

# An Analysis of Exchange Rate Movements and Foreign Institutional Investment in India: Evidence from the Post-COVID-19 Period

Piyumita Ajinkya Chavan<sup>1</sup>, Yasmin Irshad Mutwalli<sup>2</sup>

Assistant Professor, St. Mira's College for Girls, Pune  
Email: dcruze.piyumita.piyumita[at]gmail.com

Assistant Professor, St. Mira's College for Girls, Pune  
Email: yasminirshad07[at]gmail.com

**Abstract:** *The global financial markets have been characterized by increased uncertainty over the post-COVID-19 period with major changes in the capital mobility, monetary policy positions as well as changes in exchange rates among the emerging economies. In this changing environment, the relationship between the movement of the exchange rate and foreign portfolio capital has taken a new significance. The paper is an investigation of the correlation between the change in the USD/INR exchange rate and aggregate Foreign Institutional Investment (FII) flows in India in the post-pandemic period. The analysis places the analysis in an era of continued depreciation of the currency and high levels of cross-border capital flows, where the nexus of exchange rate and capital flows are re-examined as a result of the study. The paper assesses the strength and direction of interaction of exchange rate movements and FII flows by using monthly time-series information combined with descriptive statistics, regression analysis, and the Granger causality tests. The results show that although these two variables are highly volatile, their direct correlation is low and statistically not significant. The change in the exchange rate only explains a small percentage of the fluctuations in FII flows whereas the movement of capital does not culminate as a leading factor of the exchange rate behavior during the study. The findings indicate that the effect of currency movement on post-COVID capital allocation decisions has been outweighed by global liquidity conditions, risk perceptions, and macro-financial factors. The study shows the importance of wider analytical models in the external sector analysis by pointing out the reduced explanatory capacity of exchange rates in the determination of FII behavior at a time of structural global adjustment. The article adds to the modern discussion of capital flow management by highlighting context-related dynamics and warning of too deterministic explanations of exchange rate-investment relationships in the post-crisis setting.*

**Keywords:** Exchange Rate, Foreign Institutional Investment, Capital Flows, Emerging Markets; Time-Series Analysis

## 1. Introduction

As the world continues to witness intensifying financial globalization, there is a growing exposure of emerging economies like India to changes in foreign capital flows and exchange rate changes. The Foreign Institutional Investors (FIIs) are one of the key providers of portfolio capital in India and are instrumental in shaping the liquidity and asset values and the stability of the financial markets in general. Therefore, the understanding of the dynamic nature of the exchange rates and contributions of the FII flows has been a central subject of empirical studies especially in light of increased uncertainty in the global context.

Direct impacts on the risk-return calculus of foreign investors include exchange rate changes, particularly the USD/INR rate which can change currency-adjusted returns and portfolio values. Uncertainty in terms of exchange rates are able to impact on the mood of the investors, create inflows or outflows of capital and in this manner, reinforce the repercussions between the foreign sector and the local financial markets. Simultaneously, the large and volatile FII flows in themselves might produce pressure on the exchange rate, by altering the foreign exchange demand and supply.

This two-way connection explains the need to study exchange rates and FII flows in a single analytical framework.

The macroeconomic and financial trends in the post-COVID-19 period have been characterized by unprecedented monetary easing by advanced economies, regular changes in the risk appetite globally, tightening financial conditions later in the phases and the continuous volatility of the exchange rate in the emerging markets. These developments in India were accompanied by large fluctuations in the FII inflows and outflows, which is a cause of concern as to the stability of the external sector and assessment of exchange rates. Consequently, the post-pandemic phase can offer a specific and topical situation in which one can re-evaluate the exchange rate-capital flow nexus.

Despite the fact that a significant amount of literature has been developed to examine the exchange rate movements and foreign capital flows in India, empirical evidence has led to mixed results as to whether exchange rate movements are cued due to foreign capital flows or vice versa. Furthermore, the number of studies that specifically discuss the post-COVID-19 using high-frequency data to describe short-term dynamics is lower. Sealing this gap, the current paper empirically examines the correlation between exchange rate variations and

Volume 15 Issue 4, April 2026

Fully Refereed | Open Access | Double Blind Peer Reviewed Journal

[www.ijsr.net](http://www.ijsr.net)

aggregate FII inflows in India at the post-COVID-19 stage with the help of monthly data and time-series econometric models. The research results will provide useful pieces of information to the policymakers, market actors and regulators in coming up with strategies to deal with capital flow volatility and ensure stability in the exchange rates.

