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Increase in the Exchange Rate and Its Effect on Export and Import

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ABSTRACT

Background: Unprecedented increase in the exchange rate, especially in the last two recent years has, directly or indirectly, many effects on the economy. **Objective:** The objective of this paper is that what's the effect of this increase in the exchange rate on export and the most important is a country's import trade flows which are the most important trade flows in the country. **Results:** First, after introduction and key words, we review research literature and related definitions such as the definition of exchange and its types, the exchange rates, inflation rate and balance of payments. In finding analysis section, by using the data documented in the exchange rate over the past 35 years and exchange rate statistics over the last few years and also the statistics of export and import, examine these statistics specifically in the years 1390 and 2012 which was the culmination of exchange-rate volatility, and we find the relationship between exchange rates and amounts of export and import. **Conclusion:** We conclude mainly based on official figures released by the Central Bank of the Islamic Republic of Iran that an increase in the exchange rate reduces imports and increase exports, temporarily. Finally, this paper ends by providing conclusions and future works and resources and references.

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INTRODUCTION

Economics of Iran after the Islamic Revolution through economic sanctions, political issues such as the war has been encountered with fluctuations (Shakeri, 2012). Among them, the exchange rate is not out of the changes. Exchange rate volatility in some cases due to monetary and financial policies' of The Central Bank and in some cases, due to factors outside their control, such as war or politics and specifically economics sanctions. Over the two last years, the exchange rate has extreme volatility after years of constructive government and during economic reform in those years (Vyuptaksh Sharan, 2006). Exchange rate increase coincided with the implementation of targeted subsidy plan and widespread sanctions of western country's cause swelling and has direct impact on production firms that are involved in import or export. 10th government applies a lot of plans to control the exchange rate which one of them is creating the trade in exchange rate and removal of reference exchange rate from a lot of goods. (Vyuptaksh Sharan, 2006). However, because some of the issues which is out of scope of this article, exchange never been single rate and always exist differences between the trade in and the free market exchange rate (Shakeri, 2012). The 11th government actions made hopes to reduce the exchange rate. Some economic experts agree with reducing exchange rate and others disagree with reducing the exchange rate. Among them, the comments of Dr (Salvatore, 2007). Saif, president of the Central Bank on September 23, 2012 that: "Now the price of the dollar had reached to its bottom in the market and the lower figure may not seem logical". Following the comment, the exchange rate reduction procedure which goes to at least been equal with trade in exchange rate, has been stopped. The goal of this paper is to discuss about that "what is the impact of the rise of the exchange rate on the import and export? Did exchange rate rising have profits to export firms or not? What is the status of import firms by increasing the exchange rate? In this paper, we attempt to answer the question based on official statistics which have been embodied.

Research Literature:

Definition of exchange:

Literally, exchange means value and the price of national currency vs. currencies of other countries (Amid Lexicon).

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Exchange in its narrow sense is foreign country currency and its broad sense includes all monetary means of foreign payment (Institute of Business Studies and Research, 1988).

Exchange rate:

The purpose of the foreign exchange rate is the amount of national currency units should be paid to obtain a single unit of foreign currency (Shakeri, 2012).

The ratio between two currencies is known as an exchange rate. The various exchange rates are regularly quoted in newspapers and periodicals. (Vyuptaksh Sharan, 2006).

Types of exchange rate:

Real Exchange Rate:

The real exchange rate is the ratio of foreign prices to domestic prices on a cash basis (Shakeri, 2012).

Nominal effective exchange rate:

Nominal effective exchange rate measures a weighted average of the value of a country's currency in terms of currencies of other countries in which the weights reflect the share of each country in the international trade of the country. For this reason it is also called trade-weighted exchange rate (Shakeri, 2012).

The real effective exchange rate:

The real effective exchange rate is obtained from division of weighted average of a goods basket's price at trading partner countries in terms of domestic currency relative to its price in the country (Shakeri, 2012).

It should be noticed that the currency system in our country is managed as floating type.

In this system, decreasing currency value means an increase in the price of foreign currency and increasing currency value means a decrease in the price of foreign currency. Increase in the value of the domestic currency means foreign currency devaluation and vice versa (Salvatore, 2007).

