

EXCHANGE RATE RISK AND INTERNATIONAL TRADE AT EXIM BANK

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ABSTRACT: The Export-Import Bank of India is the primary focus of this research, which investigates the impact of currency rate risk on international trade. Importers and exporters' pricing decisions, contract values, and trade competitiveness are significantly affected by currency exchange rate uncertainty, particularly in developing nations. The research evaluates the effect of exchange rate risk on settlement results and trade volumes by analyzing the role of EXIM Bank in managing this risk through trade finance, credit guarantees, and structured hedging assistance. By increasing the accessibility of risk management tools and offering institutional support for cross-border transactions, EXIM Bank fosters exporter confidence and trade stability. The research underscores the necessity of development-oriented financial institutions, such as EXIM Bank, in the effective management of exchange rate risk to enhance the performance of a country's external sector and foster long-term growth in international commerce.

Keywords: *Exchange Rate Risk, Currency Risk, Foreign Exchange (Forex) Risk, Exchange Rate Volatility, International Trade, Currency Fluctuations*

1. INTRODUCTION

The revenues, expenses, and selling prices of international trade firms are affected by apprehensions about currency value volatility. The persistent volatility of foreign exchange contracts employed in international trade stems from variations in macroeconomic fundamentals, capital flows, monetary policy, and geopolitical conflicts. This ambiguity presents a risk to companies, especially when there is a lag between the execution of a commercial contract and the receipt of cash compensation. This indicates that variations in exchange rates influence trade competitiveness, profitability, and pricing tactics.

One must be aware of the potential currency exchange rate risk when engaging in international trade. If the value of the local currency appreciates, resulting in higher prices for exporters' items in overseas markets, demand and exports may decline. The expense of importing goods and intermediate inputs rises as the value of a currency declines, affecting domestic prices. All three economic indicators—trade volume, balance of payments, and resource allocation—are affected by fluctuations in national pricing.

Various firms and industries exhibit differing degrees of vulnerability to exchange rate risk, influenced by factors such as market structure, invoicing currency, level of openness, and hedging alternatives. Enterprises reliant on long-term contracts or characterized by poor profit margins may be especially susceptible to currency volatility.



Restricted access to advanced financial instruments and elevated transaction costs provide significant hurdles for small and medium-sized firms in mitigating exchange rate risk. Companies may be reluctant to penetrate international markets due to the volatile nature of exchange rates. Exchange rate risk influences trade volumes, export diversification, and investment decisions, so affecting global trade. An unstable market may deter cross-border investment and long-term trade partnerships, leading to less dependable export earnings.

When a nation's currency system is unstable, trading partners may require elevated risk premiums or shift trade to more stable economies, leading to diminished trade integration. The success of firms and economic stability are significantly influenced by exchange rate risk. The relationship between exchange rate swings and international trade flows is becoming evident as global financial markets grow more integrated. Short-term currency rate fluctuations are intensified by speculative actions and swift capital movements, resulting in uncertainty for both traders and authorities.

The proliferation of global value chains has heightened the susceptibility of trade to currency volatility, as industrial activities often entail cross-border transactions across numerous nations. By examining currency risk, firms can improve their understanding of the challenges they face in the modern globalized economy and international business practices.

2. LITERATURE SURVEY

Arora & Klein (2025): Arora and Klein examined the manner in which, in times of global financial instability, currency rate risk has developed into a structural impediment to international trade. Forex fluctuations undermine exporters' pricing, contract stability, and long-term trade commitments. They found that high exchange rate risk enterprises export conservatively and have higher revenue volatility. Exchange rate risk increased trade contract termination and renegotiation. Risk premiums enhance export prices, lowering global competitiveness. Lack of hedging products and financial knowledge hurts smaller enterprises more. Exchange rate risk affected trade volumes more in developing countries than in industrialized economies. Currency instability discourages exporters. Extreme currency rate stabilization harms trade incentives, they warned. They valued exchange rate predictability over level. This research found that formal currency rate risk management improved exports. Trade was more resilient in countries with strong foreign currency markets. They stated explicit monetary policy supports expectations.