### Objectives of the Study

- To explore the direction and the fluctuations of the USD/INR exchange rate in the post-COVID-19 period.
- To examine the pattern and variability of the total Foreign Institutional Investor (FII) flows in India over the period of study.
- To determine the effects of fluctuations in exchange rate on overall FII inflows in India.
- To test the hypothesis of exchange rate movement at the extreme under the impact of total FII flows in India.
- To determine the causality direction between exchange rate movements and total FII flows with the time-series econometric methods.
- To obtain policy implications on the exchange rate management and capital flows regulation in the post-pandemic environment.

## 2. Literature Review

Vasudeva and Bhat (2024) examined the effects of the exchange rate on the Foreign Institutional Investor (FII) sentiment and investment in India, with the study applying to the major currencies like the US Dollar, the Euro, and the Japanese Yen. Based on monthly data of 2014-2024 and an application of economic tools such as EGARCH, VAR, ADF, and Granger causality, the research discovered that exchange rate fluctuations are key determinants of FII behaviour. The weakening of the Indian rupee was found to attract FII inflows as such low valuations of assets attracted investment and depreciation of the currency deterred investment by decreasing the amount of foreign returns. The findings also suggested that there was a two-way interdependence between the exchange rates and the FII net purchases especially against the US Dollar and that FII purchases are likely to stabilize the volatility of the market whereas sales amplify it. The researchers have found that the volatility of the exchange rates is another important factor that defines the flows of foreign investment into India and that there is a strong necessity to manage currency risk and enhance policies.

Gaiha, Padhi, and Ramanathan (2014) used an empirical study in the *International Journal of Social Sciences and Entrepreneurship* to determine the causal relationship between capital flows and exchange rate movement in India. The research based on time-series econometric methods, a Granger causality analysis, has determined whether inflows of foreign capital (mainly via Foreign Institutional Investment or FII) or exchange rate dynamics have a causal effect on each other. The results showed that capital flows have a unidirectional

relationship with exchange rates meaning that an increase in incoming foreign capital will cause appreciation pressures to take place on the Indian Rupee. The analysis did not lead to any significant causal support between exchange rate movements and capital flows and therefore the implication is that FII behaviour is more influenced by the situation in the domestic market and the prospects of returns rather than the exchange rate changes in isolation. The authors concluded that volatile capital flows may have a substantial effect on the exchange rate stability, and thus the importance of controlling capital flows prudently and macroeconomic policies coordination in such emerging economies as India.

In *A Study of Relationship between Foreign Institutional Investment and Exchange Rate Movement in India*, Dhingra and Kapil (2025) investigated the dynamic relationship between the Foreign Institutional Investment (FII) flows and the exchange rate movement in India. Based on time-series data and econometric methods of correlation analysis and Granger causality tests, the research examined the hypothesis that exchange rate fluctuations affect the FII behaviour or whether the capital flows are the cause of currency movements. The results showed that there is a strong correlation between FII flows and exchange rate movements with results that showed that FII inflows have an appreciating effect on the Indian Rupee. The research also revealed that there were fewer favourable results of the exchange rate movement that affects FII inflows, which means that foreign investors are more receptive to the market returns and the macroeconomic conditions rather than the currency changes. The authors came to the conclusion that the contribution of volatile flows of FII to the exchange rate instability is possible, and the policies of monetary and capital flows management in India should be coordinated.

The authors Kumar Vijendra and Kumar Raj (2014) in the research paper titled "Impact of Interest Rate Differentials on Net Foreign Institutional Investment (FIIs) in India" aimed to examine how interest rate differentials influence foreign institutional investment (FII) inflows into India, considering other macroeconomic factors such as exchange rate, inflation, industrial production, and stock market returns. Using monthly data from April 2005 to December 2012, they applied time series econometric modeling, including cointegration and multivariate regression analysis, to identify the long-run and short-run determinants of capital flows. The study was conducted in the Uncovered Interest Parity (UIP) framework, which shows that higher domestic interest rates should attract more foreign capital inflows. Contrary to expectations, the study found that interest rate differentials did not have a significant long-run impact on net FII flows to India. Instead, Bombay Stock Exchange (BSE) returns and exchange rate movements were found to be the major pull factors influencing capital inflows. The authors concluded that monetary policy actions related to interest rates should prioritize domestic inflation and growth objectives rather than focusing on attracting capital flows.