Inflation Rate:

Inflation rate per month is the percentage of consumer goods and services price index in the twelve months average changes in the assumed month compared with the previous same period. In the literature of economic indices, the number called "inflation rate". For example, the average price index of consumer goods and services from September 2012 to October 2012 compared with the same period the average from September 2011 to October 2012 has been increased 40.4 percent that is called inflation rate leads to October 2012 (Central Bank of the Islamic Republic Iran).

Balance of Payments:

Balance of payments is the document in which deals and transactions of individuals and corporates resident of a country with foreign countries will be registered regularly during a year.

The balance of payments is usually divided into three accounts: current, capital and official settlements. Any activity is recorded in the balance of payments as positive or negative (credit or debit). Exports of goods and services (which will lead to an inflow of foreign exchange), getting gifts and investments are recorded in the balance of payments with positive sign, while imports of goods and services (which will lead to an outflow of foreign currency), giving out gifts and export currency for investment in foreign countries will be considered with the minus sign in debtor column of payments' balance.

The official settlement account also indicates how to increase or decrease of foreign currency and gold reserves of the country. If the creditor column in the balance of payments is greater, then say the balance of payments has a surplus. In such conditions, foreign exchange and gold reserves of the country increases. If the debtor column of the balance of payments is greater, then say the balance of payments has deficit. In such conditions, foreign exchange and gold reserves of the country decreases.

Usually countries adjust the balance of payments in two types. The first type adjustment of the balance of payments is as summary and per each account, only its balance or important items have been noticed while in the second type, not only a summary of activities but also details of the various items have been noticed. Usually balance of payments is adjusted annually (Dr. Dolatshahi, 2009).

Results:

Analysis of Findings:

Definitions related to discussion were reviewed in the research literature section. Although there are many other definitions that are beyond the scope of this article. While there are very complex and interlinked problems in the economic category, which ignoring each of them may lead to a different result. In this section we study the effect of increase or decrease in the exchange rate based on the cases documented and statistical results. We first give in table1, dollar exchange rate during last 34 years.

Table 1: dollar exchange rate during last 34 years

Year	Price(Rials)	Year	Price(Rials)
1978	100	1996	4440
1979	140	1997	4780
1980	200	1998	6460
1981	270	1999	8630
1982	350	2000	8130
1983	450	2001	7920
1984	580	2002	7990
1985	610	2003	8320
1986	740	2004	8740
1987	990	2005	9040
1988	960	2006	9220
1989	1200	2007	9350
1990	1410	2008	9660
1991	1420	2009	10000
1992	1490	2010	11000
1993	1800	2011	19000
1994	2630	2012	37000
1995	4030		

Study of Exchange Rate Increase Trend:

In this section, we study the exchange rate increase based on the figures released by the Central Bank of Iran, which are the most documentary statistics in the country. On table 2 which shows the 12-month exchange rate in 2009, the exchange rate for the year is almost stable. Also, according to table 3 exchange rate in 2010 until October is stable and its increasing trend gradually started from October. However, as be seen, differences between the exchange rate in banks and the private sector is less than 10% and it can be concluded that the increase in 2010 is still not tangible and affected.

Table 2: Monthly average selling rate of dollar in the interbank and free markets(Rials)

free markets	Interbank markets	2009
9979	9932	March
9940	9863	April
9808	9742	May
9995	9940	June
10009	9942	July
9959	9897	August
9935	9890	September
9950	9914	October
10004	9952	November
10037	9992	December
10103	10020	January(2010)
10052	9977	February(2010)

Table 3: Monthly average selling rate of dollar in the interbank and free markets (Rials)

free markets	Interbank markets	2010
10044	10003	March
10255	10200	April
10463	10406	May
10470	10401	June
10547	10412	July
10552	10431	August
10918	10413	September
10670	10373	October
10606	10365	November
10797	10369	December
10894	10337	January(2011)
11068	10313	February(2011)

Now, we focus on the exchange trend in 2011. According to table 4, it could be seen that the very slow and subtle increase of exchange rate in 2010, it has intensified from the beginning of 2010 and also the Central Bank of Iran by increasing the bank rate is fueled its intensity, such that at the end of the year, exchange rate differences between banking and non-governmental prices reach their highest level such that in the next year, the government after creating the trade in exchange and making three exchange rate, intentionally or unintentionally cause the boom to the market and significant influx of liquidity into the market. In 2011 and 2012, increasing trend of exchange rate reach its peak in recent years. Average bank and non-governmental exchange sell in the two years is given in tables 4 and 5, respectively. It can be seen that the exchange rate in March 2012 is reached to 35,730 IRR. The increasing trend slowed down from the beginning of 2013 and even

declined such that the rate currently has stabilized at approximately 30,000 IRR. Table 6 which is the last table released by the Central Bank of Iran, shows the average rate of USD in on first 3-month of 2013.(March and May 2013).

