial market in the world. The players in the market are Traders, Large banks, Central banks, Institutional investors, Currency speculators, Corporations, Governments other Financial Institutions and Retail investors. There is a growth in the average daily turnover of the foreign exchange market. It is over counter market, where brokers and dealers discuss directly with one another to eliminate the central exchange or clearing house.

There are some factors that increase the turnover of the market are:

- The growing importance of foreign exchange as an asset class
- The trading volume of high frequency traders
- The emergence of retail investors as an important market segment
- The growth of electronic execution and the diverse selection of execution venues has lowered transaction costs.

The foreign exchange market turnover in India for the period of ten years from 2007-08 to 2016-17 has been given in the table 3.1

Table 3.1

Foreign Exchange Market Turnover in India

Year	Merchant (US $ million)	Inter Bank (US $ million)	Total (US $ million)
2007-08	148443	364248	512691
2008-09	134611	369214	503825
2009-10	112910	318542	431452
2010-11	152907	421711	574618
2011-12	131427	437208	568634
2012-13	116332	403323	519655
2013-14	114290	396077	510367
2014-15	124659	442013	566672
2015-16	111138	436856	547994
2016-17	111907	439926	551832

Source: Reserve Bank of India.

Table 3.1 shows the foreign exchange market turnover of India includes both the merchant and interbank transactions. It is inferred that the turnover of the market increase every fiscal year with the rise in transactions. In the year 2007-08 the foreign exchange turnover stood at US$ 5,12,691 mn and it is higher in the year 2010-11 with US$5,74,618 mn. At the end of the year 2016-17 it stood at US$5,51,832 mn

According to Bank of International Settlements 2016, in the global foreign exchange market turnover, the global share of major currencies are given below:

Table 3.2

Global share of Major Currencies

Rank	Currencies	Global share in 2016
1	US dollar	87. 6 %
2	Euro	31. 3 %
3	Japanese Yen	21. 6 %
4	British Pounds	12. 8 %
5	Australian dollar	6. 9 %
6	Canadian dollar	5. 1 %
7	Swiss franc	4. 8 %
8	Chinese yuan	4 %
9	Swedish Krona	2. 2 %
10	Mexican peso	2. 2 %

Source: Bank of International Settlements, Triennial Central Bank Survey, 2016.

Table 3.2 shows that the USD hold the major global share in the market among the other currencies and it is followed by Euro, Japanese Yen and British Pound.

3.11 MACROECONOMIC FACTORS AFFECTING EXCHANGE RATE

Exchange rate is a dynamic variable, where the fluctuations of exchange rate are driven by the elasticity of demand and supply of the currency from one nation into other nation. There are many factors which determine the movement of exchange rate are interrelated to the trade relationship between the nations. The macroeconomic factors of the exchange rate are as follows:

The factors affecting exchange rate are

- **Exchange rate**

Exchange rate is the conversion of one nation's currency into other nation's currency. It is an important component to establish an exchange rate between two currencies to facilitate trade of goods and services priced in different currencies. The rate at which one nation currency is denominated in other nation currency. In the current scenario, the exchange rate is floating and it is determined by the market forces prevailing in the economy. Appreciation and Depreciation of the currency predict the economic stability and it is to be analysed and observed frequently. An exchange rate fluctuation affects the level of international trade and is always a probable one for the exports and imports of goods and services. The movements in the exchange rate are determined by the various macroeconomic variables of the other countries. In India, Reserve Bank of India publishes the reference rate of the foreign currencies to exchange Indian rupee for the foreign currency.

- **Foreign Exchange Reserves with RBI**

The major macroeconomic indicator of the economy is foreign exchange reserves. In India, the foreign exchange reserves are held by RBI. The foreign exchange reserves include components, such as, Special Drawing Rights (SDR) of IMF, Gold, Foreign currency assets (in US dollar, Euro, Pound sterling, Canadian dollar, Australian dollar and Japanese yen etc.,), and Reserve tranche position in the IMF. Forex reserves are denominated in terms of US dollars. Hence, there will be decline in the reserves when the currency US dollar appreciates against major international currencies. Conversion of SDRs into US dollars is done at exchange rates released by the International Monetary Fund (IMF). The foremost component of foreign exchange reserves is the gold which is valued at average London market price. Foreign Currency Assets is the third component of reserves which includes the investments in foreign currency assets. Reserve Tranche Position (RTP) in IMF is the fourth component of foreign exchange reserves to match the international best practices. The mobilisation of reserves should be adequate in the country to meet the financial requirements of the economy during the time of economy shocks.