The paper titled “The Impact of Currency Fluctuations on Equity and Debt Market” by Kotishwar (2020) analyzed the impact of currency fluctuations on both the equity and debt markets in India, focusing particularly on the rupee–dollar and euro–debt relationships. The researcher aimed to determine how currency movements affect investments in equity and debt markets between 2008 and 2019. Employing secondary data, the study used Bivariate Correlation, Ordinary Least Squares (OLS), ARCH, and Vector Autoregressive (VAR) models to assess the linkages between currency movements and market investments. The rupee–dollar exchange was analyzed concerning equity investment trends, while the euro’s influence was observed in the context of external commercial borrowing (ECB) debt. The findings revealed that rupee–dollar fluctuations had a significant positive relationship with equity investments, suggesting that investors in Indian equities are sensitive to exchange rate changes. Conversely, the euro’s effect on debt investments was statistically insignificant, indicating weaker integration between European debt markets and India’s corporate borrowing. The ARCH model further confirmed that exchange rate movements significantly influence market volatility. The research concluded that investors should closely monitor rupee–dollar trends when making equity investment decisions.

Okey Samson and Emmanuel Chukwudi (2020) in the study “Impact of Exchange Rate Fluctuations on Domestic Investment in Nigeria” investigated how exchange rate fluctuations affect domestic investment in Nigeria over a 31-year period (1986–2017). Using annual time series data from the Central Bank of Nigeria Statistical Bulletin, the authors employed the Autoregressive Distributed Lag (ARDL) bounds testing approach to analyze both short-run and long-run relationships between domestic investment, GDP, interest rate, financial deepening, and exchange rate. The study’s framework was based on Jorgenson’s neoclassical theory of investment, which posits that output, interest rates, and cost of capital influence investment decisions. Empirical results revealed that exchange rate fluctuations have a negative but statistically insignificant impact on domestic investment in both the short and long run. GDP growth and financial deepening had positive effects, while interest rates showed a mixed relationship. The authors concluded that persistent currency volatility hinders investment confidence, and recommended that Nigerian policymakers pursue currency stabilization through bilateral currency swaps and structural reforms.

### 3. Research Methodology

#### Research Design

This study adopts a quantitative, descriptive, and analytical research design to examine the relationship between exchange rate fluctuations (USD/INR) and Foreign Institutional Investments (FIIs) in India during the post COVID - 19 period that is from 2022 to 2025. The study aims to analyze how fluctuations in the value of the Indian Rupee (INR) against the US Dollar (USD) influence FII inflows and outflows, and conversely, how FII activities may affect exchange rate

stability. The research focuses on identifying trends, correlations, and causal linkages between these macroeconomic variables using econometric models and statistical tools.

#### Hypotheses

##### Null Hypotheses ( $H_0$ ):

$H_{01}$ : Exchange rate movements have no significant impact on FII inflows in India.

$H_{02}$ : FII inflows have no significant effect on exchange rate movements in India.

##### Alternative Hypotheses ( $H_1$ ):

$H_{11}$ : Exchange rate movements have a significant impact on FII inflows in India.

$H_{12}$ : FII inflows have a significant effect on exchange rate movements in India.

#### Data Collection

The study relies exclusively on secondary data. The data are collected from reliable institutional and financial databases, including the Reserve Bank of India (RBI) Database on Indian Economy (DBIE), the National Securities Depository Limited (NSDL), and Ministry of Finance reports. Additional macroeconomic data are sourced from Bloomberg, Trading Economics, and Investing.com, ensuring accuracy and consistency.

The analysis covers the post-COVID-19 period (2020–2025), representing the years following the pandemic when major economic recovery, policy shifts, and capital flow changes occurred. To ensure precision and capture short-term dynamics, the study uses monthly data. The monthly total FII inflows (sum of equity and debt investments) are taken, and the monthly average USD/INR exchange rate is collected for the corresponding period.