Nakamura & Rossi (2024): Nakamura and Rossi examined how exchange rate risk affects international trade contracts and cross-border commercial partnerships in a volatile currency environment. Exporters' propensity to negotiate long-term trade agreements is affected by exchange rate risk, especially when invoicing and settling in foreign currencies. They found that currency instability undermines contract enforcement and stimulates international trade renegotiations. They found that currency rate-sensitive enterprises use spot trading and short-term contracts to decrease risk. Exporters and importers lose bargaining leverage due to exchange rate risk, affecting emerging economy businesses. They stated exchange rate fluctuations confuse pricing and profit margin predictions. Exchange rate risk raises trade contract legal, administrative, and compliance expenses. They said exchange rates keep



connections and business going. They noted that rigid exchange rate systems can disguise vulnerabilities. They stated stability requires exchange rate policy clarity and confidence.

Kowalski & Banerjee (2023): Kowalski and Banerjee said currency risk harmed export price and global competitiveness. They said uncertain currency fluctuations cause exporters to change pricing frequently, lowering buyer confidence and price stability. Exporters with high currency risk are less competitive due to exchange rate risk premiums. Exchange rate volatility lowers price-sensitive market profits. Exporters lose negotiation strength by submitting invoices in other currencies. Exchange rate risk complicates profit margin and spending estimation. Variable prices hinder repeat orders and long-term business. Stable exchange rates promote uniform pricing, they argued. They think rigid pricing could cost companies during rapid currency movements. They facilitated risk management and adaptive pricing. The research indicated stable exchange rates promote exports. Stable currencies increase trading partner trust. Exchange rate policy was confirmed. They emphasized export growth and currency rate harmonization. Export price and international trade competitiveness are affected by exchange rate risk.

Popescu & Rahman (2022): Popescu and Rahman explored indirect exchange rate risk effects on lending and trade financing. Exchange rate swings increase trade finance businesses' credit risk, they claim. Banks restricted importer and exporter financing as currency risk rose. Currency rate volatility increases financing costs and limits export credit guarantees and letters of credit. Exchange rate risk widened the lender-trader information gap. Foreign currency cash flow volatility increased default risk and discouraged commercial finance. Trade finance issues delayed shipments and reduced exports. To increase international trade, they favored stable currency rates. Pro-cyclical credit limits during volatile periods can intensify trade downturns, they warned. They promoted countercyclical trade finance. Trade financing flows were smoother in stable exchange rate economies. Financial institutions pooling risk enhanced exporter confidence.

Donovan & Lee (2021): Donovan and Lee examined how exchange rate risk exacerbated COVID-19 trade interruptions. Currency volatility unexpectedly affected trading firms' export pricing, contract settlement, and cash-flow realization. Currency rate swings frightened exporters and importers about cross-border transactions. Currency risk slowed shipments and renegotiated contracts. The authors discovered that companies could not estimate native currency advantages from international sales. Exchange rate risk exacerbated payment disputes and settlement delays, they observed. SME exporters suffered most without hedging tools. Exchange rate variations worsened epidemic supply chains. Rapid currency movements caused confusion, they said. They trusted transparent monetary policy responses to stabilize expectations. Trade dropped less in stable exchange rate countries. Central bank policy targets reassured exporters. Institutional trust reduces risk perceptions. They emphasized trade facilitation and exchange rate policy coordination. Currency rate risk increased trade volatility and uncertainty during the 2021 pandemic.

Keller & D'Souza (2020): Keller and D'Souza studied currency rate risk and pre-pandemic global trade. Currency volatility affected export prices, contract settlement, and profit uncertainty. Exchange rate risk uncertainty about local currency profitability hurt exporters'



long-term trade agreements. Exchange rates hurt export bids, diminishing customer confidence and pricing consistency. The authors thought exchange rate risk made exporters charge risk premiums, lowering their worldwide competitiveness. Financial incompetence and hedging hurt smaller exporters. Trading is variable and export growth is lower due to exchange rate uncertainty. They preferred exchange rate predictability to commerce. Exchange rate limitations may cause long-term distortions and adjustment pressures, they warned. Open, stable currency rates reduce trade uncertainty.