Table 4: Monthly average selling rate of dollar in the interbank and free markets

free markets	Interbank markets	2011
11188	10400	March
11491	10489	April
11888	11026	May
11499	10650	June
11515	10561	July
12339	10635	August
12521	10672	September
13169	10807	October
13715	10924	November
16117	11199	December
18777	12035	January
18926	12260	February

Table 5: Monthly average selling rate of dollar in the interbank and free markets

free markets	Interbank markets	2012
18776	12260	March
16987	12260	April
17698	12260	May
19261	12260	June
20464	12260	July
23214	12260	August
31424	12260	September
31292	12260	October
29543	12260	November
32729	12260	December
36976	12260	January
35730	12260	February

Table 6: Monthly average selling rate of dollar in the interbank and free markets

free markets	Interbank markets	2013
35037	12260	March
35461	12260	April
35797	12260	May

Impact of Exchange Rate Increase on Imports:

By increasing exchange rate, imports of regular or luxury goods will reduce due to price rises. Also, the production costs of corporates which import the raw materials from abroad increase sharply and even may lead to closure of small firm and following it would increase unemployment. Also, manufacturing companies will continue in this situation, are forced to raise prices of their manufactured goods to stay afloat and thereby rising inflation in the community. This situation is typical of automotive manufacturing and spare parts makers associated with them, which all of them are in bad financial condition. The rise in the exchange rate and sanctions has been exacerbating the situation. The SAIPA Company which before these conditions has the stock P/E about 3 to 4 and approximately 700 IRR earnings per share, currently predicts 441 IRR losses per share! This occurs in conditions in which doubles or in some cases even more raises the price of its productions. However, this company has not returned to its former status.

Furthermore, by increasing exchange rate, the price of imported intermediate goods also increases and thus, at the sections and industries which their products are very dependent to imported intermediate goods, it is expected that the price of all products increase and this increase may decrease the competitiveness of products at foreign markets and also intensify increase of internal price (M. Fouladi, 2012).

According to official export and import statistics of customs of the Islamic Republic of Iran, correctness of the above statements would provide. We observe that imports after the increase of the exchange rate has decreased. The imports amount in 2011 reaches from 64,364 million USD in the previous year to 61,808 million USD. Imports in 2012, which coincided with a sharp rise in the exchange rate, reduced to 53,251 million USD has fallen which shows a 16% decrease. Tables 7, 8, and 9 show the export and import statistics from 2010 to 2012.

Impact of Exchange Rate Increase on Exports:

An increase in the exchange rate may have more impacts on exports than imports. With the increase in the exchange rate, exports also increased simultaneously. It should be noticed that due to the sanctions, export possibility of some materials such as petrochemical is limited or absent. Perhaps the effect of sanctions on

exports is greater than the increase in the exchange rate. Due to the sanction, the country's export earnings has been significantly reduced, especially in the oil field which is the major income of our country. But Increase in the exchange rate makes the exports cheaper abroad and thus the demand for such commodities would increase. However, the increase in revenue will be offset in the long term, because the majority of goods produced domestically are dependent to imported raw materials or concurrent with an increase in the inflation rate, the cost of production would increased for them, while they could not increase their export prices.

Official statistics also show that despite sanctions after raising the exchange rate, exports amount grew compared with previous time. According to the statistics given in tables 7, 8, and 9, exports amount in 2011 compared with the previous year, i.e. 2010 has been increased from 26,327 million USD to 33,819 million USD i.e. approximately 28.45% has been increased. But the exports in 2012 compared with 2011 have tangible decrease. Based on above tables' statistics, the amount of exports in 2011 was 33,819 million USD which has been reduced to 32,567 million USD in 2012. That is the exports amount reduced 3.8%, which was due to the impact of exchange rate increase on the production of export firms and domestic inflation which ultimately decrease the exports compared with the previous year.