#### Analytical Tools

The study applies a combination of descriptive and inferential statistical techniques:

- **Descriptive Statistics:** Used to summarize trends in exchange rates and FII inflows, including measures like mean, standard deviation, and compound annual growth rate (CAGR).
- **Correlation Analysis:** To determine the degree and direction of association between exchange rate fluctuations and FII inflows/outflows in equity and debt.
- **Regression Analysis:** Multiple regression models will be applied to examine the impact of exchange rate movements on FIIs and vice versa:

Model 1:  $FIIs = \beta_0 + \beta_1(\text{Exchange Rate}) + \varepsilon$

Model 2:  $\text{Exchange Rate} = \beta_0 + \beta_1(FIIs) + \varepsilon$

- **Coefficient of Determination ( $R^2$ ):** To measure the explanatory power of the independent variables in explaining variations in FII inflows or exchange rate changes.

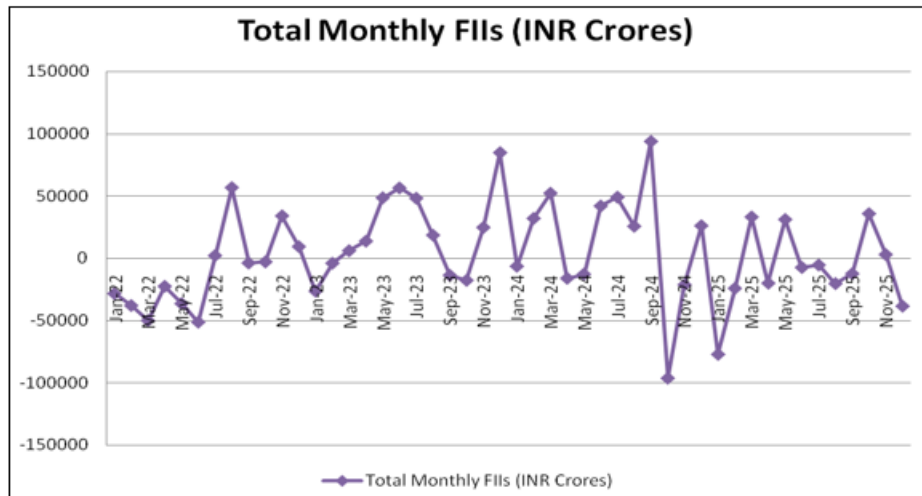
- Significance Testing (t-test): To test the statistical significance of estimated coefficients.
- Granger Causality Test: This test determines the direction of causality between the exchange rate and FIIs, indicating whether past values of one variable can predict future values of another.

Prior to performing the test, stationarity of the time series will be checked using the Augmented Dickey–Fuller (ADF) test, and appropriate lag lengths will be selected based on Akaike Information Criterion (AIC).

- Graphical Analysis: Visual interpretation using time-series graphs, scatter plots, and trend lines to identify movement patterns and relationships.

Model 4: Exchange Rate Granger-causes FIIs

Model 5: FIIs Granger-cause Exchange Rate

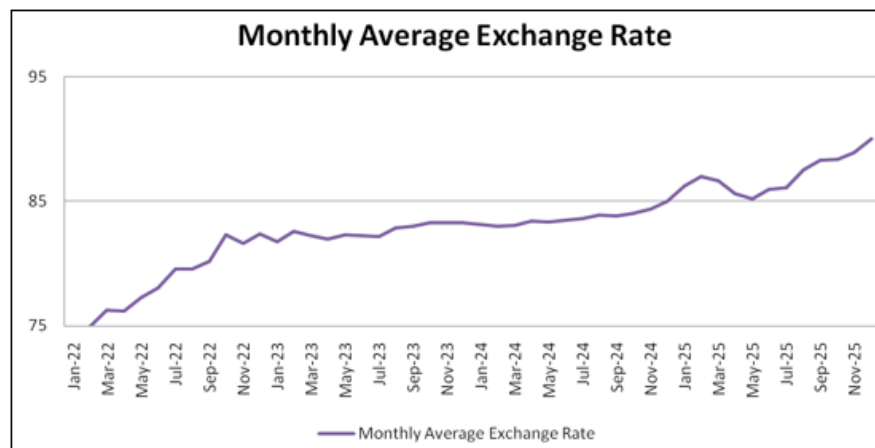


The trend shows high volatility in FII flows from January 2022 to late 2025, with frequent shifts between large inflows and outflows.

Large negative troughs, especially around late-2022 and mid-2025, indicate phases of capital withdrawal often associated with global monetary tightening or rupee depreciation fears.

Sharp positive spikes (notably around mid-2023 and mid-2024) suggest periods of renewed foreign investor confidence-possibly linked to post-pandemic recovery, market rallies, or favorable policy announcements.