- **Foreign Direct Investment**

Foreign investment in India is the amount invested by non-residents in the equity of entities in India. There are two types - Foreign direct investment and Portfolio investment. Foreign direct investment describes the control of investors towards the foreign firms with the interest of the investor in the equity and intention to take an active role in the management of the company. It is regarded as popular source for the country to raise the foreign inflows into the country. The rise in FDI will strengthen the Indian currency. It is a fund of inflow and outflow of foreign currency between the countries that enhances the financial stability of the country. The investments in different sectors of the economy have increased the inflow of foreign funds into country.

- **Inflation Rate**

Inflation rate is a key variable that denotes the increase in the prices of goods that change from time to time in the economy and to determine the purchasing power of the people in the county. It has a definite influence on the exchange rates and it would increase the domestic prices of the commodities. Inflation rates can be measured in two types- (CPI) Consumer Price Index and Wholesale Price Index (WPI). Wholesale Price Index is more Closely Observed than the Consumer Price Index as it includes a higher number of products. India's Wholesale Price Index of inflation rate is taken for the study. The relative rate of inflation in the two countries may cause changes in exchange rates. Higher the inflation rate increases the prices of the goods and services and reduces the competitiveness of country by declining the sale of commodities to the other countries. It increases the demand for the foreign currency which leads to depreciation in the value of rupee against other countries.

- **Interest Rate**

Interest rate is one of the major factors for the movements in exchange rate. As per interest rate parity theory, if the domestic interest rate is higher than foreign interest rate, the domestic currency is expected to depreciate. Interest rate has an influence on capital movements and rise in interest rate attract the foreign investors to invest. The rise in domestic interest rate will reduce the demand of money in relation to the supply of money which causes depreciation in the currency. Higher the exchange rate

volatility, the government increases the interest rate to maintain stability in the economy. Higher interest rate will attract large number of foreign investors to India with different types of investments and this in turn increases the demand of the Indian currency. In India, MIBOR is the major interest rate benchmark. Mumbai Inter Bank Offered Rate (MIBOR) is an interest rate taken for the study. It is the rate at which the banks are prepared to lend funds from one bank to another.

- **Money supply**

Money supply is the major component in an economy. The demand and supply of money supply in the economy will have an inverse effect in the exchange rate. It also affects the exchange rate directly, An increase in money supply in the country relative to its demand will lead to large scale spending on foreign goods and purchase of foreign investments. Thus the supply of the currency in the foreign exchange markets will increase and its value declines. The decrease in money supply would make the currency to appreciate. The downward pressure on the external value of the currency increases the cost of imports and rate of inflation. The effect of money supply on exchange rate directly is more immediate than its effect through inflation. The long run inflation seems to correlate exchange rate variations in a better way, while in the short run exchange rates move with the changes in money supply.

- **Crude oil prices**

India is the largest importer of crude oil and the exchange rate of an Indian rupee is greatly affected by the prices of Crude oil. It is one among the most important energy sources in the world and it forms the base for large number of products. On an average daily around 90 million barrels of crude oil is required in the country. The need of crude oil has been increasing day- by -day due to the demand of the crude oil. It is used for many other purposes other than fuel for energy or transport. Prices of crude oil are not determined by supply and demand. In the commodity market crude oil prices are given in dollars. So when the demand and prices of oil increases there will be a requirement of more number of dollars to pay. Oil remains the most important fossil fuel consumed by mankind for a long time. However, Organization Petroleum Exporting Countries (OPEC) will focus on stabilising the price of crude oil.

- **Gold Prices**

India is one of the largest consumers of Gold. It acts as a reserve currency for performing transactions in international trade. The currencies which are maintained as foreign exchange reserve, may be unstable. The value of a nation's currency is strongly tied up with the value of its imports and exports. A country that exports gold and maintains its gold reserves will focus on strengthening of its currency value when gold prices increases. When Gold is largely imported the rupee weakens against the dollar and the gold prices will likely appreciate in rupee terms. So, a depreciating rupee may also increase the demand of gold in the country.

- **Index of Industrial Production**

IIP (Index of Industrial Production) is a composite indicator that measures the changes in the volume of production of a basket of industrial products during a given period with respect to the volume of production in a select base period. It explains the development of various industrial sectors in the economy, such as, mining, electricity and manufacturing etc.,.

