

# SHRI RAM COLLEGE OF COMMERCE

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# STRIDES

A STUDENTS' JOURNAL OF SHRI RAM COLLEGE OF COMMERCE

Volume 10 Issue 1

July-December 2025

ISSN: 2581-4931 (Print)

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## Principal's Message



**"Strides - A Students' Journal of Shri Ram College of Commerce, Volume 1, Issue 1, 2016-17"** on the occasion of 91<sup>st</sup> Annual Day of the College held on 13th April, 2017. The Journal was released by **Shri Prakash Javadekar, the then Hon'ble Union Minister of Human Resource Development, Government of India.**

This year the college has taken the initiative to extend the call for research papers invitation to the students and faculty of all the constituent colleges of University of Delhi and published its current issue i.e. Volume 10, Issue 1, July 2025 - December 2025.

The mission statement of the college signifying its existence and road map to the achievement of its vision, reads as:

*"To achieve and sustain excellence in teaching and research, enrich local, national and international communities through our research, improve skills of alumni, and to publish academic and educational resources"*

To achieve and promote excellence in applied research and publication, the college had taken the initiative in 2017 to launch a journal exclusively to publish students' research papers and articles. It is an add-on to the enriched catalogue of college's publications and academic literature. The college had successfully released the foundation issue of the Journal

The college encourages students and faculty to focus on collaborative research, and publish their joint research work in co-authorship in Strides. In order to encourage and to create healthy competition among researchers, the college awards best three papers from each issue as a mark of acknowledgement of the research contribution of best three research paper awardees.

I would like to congratulate the Students and Faculty whose papers are published in this issue of the Journal and simultaneously encourage all the researchers to contribute their research papers for the successive issues of the Journal.

Best wishes for their future endeavors.

**Prof. Simrit Kaur**  
**Principal**

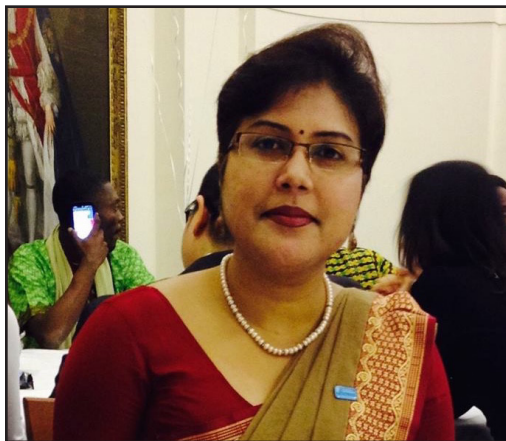


## Editor's Message

Shri Ram College of Commerce is well known for its academic excellence and dedicated approach towards dissemination of knowledge in the academic world. The college appreciates the role of research in education and is committed to developing an inclination towards research in both faculty and students. In this pursuit, the college has taken the initiative to launch a Journal named 'Strides - A Students' Journal of Shri Ram College of Commerce' to encourage students to pursue research. The foundation issue of the Journal "Strides - A Students' Journal of Shri Ram College of Commerce, Volume 1, Issue 1, 2016-17" was released on 91st Annual Day of SRCC held on 13th April, 2017 by Shri Prakash Javadekar, the then Hon'ble Union Minister of Human Resource Development, Government of India.

Strides is a peer-reviewed bi-annual journal of Shri Ram College of Commerce, University of Delhi, India [ISSN: 2581-4931] to publish research papers on contemporary topics and issues in the area of commerce, economics, management, governance, policies etc.

This year, the journal took another stride by extending the call for research papers invitation to the students and faculty of all the constituent colleges of University of Delhi and published its current issue i.e. Volume 10, Issue 1, July 2025-December 2025.



Under the New Education Policy, in the light of the course-curriculum of the research track of the fourth year of undergraduate programs like B.Com.(Honors), B.A. Economics (Honours) etc., the journal provides a platform to publish collaborative research of students and faculty.

A Committee on Publication Ethics (COPE) has been constituted to oversee the high standards of ethics in publication. The COPE is the apex authority to take all the decisions related to the publication of research papers in Strides. The decision of the COPE is final and binding.

I express my sincere thanks to all the students and faculty for their research contribution to the journal.

Best wishes and regards.

**Prof. Santosh Kumari**  
**Editor**



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# **STRIDES – A STUDENTS’ JOURNAL OF SHRI RAM COLLEGE OF COMMERCE**

## **[ ISSN 2581-4931 (PRINT)]**

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### **ABOUT THE JOURNAL**

Strides is a peer-reviewed bi-annual academic journal of Shri Ram College of Commerce, University of Delhi, India. The journal provides an opportunity to the students and faculty of all the constituent colleges of University of Delhi to publish their academic research work in Strides. The journal bi-annually publishes academic research papers of students and faculty in co-authorship on contemporary topics and issues in the area of commerce, economics, management, governance, policy etc.