The oscillating pattern implies that FIIs were highly sensitive to macroeconomic and exchange rate movements.



The exchange rate shows a steady upward trajectory from about ₹75/USD in early 2022 to nearly ₹95/USD by late 2025, signifying a consistent depreciation of the Indian Rupee over the period.

The depreciation is gradual but persistent, reflecting sustained current-account pressures, global dollar strength, and intermittent capital outflows.

**Summary Output**

Exchange Rate = y Dependent Variable and FII = x Independent Variable

Regression Statistics	
Multiple R	0.122346
R Square	0.014968
Adjusted R Square	-0.00645
Standard Error	3.482242
Observations	48

ANOVA								
	df	SS	MS	F	Significance F			
Regression	1	8.476225	8.476225	0.699012	0.407438			
Residual	46	557.7963	12.12601					
Total	47	566.2725						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 91.0%	Upper 91.0%
Intercept	82.94348	0.504644	164.3604	2.34E-65	81.92769	83.95928	82.06951	83.81746
Total Monthly FIIs (INR Crores)	1.09E-05	1.31E-05	0.836069	0.407438	-1.50E-05	3.72E-05	-1.20E-05	3.35E-05

Exchange Rate (USD/INR) =  $\beta_0 + \beta_1$  (Total Monthly FIIs) +  $\epsilon$

Where:

Dependent Variable (Y): Exchange Rate (USD/INR)

Independent Variable (X): Total Monthly FIIs (INR Crores)

R (Correlation Coefficient): 0.122 → A weak positive correlation between FII flows and exchange rate.

R<sup>2</sup> (Coefficient of Determination): 0.0149 → Only 1.5% of the variation in the exchange rate is explained by FII flows-meaning the relationship is statistically weak.

Adjusted R<sup>2</sup>: -0.0064 → The negative adjusted R<sup>2</sup> confirms that the model does not explain the data well; adding FII as a predictor does not improve model accuracy.

Standard Error: 3.48 → On average, the model's predicted exchange rate deviates by about ₹3.48 from the actual values, showing low precision.

The F-statistic = 0.699 and p-value = 0.407 > 0.05.

This means the regression model is not statistically significant.

In simple terms, FII flows do not have a statistically significant effect on the exchange rate at the 5% confidence level.

**Interpretation of  $\beta_1$ :**

The positive sign ( $\beta_1 = 1.09 \times 10^{-5}$ ) indicates that higher FII inflows are associated with a marginal increase in the exchange rate (slight rupee depreciation).

However, the p-value = 0.407 > 0.05 means this effect is not statistically significant- so we cannot conclude that FIIs materially impact the exchange rate.

Economically, the effect size is negligible- even a ₹100,000 crore change in FIIs would alter the exchange rate by roughly ₹1.09, which is minor and statistically unreliable.

**Hypothesis Testing**

Null Hypothesis (H<sub>0</sub>): FIIs do not significantly affect the exchange rate.

Alternative Hypothesis (H<sub>1</sub>): FIIs significantly affect the exchange rate.

Since p = 0.407 > 0.05, we fail to reject the null hypothesis.

Therefore, no significant impact of FII flows on exchange rate movements is observed in this period.

Regression Statistics								
Multiple R	0.122346							
R Square	0.014968							
Adjusted R Square	-0.00645							
Standard Error	39004.44							
Observations	48							
ANOVA								
	df	SS	MS	F	Significance F			
Regression	1	1.06E+09	1.06E+09	0.699012	0.407438			
Residual	46	7.00E+10	1.52E+09					
Total	47	7.10E+10						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 91.0%	Upper 91.0%
Intercept	-110259	136129.7	-0.80995	0.422137	-384274	163756	-346017	125499
Monthly Average Exchange Rate	1370.388	1639.084	0.836069	0.407438	-1928.92	4669.694	-1468.28	4209.056

$$\text{FIIs (₹ Crores)} = \beta_0 + \beta_1(\text{Exchange Rate}) + \varepsilon$$

Where:

Dependent Variable (Y): Total FIIs (₹ Crores)

Independent Variable (X): Monthly Average Exchange Rate (USD/INR)

Correlation: 0.12 → Weak positive correlation between exchange rate and FIIs

R square: 0.0149 → Only 1.5% of the variation in FII flows is explained by exchange rate changes — an extremely low explanatory power.