"The changes of exchange rate have more effect on foreign trade of industry and mine section than other sections. The results also show that in all economic sections, export more than import affected by the changes of exchange rate." (M. Fouladi, 2012)

According to official statistics of the import and export of the Islamic Republic of Iran Customs Administration, which is given here, the correctness of the above statements was proved. An increase in the exchange rate causes imports has been decreased about 16% and exports has been decreased about 28.45%. This means that by an increase in the exchange rate, exports affect more than imports

Table 7: Monthly statistics of exports and imports (million dollars)

Exports			Imports			2010
Value Unit	measure Thousand tons	Value (Million Dollars)	Value Unit	measure Thousand tons	Value (Million Dollars)	
223	4274	1851	1083	2917	3160	March
396	5219	2068	1379	3798	5239	April
417	4502	1876	1280	3860	4939	May
435	4582	1996	1232	4149	5111	June
439	5312	2332	1181	4903	5791	July
420	5095	2138	1270	4195	5329	August
438	5376	2357	1563	3146	4917	September
441	5693	2513	1930	3006	5802	October
403	4991	2012	1743	3890	6782	November
434	5362	2328	1736	3403	5909	December
481	4916	2367	1472	3503	5155	January(2011)
548	4544	2489	1379	4517	6230	February(2011)
440	59868	26327	1421	45287	64364	Total Period

Table 8: Monthly statistics of exports and imports (million dollars)

Exports			Imports			2011
Value Unit	measure Thousand tons	Value (Million Dollars)	Value Unit	measure Thousand tons	Value (Million Dollars)	
452	4788	2162	1587	2395	3801	March
376	5544	2637	1730	3015	5217	April
450	6078	2734	1680	2811	4723	May
497	5496	2733	1714	2829	4849	June
491	5631	2764	1749	3010	5264	July
483	5920	2857	1507	3782	5699	August
498	5637	2809	1919	2552	4896	September
585	4412	2579	1634	3303	5333	October
618	4656	2880	1654	3071	5080	November
512	5083	2604	1403	4011	5628	December
527	5856	3088	1531	2922	4475	January(2012)
542	7328	3970	1452	4780	6941	February(2012)
509	66429	33819	1610	38379	61808	Total Period

Table 9: Monthly statistics of exports and imports (million dollars)

Exports			Imports			2012
Value Unit	measure Thousand tons	Value (Million Dollars)	Value Unit	measure Thousand tons	Value (Million Dollars)	
404	5854	2365	1203	2775	3339	March
459	5499	2521	1440	3535	5091	April

451	5019	2262	1382	3100	4286	May
474	6313	2995	1509	3178	4794	June
544	5042	2745	1376	3370	4636	July
630	5273	3324	1384	3305	4575	August
471	6477	3048	1179	4465	5265	September
431	6171	2661	1289	3554	4580	October
441	5629	2484	1363	2702	3681	November
430	5825	2503	1467	2592	3802	December
447	5677	2538	1303	3501	4561	January(2013)
436	7156	3119	1423	3404	4841	February(2013)
466	69936	32567	1354	39481	53451	Total Period

Discussion and Conclusion:

Increase in the exchange rate reduces the value of the national currency and as a result, inflation will rise. This directly affect export and import and consequently, the export and import companies. Import companies due to importing raw materials with expensive exchange rate has increased the cost of raw materials and therefore reduced profits. In addition, they also have to increase their productions price due to offset part of the. Companies Such as automakers during this increase and also due to sanctions show significant losses in their annual income and expense statements and even by increasing the car, could not benefit. Including these companies are SAIPA and IKCO. But export companies due to increasing exchange rate have increased profitability and benefit. Including these companies are export companies of iron ore, mining, copper, tile and ceramics who adjusted significant benefits in their financial statements. Higher visibility due to export statistics We understand the true import of this claim. From higher sight, based on exports and import statistics, correctness of the above statement has been proved. In the 2011 and 2012, we have increased exports and reduced imports. There is very delicate point here hidden in this relationship that the export companies will not ever profitable and gradually with rising inflation or rising raw material prices, their cost increases and therefore production costs increased, while they couldn't increase their export prices due to the loss of global markets. That is why the export ratio of 2012 to 2011 has slowed and due to inflation during this period, it is anticipated that in 2013 the decline in exports is quite tangible and more significant.

Future Works:

It is proposed that exchange rate volatility during 2010-2013 and also the relationship between increasing the exchange rate and earnings of selected export and import companies according to their annual funding statements will be studied.

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