3.12 TRADE PERFORMANCE IN INDIA

Trade is considered as an important building block of the modern society. The exchange of goods and services across the international boundaries of the nation is known as international trade. International trade enables to export a commodity to other countries and also import a commodity, which it cannot produce or produce at high cost. The growth of exports and imports improves the economic growth of the country. The data of foreign trade are compiled based on the exports and imports of goods and services which taken place across the nation of India by the Directorate General of Commercial Intelligence and Statistics (DGCI&S) in India. The difference between India's exports and imports is known to be trade balance. The trade balance will result in two aspects, namely, trade surplus and trade deficit. If a country exports more than the imports it results in trade surplus (favourable trade balance) and if imports are higher than the exports, it results in trade deficit (unfavourable trade balance).

India is the 19th largest exporting country in the world with a share of 1.6 per cent and ranked as 13th importing country with a share of 2.3 per cent. **(According to the**

report of World Trade Organisation, 2016-17). The importance of exchange rate in the trade process is a great extent. The amount of goods and services that are traded and priced in the terms of respective countries currency. In India after independence, the trade balance has remained deficit for a longer period of time. It implies that the country depends more on imports. After liberalisation, the trade barriers have been reduced in the country. The trade performance of the country strengthens the country to be more competitive among the other trading partners of the nation.

India's Exports

In Free Trade Policy, India's short term objective is to achieve annual export growth of 15 per cent, and the long term objective is to accelerate the export growth rate to 25 per cent per annum and double India's share in global trade by 2020. India has to diversify the exports by increasing the number of commodities in the market. The adaptability of new technologies have enhanced the exports of the country. The percentage growth of exports for the period of ten years from 2007-08 to 2016-17 have been presented in table 3.3

Table 3.3

Percentage Growth of India's Exports

Year	Exports (US $ Million)	Percentage growth of Exports
2007-08	162904. 2	28. 8
2008-09	185295. 0	13. 7
2009-10	178751. 4	-3. 5
2010-11	251136. 2	40. 4
2011-12	305963. 9	21. 8
2012-13	300400. 7	-1. 8
2013-14	314415. 7	4. 6
2014-15	310352. 0	-1. 3
2015-16	262290. 1	-15. 49
2016-17	276547. 0	5. 4

Source: Compiled from Directorate General of Commercial Intelligence and Statistics

Table 3.3 shows the percentage growth of exports. During the period 2007 - 08 to 2016-17. India's exports have shown a momentum of increasing trend after the global financial crisis in the year 2008. The exports stood with the growth rate of 28.8 per cent. However, from the year 2008-09 exports have increased from US $ 1,85,295.0 million to US $ 2,511,36.2 million in the year 2010-11 which has recorded as highest growth rate of 40. 4 per cent. During the year 2011-12, the exports stood at US $ 3,05,963.9 million with the growth rate of 21. 8 per cent. From US $ 3,00,400.7 million in the year 2012-13 it has increased to US $ 3,14,415.7 million in the year 2013-14 by 4. 6 per cent which is higher than the previous year which has shown a negative growth rate of -1.8 per cent. There was decline in the exports, projecting a negative growth for the years 2014-2016 by -15.49. The exports have gained back in the year 2016-17 by US $2,76,547.0 million by 5.4 per cent.

The top five commodities of India's exports have been presented in the table 3.4

Table 3.4

Top five major items of India's Exports

Commodities	Per cent
Petroleum products	11. 82 %
Pearl, Precious and Semiprecious stones	8. 85 %
Gold and other precious stones, metal jewellery	4. 39%
Drug formulations, biologicals	4. 28%
Iron and steel	3. 63%
Others	67. 03%

Source: Annual reports of Ministry of Commerce and Industry, 2017-18.