Adjusted r square: -0.0064 → Negative adjusted R<sup>2</sup> means the model doesn't fit the data; the independent variable adds no meaningful explanatory value.

Standard Error: 39,004.44 → Indicates large residual variation - predicted FII values deviate widely from actual data, suggesting weak model reliability.

Exchange rate movements have minimal ability to explain changes in FII flows. FIIs are likely influenced by other variables such as global liquidity, domestic interest rate differentials, and stock market performance rather than just the exchange rate.

ANOVA:

The F-value = 0.699 and p-value = 0.407 > 0.05, showing that the model is not statistically significant.

In simple terms, the exchange rate does not significantly predict changes in FII flows at the 5% level of significance.

#### Coefficient and significance:

The positive coefficient ( $\beta_1 = 1,370.39$ ) suggests that a ₹1 increase in the USD/INR exchange rate (i.e., rupee depreciation) is associated with an increase of ₹1,370 crores in FIIs, on average.

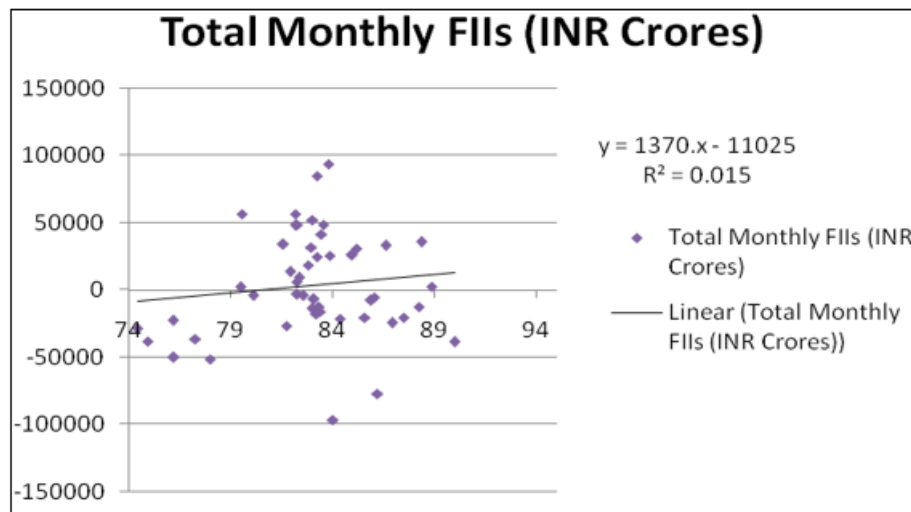
However, because  $p = 0.407 > 0.05$ , this relationship is not statistically significant- meaning we cannot confidently claim that rupee depreciation causes higher FII inflows.

Moreover, the large standard error and low t-stat indicate weak predictive strength.

Null Hypothesis (H<sub>0</sub>): Exchange rate has no significant impact on FIIs.

Alternative Hypothesis (H<sub>1</sub>): Exchange rate has a significant impact on FIIs.

Since  $p = 0.407 > 0.05$ , we fail to reject the null hypothesis. Therefore, exchange rate movements do not have a statistically significant effect on FII inflows or outflows during the period 2022–2025.



The scatter plot depicts the relationship between the monthly average USD/INR exchange rate (x-axis) and total monthly Foreign Institutional Investments (FIIs) in India (y-axis) for the period 2022–2025. The data points appear widely scattered around the trend line, indicating a weak linear association between the two variables.

The equation of the trend line is:  $\text{FIIs} = 1370.3 (\text{Exchange Rate}) - 11025$

#### 1) Direction of Relationship:

The positive slope ( $\beta_1 = 1370.3$ ) suggests a slight positive relationship between exchange rate and FII inflows — meaning that as the exchange rate (USD/INR) increases (i.e., the rupee depreciates), FIIs tend to rise marginally. However, this relationship is very weak.

#### 2) Strength of Relationship:

The R<sup>2</sup> value of 0.015 indicates that only 1.5% of the variation in FIIs is explained by movements in the exchange rate. The remaining 98.5% is influenced by other macroeconomic and

global financial factors such as interest rate differentials, inflation expectations, and geopolitical risks.

### 3) Data Dispersion:

The scatter points are widely dispersed around the line of best fit, showing high volatility in FII inflows/outflows irrespective of exchange rate changes. This suggests that FIIs were driven more by market sentiment and external conditions than by exchange rate movements during the study period.