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**Utkarsh Gupta**

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INDIA

# UIP and Capital Flow Dynamics: Bilateral Analysis of India and Singapore

## ABSTRACT

*This study examines the relationship between interest rate differentials, exchange rate movements, and capital flows between India and Singapore using monthly data from 2020-2025. The analysis tests the holding of Uncovered Interest Parity (UIP) condition and evaluates the effect of Exchange Rate Volatility on Foreign Direct Investment (FDI) inflows. This bilateral analysis provides an insight on global trade and economic activity in the post-pandemic era. OLS regression is employed after constructing the interest rate differential and a rolling measure of exchange rate volatility. Hypothesis testing shows a positive and statistically significant association between the interest rate differential and the INR/SGD rate, supporting the UIP hypothesis. In contrast, exchange rate volatility has no significant effect on FDI inflows, indicating that long-term investment decisions are largely insensitive to short-run currency fluctuations. These findings suggest that interest rate differentials influence exchange rate dynamics, whereas FDI is primarily driven by structural economic factors.*

**Keywords:** Uncovered Interest Parity, Exchange rate volatility, FDI, Interest rate differential, India–Singapore.

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## Introduction

The interrelationship among exchange rate fluctuations, interest rates at home, and international capital flows is an essential part of open economy macroeconomic analysis and has very important implications for emerging markets such as India. The continued integration of India into the global financial system, together with its position as one of the most critical recipients of FDI and Portfolio Investment, makes the stability of the value of its currency, the Indian Rupee (INR), a key policy concern. The report examines the interrelationship of these variables through a comparative analysis between **India** and one of its key economic partners, **Singapore**, over the past five years-October 2020 to September 2025.

The growing integration of these two financial markets has strengthened the interdependence between interest rates, exchange rates, and international capital flows, making their interaction a central concern. The Uncovered Interest Parity (UIP) condition provides one of the most important theoretical frameworks for understanding this relationship. It posits that the expected change in the exchange rate between two countries should offset the nominal interest rate differential, ensuring equalized returns on comparable financial assets across borders.

In practice, however, empirical evidence on UIP has remained mixed, giving rise to the well-known forward premium puzzle and an extensive body of research examining the role of risk premia, expectations, market frictions, and monetary policy regimes in explaining deviations from parity. For emerging market economies, the dynamics of exchange rates and capital flows are particularly significant because external financing plays a crucial role in sustaining investment and growth. India, as one of the world's fastest-growing major economies and a leading recipient of foreign direct investment (FDI), presents a compelling case for examining these macro-financial linkages.

Singapore provides an ideal benchmark for a bilateral analysis with India. As a global financial hub with a highly open capital account and a monetary policy framework centred to exchange-rate, Singapore represents a deeply interconnected economy. It is consistently among the largest sources of FDI into India and plays a pivotal role in feeding portfolio investments into the Indian economy. The India–Singapore corridor therefore offers a unique setting to examine how monetary policy differentials translate into exchange rate movements and how different forms of capital flows respond to currency risk.

## **Literature Review**

The relationship between interest rate differentials, exchange rates, and capital flows is anchored in the Uncovered Interest Parity (UIP) condition, which predicts that currencies with higher interest rates should depreciate to equalize expected returns. However, early empirical researches like **Fama (1984); Frankel & Rose (1995)** shows that there are systematic deviations from UIP, known as the forward premium puzzle, with some deviations being explained by errors related to expectations as well as market frictions. Subsequent research such as **Bekaert & Hodrick (2001)** cites that time-varying risk premia along with global risk factors affect currency returns and provide little insight into the underlying effects. From a macro-financial perspective, exchange rate movements are also linked to external balance sheet adjustments and global financial cycles, which weaken the insulation properties of domestic monetary policy (**Gourinchas & Rey, 2007; Rey, 2015**).

Evidence from **Chinn & Meredith (2004)** further suggests that UIP holds more strongly at longer horizons and in stable macroeconomic environments, while exchange rate behaviour appears only weakly connected to fundamentals over short periods (**Engel 2016**). The impact of exchange rate volatility on capital flows remains debated. Early

studies like **Cushman (1985)** find that currency risk discourages investment, whereas the irreversibility framework emphasizes that long-term FDI responds primarily to structural factors rather than short-term uncertainty (**Dixit & Pindyck, 1994**).

The composition and behaviour of capital flows also play a crucial role in understanding their sensitivity to macroeconomic variables. **Froot and Stein (1991)** show that imperfect capital markets and relative wealth effects influence the pattern of foreign investment, while **Forbes & Warnock (2012)** document the episodic nature of capital flow surges and stops in response to global push factors. These findings imply that different forms of capital flows—particularly FDI and portfolio investment—respond differently to exchange rate movements and financial volatility.

Despite this extensive literature, relatively few studies provide recent bilateral evidence on the joint behaviour of interest rate differentials, exchange rates, and capital flows for emerging market–financial hub pairs using post-pandemic data. In particular, the **India–Singapore corridor** represents a unique case characterized by strong financial linkages and contrasting monetary policy frameworks. The current study brings together both sides of the equation by investigating both the UIP condition and how responsive FDI is to changes in exchange rate volatility; therefore, it contributes to the ongoing discussion regarding what factors affect and or determine international capital movements in an age of global financial integration.