India's Imports

Imports have shown a phase of an increasing trend over the period of years. An increase in consumption of imported goods, leads to a decline in domestic production and demand of certain commodities. The currency depreciation has made the imports more costlier and raised the import bills. The percentage growth of imports for the period of ten years from 2007-08 to 2016-17 have been presented in table 3.5

Table 3.5

Percentage Growth of India' Imports

Year	Imports (US $ Million)	Percentage growth of imports
2007-08	251439. 2	35. 4
2008-09	303696. 3	20. 8
2009-10	288372. 9	-5. 0
2010-11	369769. 1	28. 2
2011-12	489319. 5	32. 3
2012-13	490736. 7	0. 3
2013-14	450213. 7	-8. 2
2014-15	448033. 4	-0. 5
2015-16	381006. 6	-14. 9
2016-17	382740. 9	0. 5

Source: Compiled from Directorate General of Commercial Intelligence and Statistics

Table 3.5 shows the percentage growth of imports. India is one of the largest importing country in the Asian countries and it has recorded the highest growth rate of 35.4 per cent in the year 2007-08. The imports stood at US $ 3,03,696.3 million with growth rate of 20.8 per cent in the year 2008-09 which was less than the previous year. After the slowdown of the economy, it has declined to US $ 2,88,372.9 million with a negative growth rate of -5.0 per cent. Import have shown a increasing phase in the next years, from US $ 3,69, 769.3 million in 2010- 11 to US $ 4,89,319.0 million in the year 2011-12 by 32.3 per cent. There was decline in the growth of the imports from US $ 4,90,736.7 million in the year 2012-13 to US $ 3,81,006.6 million during 2015-16 by 14.9 per cent with the negative growth. In the year 2016-17 there was a marginal increase in the imports by US$3,82,740.9 million with growth rate of 0. 5 per cent.

The top five commodities of India's imports have been presented in the table 3.6

Table 3.6

Top five major items of India's Imports

Commodities	Per cent
Crude oil and petroleum	17. 46%
Gold	7. 73%
Pearl, precious and semiprecious stones	7. 59%
Telecom instruments	4. 95%
Coal, coke and Briquettes	4. 76%
others	57. 51%

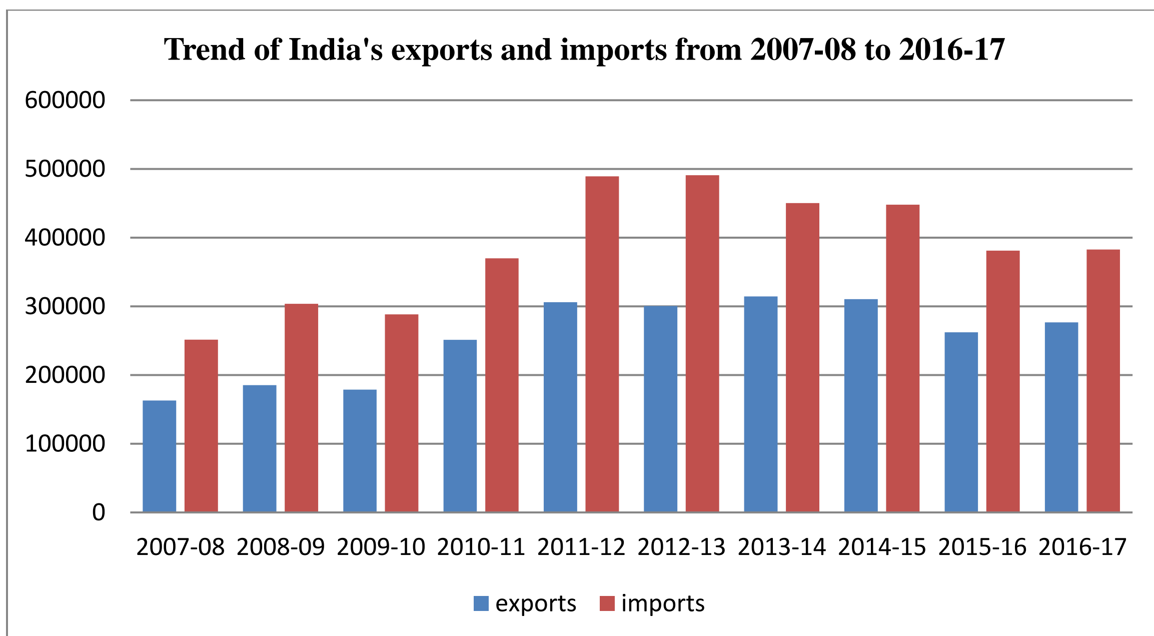
Source: Annual reports of Ministry of Commerce and Industry, 2017-18.

Trend of India's Exports and Imports for the period 2007-08 to 2016-17

The trend of India's exports and imports for the period of ten years have been given in chart 3.2.

Chart 3.2

Trend of India's Exports and Imports



The chart 3.2 has shown the trend of exports and imports for the period of ten years from 2007-08 to 2016-17. Both exports and imports have been fluctuating during the study period. It also shows that imports are comparatively higher than the exports.