#### Interpretation:

The near-flat trend line implies that exchange rate fluctuations did not significantly influence FII behavior in the post-COVID period. Even with rupee depreciation from around ₹74 to ₹94 per USD, FII movements remained inconsistent, pointing toward the dominance of non-currency factors such as equity market performance, monetary policy shifts, and global liquidity cycles.

## 4. Findings:

### 1) Weak Association:

The near-zero  $R^2$  and insignificant coefficient imply that FII movements alone cannot explain INR fluctuations and even there is a very weak influence of exchange rate fluctuations of FIIs.

This suggests that the traditional norm where it is proven that movements in exchange rate influences the FIIs is not the case here during these years. Other macroeconomic factors- such as interest rate differentials, inflation, current account balance, and global risk sentiment- likely play a larger role.

### 2) Post-COVID Context:

During 2022–2025, the rupee's gradual depreciation (as shown in your chart) was likely influenced more by global monetary tightening, rising U.S. dollar strength, and import price pressures, rather than FII behavior.

### 3) Short-Term Capital Volatility:

FIIs may have contributed to short-term fluctuations, but their net monthly effect on exchange rate levels was minimal, consistent with the low statistical significance.

#### *Weak Link in Both Directions:*

Both of the regressions (FII → Exchange Rate and Exchange Rate → FII) show very low  $R^2$  (~0.015) and high p-values (>0.4).

→ This suggests that no clear causal or strong directional relationship exists between FIIs and exchange rate movements in the post-COVID period.

#### *Economic Meaning:*

FIIs might have been driven by factors other than currency levels, such as equity valuations, monetary policy, and global risk appetite.

Likewise, exchange rate movements likely reflected broader external pressures like rising oil prices and a strong US dollar, rather than domestic capital flows.

#### Implication:

The exchange rate–FII relationship in the post-pandemic years appears weak and statistically insignificant, implying low sensitivity of FIIs to rupee fluctuations during 2022–2025.

## 5. Recommendations on Future Research and Policy

- Future research can also include more macroeconomic and world variables to comprehend the behavior of FII during volatile times.
- The disaggregated breakdown of FII flows in both equity and debt markets may give more information on how the investor is sensitive to fluctuations in the exchange rate.
- To model dynamic interactions, it could be using advanced econometric models, including the impulse response analysis based on the VAR or nonlinear models.
- Instead of using exchange rate interventions as a solution, policymakers are supposed to ensure macroeconomic fundamentals and financial market resilience.
- Monitoring the liquidity cycles and external shocks occurring in the world can be improved to better predict the volatility of the capital flows.

## 6. Limitations

- The research uses only aggregate FII data and this could be hiding behavioral variations in different asset classes and strategies of investors.
- It analyzes the USD/INR exchange rate only and does not consider the change in other major currencies which can change foreign investment decisions.
- Although the period of the research is also relevant, it is relatively short and only corresponds to the post-COVID period, which makes it impossible to generalize findings in the long term.
- The regression models do not directly include other macroeconomic variables like the interest rate differentials, inflation, stock market returns and international risk indicators.
- Nonlinear and asymmetric exchange rates and capital flows relations might not be well understood with the help of linear econometric models.

## 7. Conclusion

This current work contributes to the empirical support of the exchange rate-FII relationship in India in the post-COVID-19 period, which is the period of increasing uncertainty and change of structure in the world financial markets. According to the results, both exchange rate changes and aggregate FII flows do not have a statistically significant effect on one another in 2022–2025. The relationship between the two variables is weak even though the trend on the Indian Rupee

has been characterized by consistent depreciation and acute volatility in the FII movements.

These results indicate a trend move whereby foreign portfolio flows are very strong on the exchange rates or the movements of the currency greatly influence the behavior of foreign investors. Rather, financial tightening measures in the world, altered risk perceptions, and external shocks seem to have dominated the post-pandemic period, at the expense of the direct influence of the dynamics of the exchange rate. Therefore, exchange rate volatility per se cannot be said to be a determining variable in FII decisions in this period.

In general, the paper highlights the necessity to consider exchange rate changes and capital flows in a more macroeconomic and global financial context. The policymakers need to note that capital flow volatility can be managed by employing coordinated monetary, fiscal and external sector policies and not only by adjusting exchange rates.