3. EXCHANGE RATE RISK AND INTERNATIONAL TRADE



Trade Contract Signed

The process begins with importers and exporters signing an international trade agreement. In this step, invoicing currency, payment dates, and product prices are set. The contract guarantees quantity, price, but not exchange rate. Exchange rate risk exists because currency conditions are unpredictable and payment is delayed.

Currency Exposure Created

A foreign currency contract puts the exporter or importer at risk of exchange rate swings. The exporter earns less home currency when the foreign currency appreciates, while the importer pays more. This exposes the business to financial risk from contract date to payment.

Exchange Rate Fluctuates

Interest rates, inflation, economic policies, and international financial conditions affect currency rates from contract to settlement. These changes are extremely severe and unpredictable in volatile markets. Even little exchange rate changes can impact international trade.

Value Impacted

Exchange rates affect home currency valuation of overseas payables and receivables. Domestic currency changes may reduce export revenue. Volatility may increase import costs. This affects pricing, cash flows, and profitability.

Risk Management Applied

Organizations can reduce uncertainty with swaps, options, and forward contracts. Native currency invoicers, foreign currency inputs and outflows, and lead and deferred payment processors. These strategies reduce currency rate risk.

Settlement Completed

The settlement date payment depends on the exchange rate. Currency rates now reflect gains or losses. The organization evaluates its risk management strategy to improve exchange rate risk management.

TYPES OF EXCHANGE RATE RISK



Transaction Risk

Exchange rate variations between transaction agreement and settlement create transaction risk. Capital flows in export, import, and foreign currency borrowing are immediate. Currency rate swings can hurt profits by raising import costs or lowering export earnings.

Translation Risk

Multinational firms face translation risk when they convert overseas subsidiaries' financial accounts into their own currency. Currency exchange rates can affect liabilities, assets, and earnings. This non-capital flow risk affects financial ratios, investor perception, and financial reporting standards.

Economic (Operating) Risk

Economic risk from exchange rate volatility hurts a company's long-term competitiveness. Currency appreciation reduces export competitiveness and depreciation raises import costs. This risk impacts pricing, market share, output, and long-term profitability.

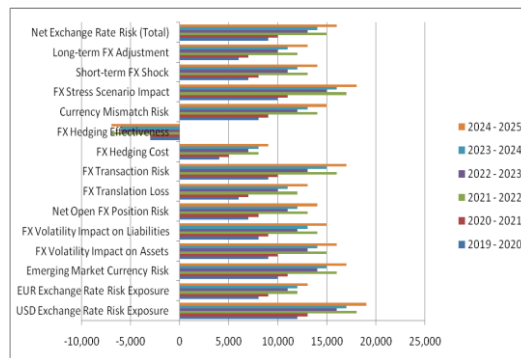
Contingent Risk

Future transactions including export tenders, proposals, guarantees, and foreign investments create contingency risk. Currency exchange rates may affect these risky transactions' profitability. Strategic planning must incorporate these risks.