India's Trade Balance

Trade balance is a difference between a country's exports and its imports. The composition of both exports and imports of goods and services will result in trade balance. The percentage growth of trade balance for the period of ten years from 2007-08 to 2016-17 have been presented in table 3.7

Table 3.7

Percentage Growth of India's Trade Balance

Year	Trade balance (US $ Million)	Percentage growth of trade balance
2007-08	-88535. 0	49. 2
2008-09	-118401. 3	33. 7
2009-10	-109621. 4	-7. 4
2010-11	-118632. 9	54. 5
2011-12	-183355. 7	3. 8
2012-13	-190336. 0	-28. 6
2013-14	-135798. 0	1. 4
2014-15	-137681. 4	-13. 9
2015-16	-118716. 5	-13. 8
2016-17	-106193. 9	-10. 5

Source: Compiled from Directorate General of Commercial Intelligence and Statistics

Table 3.7 shows the growth of trade balance for the period from 2007-08 to 2016-17. Trade liberalisation and trade barriers have brought structural changes in the trend pattern of trade. India's trade balance has shown a trend of trade deficit for a numerous

period of years. The prolonged trade deficit difference projected that there was a large number of imports in the country than the exports. There were so many factors that affect the volume of trade. Exchange rate, is an important factor in the trade performance, where it is the mode of exchange for every trading transactions took place. For an every rupee appreciation and depreciation it greatly influences the international trade. During the year from 2007-08 to 2016-17 there was a continuous deficit for the period of ten years, it was higher during the year of 2012-13 with the value of US$ -1,90,336.0 million and at the end of the year it stood at US $ -1,06,193.9 million.

Role of Department of Ministry of Commerce and Industry in Foreign Trade Policy

In India the foreign trade has been governed under the Ministry of Commerce and Industry. The long-term vision and goal of the department is to make India a major player in the world trade among the other trading countries. Foreign Trade Policy (FTP) forms the basic policy framework for the traders and the strategy for upliftment of trade. The policies framed have been periodically reviewed by the officials to include any changes to the economy. The Department is functionally organized into the nine divisions, namely, International Trade Policy Division, Foreign Trade Territorial Division, Export Products Division, Export Industries Division, Export Services Division, Economic Division, Administration and General Service Division, Finance Division and Supply Division.

The Foreign Trade Policy 2015-20 have been launched on April 1, 2015 to sharpen the measures adopted for trade facilitation by introducing trade measures by providing a framework for increasing exports of goods and services, generation of employment and increasing the number of production.

Key highlights of Foreign Trade Policy 2015 - 2020

- The foremost aim of foreign trade policy is to increase the exports of goods and services and thereby increase the job opportunities into the country by facilitating the initiative taken by the government- “Make in India” programme.
- The second vision of the foreign trade policy is to the challenges of the external environment to increase the trade, forms a major indicator for the economic growth.

- The two new schemes, namely, ‘Merchandise Exports from India Scheme(MEIS)’ for export of specified goods to specified markets and ‘Services Exports from India Scheme (SEIS)’ for increasing exports of notified services have been brought by the department to promote the exports of the country.
- Duty credit scrips issued under MEIS and SEIS and the goods imported against these scrips are fully transferable.
- Effective measures have been taken to increase the exports of defence and hi-tech commodities.
- A new scheme, ’Niryat Bandhu Scheme’ have been brought as one of the policy measure to achieve the goals of “Skill India” programme. The group of Micro Small Medium Enterprises have been identified in both rural and urban areas to increase the exports.
- Trade facilitation and enhancing the easening of business activities are the other factors considered in the foreign trade policies. One of the major objective of foreign trade policy is to adapt for paperless work in the country

3.13 CONCLUSION

In a budding economy like India, the need for effective fiscal and monetary measures is of greater importance for the sustainable economic development. Indian foreign exchange market is a decentralised market where it governs the inflows and outflows of foreign exchange in the country. The movement of exchange rate is influenced by several macroeconomic determinants in the economy. Volatility of exchange rate is always a risk factor among the players of foreign exchange market. The observation of how the major economic events affect the movement of exchange rate is of essential for the government of the country to undertake monetary measures. The exchange rate fluctuations affect the trade to a great extent. The depreciation of currency has impacted the trade deficit for a longer time. The establishment of foreign trade policies should promote the exports of the nation and have a control on trade deficit.