## References

- [1] Dhingra, R., & Kapil, S. (2025). A study of relationship between foreign institutional investment and exchange rate movement in India. *Journal of Emerging Market Finance*, 24(1), 45–62.
- [2] National Securities Depository Limited. (2025). *Foreign portfolio investors (FPI/FII) investment data*. <https://www.nsdl.co.in>
- [3] Reserve Bank of India. (2025). *Database on Indian economy (DBIE)*. <https://dbie.rbi.org.in>
- [4] Trading Economics. (2025). India foreign portfolio investment data. <https://tradingeconomics.com/india/foreign-portfolio-investment>
- [5] Investing.com. (2025). USD/INR historical data. <https://www.investing.com>
- [6] Vasudeva, S., & Bhat, R. (2024). Exchange rate volatility and foreign institutional investor behavior in India: An EGARCH and VAR analysis. *Journal of Asian Economics*, 85, 101542.
- [7] Reserve Bank of India. (2023). *Report on currency and finance 2022–23*. RBI Publications.
- [8] Kotishwar, A. (2020). The impact of currency fluctuations on equity and debt markets in India. *International Journal of Management Studies*, 7(3), 112–124.
- [9] Okey, S., & Emmanuel, C. (2020). Impact of exchange rate fluctuations on domestic investment in Nigeria. *International Journal of Economics and Financial Research*, 6(4), 58–67.
- [10] Gaiha, P., Padhi, P., & Ramanathan, T. (2014). Capital flows and exchange rate dynamics in India: An empirical investigation. *International Journal of Social Sciences and Entrepreneurship*, 1(9), 210–225.
- [11] Kumar, V., & Kumar, R. (2014). Impact of interest rate differentials on net foreign institutional investment (FIIs) in India. *International Journal of Economics and Financial Issues*, 4(3), 562–570.
- [12] Sahoo, P., & Dash, R. K. (2013). Financial sector development and capital flows in India. *Margin: The Journal of Applied Economic Research*, 7(4), 509–538.
- [13] Reinhart, C. M., & Reinhart, V. R. (2009). Capital flow bonanzas: An encompassing view of the past and present. *NBER International Seminar on Macroeconomics*, 5(1), 9–62.
- [14] Froot, K. A., & Ramadorai, T. (2008). Institutional portfolio flows and international investments. *Review of Financial Studies*, 21(2), 937–971. <https://doi.org/10.1093/rfs/hhm050>
- [15] Kohli, R. (2003). Capital flows and exchange rate volatility: The Indian experience. *Economic and Political Weekly*, 38(14), 1427–1434.
- [16] Obstfeld, M., Shambaugh, J. C., & Taylor, A. M. (2005). The trilemma in history: Tradeoffs among exchange rates, monetary policies, and capital mobility. *Review of Economics and Statistics*, 87(3), 423–438. <https://doi.org/10.1162/0034653054638300>
- [17] Kohli, R. (2001). Capital flows and exchange rate management in India. *Economic and Political Weekly*, 36(5), 389–397.

## Author Profile



**Piyumita Ajinkya Chavan** is an Assistant Professor of Economics at St. Mira's College for Girls, Pune. She is SET qualified and holds an M.A. in Economics from the University of Mumbai, where she was an Economics Gold Medallist, along with a B.Ed. degree. With over a decade of teaching and academic leadership experience across junior college, undergraduate and postgraduate levels, she has previously served as Vice Principal at Mount Carmel Junior College, Mumbai and as Assistant Professor at Vartak College. Her academic interests span research methodology, financial economics and contemporary macroeconomic issues. She has authored multiple research-based book chapters, presented papers at national and international conferences and actively contributes to faculty development, outcome-based education and academic quality initiatives.



**Yasmin Irshad Mutwalli** is an Assistant Professor of Economics and a SET-qualified academic with five years of teaching experience across reputed colleges in Pune, including Abeda Inamdar Senior College, ICLES M.J. College, DVS College for Commerce, and St. Mira's College for Girls. She holds a Master's degree in Economics (O+ grade) from Savitribai Phule Pune University. Her areas of specialization include International Finance, Econometrics, Banking and Finance, and Environmental Economics. Her research contributions, focusing on the gig economy, microfinance, and environmental accounting, have been published in peer-reviewed journals such as IJRAR and HSRA Publications. She has actively participated in academic quality initiatives through NAAC and IQAC and has coordinated seminars and national-level workshops. Her academic engagement is complemented by social outreach through organizations such as NSS and YUVA.