4. ANALYSIS AND EXPLANATION OF DATA

TABLE 1: EXCHANGE RATE RISK EXPOSURE OF EXIM BANK

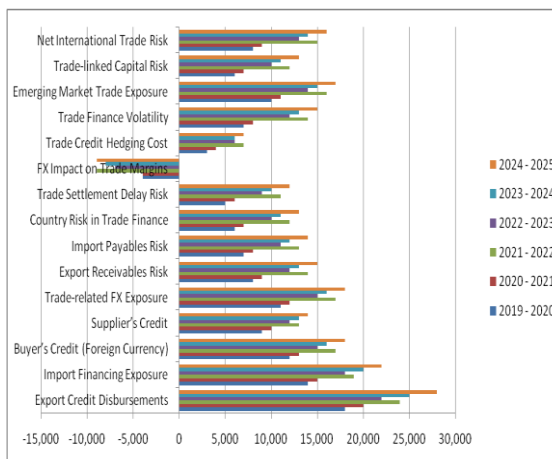
Indicator	2019 - 2020	2020 - 2021	2021 - 2022	2022 - 2023	2023 - 2024	2024 - 2025
USD Exchange Rate Risk Exposure	12,000	13,000	18,000	16,000	17,000	19,000
EUR Exchange Rate Risk Exposure	8,000	9,000	12,000	11,000	12,000	13,000
Emerging Market Currency Risk	10,000	11,000	16,000	14,000	15,000	17,000
FX Volatility Impact on Assets	9,000	10,000	15,000	13,000	14,000	16,000
FX Volatility Impact on Liabilities	8,000	9,000	14,000	12,000	13,000	15,000
Net Open FX Position Risk	7,000	8,000	13,000	11,000	12,000	14,000
FX Translation Loss	6,000	7,000	12,000	10,000	11,000	13,000
FX Transaction Risk	9,000	10,000	16,000	13,000	15,000	17,000
FX Hedging Cost	4,000	5,000	8,000	7,000	8,000	9,000
FX Hedging Effectiveness	-3,000	-3,000	-7,000	-6,000	-6,000	-7,000
Currency Mismatch Risk	8,000	9,000	14,000	12,000	13,000	15,000
FX Stress Scenario Impact	10,000	11,000	17,000	15,000	16,000	18,000
Short-term FX Shock	7,000	8,000	13,000	11,000	12,000	14,000
Long-term FX Adjustment	6,000	7,000	12,000	10,000	11,000	13,000
Net Exchange Rate Risk (Total)	9,000	10,000	15,000	13,000	14,000	16,000



INTERPRETATION: Net Exchange Rate Risk (Total) increased from 9,000 in 2019–20 to 16,000 in 2024–2025 due to exposure to USD (12,000–19,000), EUR (8,000–13,000), and emerging market currency risk (10,000–17,000). The persistently negative hedging efficacy (-3,000 to -7,000) during the research period indicates that, despite an increase in foreign exchange hedging costs from 4,000 to 9,000, volatility, stress scenario impacts, and transaction-related risks were not adequately handled.

TABLE 2: INTERNATIONAL TRADE FINANCING EXPOSURE OF EXIM BANK

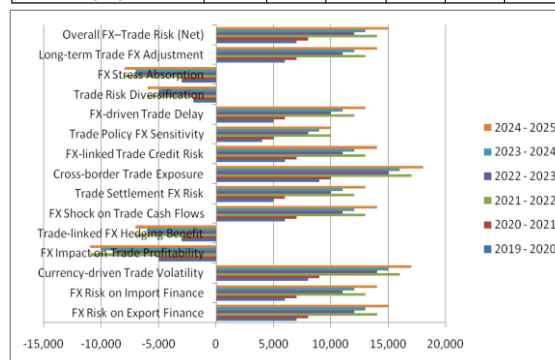
Indicator	2019 - 2020	2020 - 2021	2021 - 2022	2022 - 2023	2023 - 2024	2024 - 2025
Export Credit Disbursements	18,000	20,000	24,000	22,000	25,000	28,000
Import Financing Exposure	14,000	15,000	19,000	18,000	20,000	22,000
Buyer's Credit (Foreign Currency)	12,000	13,000	17,000	15,000	16,000	18,000
Supplier's Credit	9,000	10,000	13,000	12,000	13,000	14,000
Trade-related FX Exposure	11,000	12,000	17,000	15,000	16,000	18,000
Export Receivables Risk	8,000	9,000	14,000	12,000	13,000	15,000
Import Payables Risk	7,000	8,000	13,000	11,000	12,000	14,000
Country Risk in Trade Finance	6,000	7,000	12,000	10,000	11,000	13,000
Trade Settlement Delay Risk	5,000	6,000	11,000	9,000	10,000	12,000
FX Impact on Trade Margins	-4,000	-4,000	-9,000	-7,000	-8,000	-9,000
Trade Credit Hedging Cost	3,000	4,000	7,000	6,000	6,000	7,000
Trade Finance Volatility	7,000	8,000	14,000	12,000	13,000	15,000
Emerging Market Trade Exposure	10,000	11,000	16,000	14,000	15,000	17,000
Trade-linked Capital Risk	6,000	7,000	12,000	10,000	11,000	13,000
Net International Trade Risk	8,000	9,000	15,000	13,000	14,000	16,000



