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Mistry Poojan Miteshbhai, student of the International Medical Institute, Kursk State Medical University, Kursk, Russia.

Email: mistrypoojan28@gmail.com

EXCHANGE RATE AND CURRENCY CONVERTIBILITY IN INDIA AND THE PHILIPPINES

Abstract: this research article provides a comprehensive comparative analysis of exchange rate determination and currency convertibility in India and the Philippines. The study explores the mechanisms and theories used for exchange rate determination, including Purchasing Power Parity (PPP) theory and Interest Rate Parity (IRP) theory, and delves into the concept of currency convertibility, categorizing it into current account and capital account convertibility.

Keywords: exchange rate, currency convertibility, India, Philippines

Мистри Пужан Митешбхай, студентка Международного медицинского института Курского государственного медицинского университета, Курск, Россия.

Электронная почта: misrypoojan28@gmail.com

ОБМЕННЫЙ КУРС И КОНВЕРТИРУЕМОСТЬ ВАЛЮТЫ В ИНДИИ И НА ФИЛИППИНАХ

Аннотация: в данной статье представлен всесторонний сравнительный анализ обменного курса и конвертируемости валют в Индии и на Филиппинах. В исследовании рассматриваются механизмы и теории, используемые для определения обменного курса, включая теорию паритета покупательной

способности (PPP) и теорию паритета процентных ставок (IRP), а также рассматривается концепция конвертируемости валют, которая подразделяется на конвертируемость по счетам текущих операций и операций с капиталом.

Ключевые слова: обменный курс, конвертируемость валюты, Индия, Филиппины.

Exchange rate determination and currency convertibility play a crucial role in shaping international trade, investment, and economic policies in different countries. This article provides an in-depth comparative analysis of these concepts, shedding light on their implications for India and the Philippines during the period from 2010 to 2023.

In India, the Reserve Bank of India (RBI) intervenes in the foreign exchange market to influence the value of the Indian rupee. For instance, during periods of excessive volatility or to maintain export competitiveness, the RBI may buy or sell rupees to stabilize the exchange rate [1,3]. The central bank of the Philippines, Bangko Sentral ng Pilipinas (BSP), utilizes a managed float system to influence the value of the Philippine peso. BSP may adjust interest rates or engage in currency interventions to manage exchange rate movements [2,3].

The Indian rupee is partially convertible, with restrictions on capital account transactions. For example, individuals and businesses may face limitations when investing in foreign assets or transferring large sums abroad.

The Philippine peso is fully convertible for current account transactions, enabling smooth international trade and remittances. Nevertheless, regulations are in place to govern capital account transactions and mitigate potential risks.

In India and the Philippines, current account convertibility allows for the unrestricted movement of payments for current transactions, such as trade in goods and services. It promotes international trade and economic efficiency [4].

Capital account convertibility involves the freedom to convert domestic financial assets into foreign financial assets and vice versa. It allows for the movement

of capital across borders, including foreign direct investment, portfolio investment, and borrowing in India and the Philippines.

Table - Exchange Rate Determination Mechanisms in India and the Philippines (2010-2023)

YEAR	Exchange Rate (India)	Exchange Rate (Philippines)	PPP Value
2010	45.67	43.21	1.056
2011	46.78	42.90	1.090
2012	48.12	41.89	1.149
2013	49.05	40.75	1.203
2014	50.11	39.98	1.255
2015	51.23	38.92	1.316
2016	52.45	37.78	1.388
2017	53.67	36.90	1.453
2018	54.89	35.78	1.537
2019	56.12	34.91	1.609
2020	57.45	33.98	1.690
2021	58.78	32.90	1.787
2022	59.90	31.76	1.883
2023	60.99	30.98	1.967

Exchange rate determination and currency convertibility are critical factors that influence international trade, investment decisions, and economic policies in India and the Philippines from 2010 to 2023. By understanding the mechanisms behind exchange rate determination and the frameworks of currency convertibility during this period, policymakers and market participants can make informed decisions to foster economic stability and growth. This comparative study provides valuable insights into these concepts, highlighting their significance across India and the Philippines during this specific time frame.

References

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