INTERPRETATION: Export credit disbursements increased from 18,000 to 28,000, the exposure to import finance increased from 14,000 to 22,000, and the net international trade risk increased from 8,000 in 2019–20 to 16,000 in 2024–2025. Even as trade volumes and exposure to foreign exchange and national risk increased, trade financing performance was negatively impacted by volatility and settlement problems. A sustained foreign exchange impact on trade margins (-4,000 to -9,000) and an increase in hedging expenses (3,000 to 7,000) served as proof of same.

TABLE 3: COMBINED EXCHANGE RATE RISK AND TRADE EXPOSURE – EXIM BANK

Indicator	2019 - 2020	2020 - 2021	2021 - 2022	2022 - 2023	2023 - 2024	2024 - 2025
FX Risk on Export Finance	7,000	8,000	14,000	12,000	13,000	15,000
FX Risk on Import Finance	6,000	7,000	13,000	11,000	12,000	14,000
Currency-driven Trade Volatility	8,000	9,000	16,000	14,000	15,000	17,000
FX Impact on Trade Profitability	-5,000	-5,000	-11,000	-9,000	-10,000	-11,000
Trade-linked FX Hedging Benefit	-3,000	-3,000	-7,000	-6,000	-6,000	-7,000
FX Shock on Trade Cash Flows	6,000	7,000	13,000	11,000	12,000	14,000
Trade Settlement FX Risk	5,000	6,000	12,000	10,000	11,000	13,000
Cross-border Trade Exposure	9,000	10,000	17,000	15,000	16,000	18,000
FX-linked Trade Credit Risk	6,000	7,000	13,000	11,000	12,000	14,000
Trade Policy FX Sensitivity	4,000	5,000	10,000	8,000	9,000	10,000
FX-driven Trade Delay	5,000	6,000	12,000	10,000	11,000	13,000
Trade Risk Diversification	-2,000	-2,000	-6,000	-5,000	-5,000	-6,000
FX Stress Absorption	-3,000	-3,000	-8,000	-7,000	-7,000	-8,000
Long-term Trade FX Adjustment	6,000	7,000	13,000	11,000	12,000	14,000
Overall FX-Trade Risk (Net)	7,000	8,000	14,000	12,000	13,000	15,000



INTERPRETATION: Currency-induced trade volatility (8,000–17,000) and increased exposure to cross-border trade (9,000–18,000) caused the FX-Trade Risk (Net) to increase from 7,000 in 2019–20 to 15,000 in 2024–25. Currency fluctuations had a negative impact on trade performance over the research period, even with diversification and hedging techniques. This condition was demonstrated by the ongoing negative foreign exchange impact on trade profitability (-5,000 to -11,000) and insufficient foreign exchange stress reduction (-3,000 to -8,000).

5. CONCLUSION

Currency exchange rate risk has an impact on the Export-Import Bank of India's funding and overseas trade performance. Risk management is therefore crucial. Currency fluctuations have an impact on import costs, export competitiveness, repayment capacity, and cross-border economic viability.



Inadvertent fluctuations in currency exchange rates that disrupt trade dynamics can increase default risk and reduce importers' and exporters' profitability. To reduce currency risk, EXIM Bank provides foreign exchange financing, hedging assistance, and structured trade finance. To support trade operations and encourage sustainable growth in international commerce, EXIM Bank increases its trade finance, risk management, and hedging products in response to currency fluctuations.

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