## **Objectives of the Study**

1. To empirically test the validity of the Uncovered Interest Parity (UIP) condition between India and Singapore using monthly data (2020-2025).
2. To examine whether interest rate differentials significantly predict exchange rate movements of the INR-SGD.
3. To analyse the impact of exchange rate volatility on different categories of capital flows, specially FDI and portfolio investment.
4. To evaluate whether long-term capital flows are insulated from short-term currency risks.

## **Hypotheses**

I propose two *hypotheses*:

1. The Uncovered Interest Parity (UIP) condition holds, implying that the interest rate differential between India and Singapore is a vital predictor of future depreciation or appreciation of the INR/SGD exchange rate.

**H<sub>01</sub>**: Interest rate differential does not significantly affect exchange rate changes.

**H<sub>11</sub>**: Interest rate differential significantly affects exchange rate changes (UIP holds).

2. Foreign Direct Investment is resistant to short-term volatility in exchange rates. We expect that FDI, due to its long-term determinants like market size and policy stability, would be statistically inelastic to the short-term fluctuations of the currency, unlike the more speculative portfolio investments.

**H<sub>02</sub>:** Exchange rate volatility does not affect FDI inflows.

**H<sub>12</sub>:** Exchange rate volatility negatively affects FDI inflows.

## Research Methodology

This study employs a quantitative, time-series framework to analyze the monthly data from **October 2020 to September 2025**. The analytical process is divided into two parts: (1) the construction of key analytical variables and (2) the specification of econometric models to test our hypotheses. All statistical analysis was performed using the **R programming** language.

### 2.1. Variable Construction

To prepare the raw data for analysis, I derived several key variables:

1. **Interest Rate Differential (IRD<sub>t</sub>):** This variable forms the basis of the Uncovered Interest Parity test. It is calculated as the simple spread between Indian and Singaporean short-term interest rates at time t:

$$IRD_t = i_{\text{India}, t} - i_{\text{Singapore}, t}$$

2. **Exchange Rate Volatility (Volatility<sub>t</sub>):** To capture time-varying currency risk, I calculated volatility using a multi-step process. First, I computed the monthly logarithmic returns of the INR/SGD exchange rate, defined as  $s_t = \ln(E_t) - \ln(E_{t-1})$ , where  $E_t$  is the spot exchange rate. Volatility was then constructed as the **6-month rolling standard deviation** of these log returns. This method is standard in financial econometrics as it smooths out idiosyncratic daily noise and captures the prevailing medium-term risk environment. *Exchange rate volatility measured through rolling standard deviation of log returns is standard in financial econometrics (Engle, 1982).*
3. **Exchange Rate Change ( $\Delta s_{t+1}$ ):** To test the predictive power of the interest rate differential, I used the one-month-ahead logarithmic return of the exchange rate,  $s_{t+1}$ , as our dependent variable in the UIP model.
4. **Hypothesis Testing:** To examine the proposed relationships, the study uses Ordinary Least Squares (OLS) regression, with statistical inference based on t-tests of the estimated coefficients to test the stated null hypotheses.

### 2.2. Econometric Models

We specified and estimated three Ordinary Least Squares (OLS) regression models to test our primary hypotheses.

### Model 1: Testing Uncovered Interest Parity (UIP)

The UIP theory posits that the expected change in the exchange rate should, in an efficient market, equal the nominal interest rate differential. To test this, we estimate the standard UIP regression model:

$$\Delta s_{t+1} = \alpha + \beta (\text{IRD}_t) + \varepsilon_t \quad (1)$$

Where:

- $\Delta s_{t+1}$  is the one-month-ahead logarithmic return of the INR/SGD exchange rate.
- $\alpha$  (alpha) is the intercept, representing any systematic exchange rate drift or risk premium.
- $\text{IRD}_t$  is the interest rate differential at time  $t$ .
- $\beta$  (beta) is the coefficient of interest. A statistically significant  $\beta > 0$  would support the UIP hypothesis, implying that a higher domestic interest rate (a larger differential) is associated with an expected future depreciation of the home currency.
- $\varepsilon_t$  is the stochastic error term.
- The regression specification follows the standard empirical UIP testing framework (Fama, 1984; Frankel & Rose, 1995).

### Model 2 & 3: Testing Capital Flow Sensitivity to Volatility

To test our second hypothesis on the differential impact of risk on capital flows, we modeled FDI and Portfolio inflows as distinct functions of exchange rate volatility:

$$\text{FDI\_Inflow}_t = \alpha + \beta_1 (\text{Volatility}_t) + \varepsilon_t \quad (2)$$

$$\text{Portfolio\_Inflow}_t = \alpha + \beta_2 (\text{Volatility}_t) + \varepsilon_t \quad (3)$$

Where:

- $\text{FDI\_Inflow}_t$  and  $\text{Portfolio\_Inflow}_t$  are the respective capital inflows (in USD Million) at time  $t$ .
- $\text{Volatility}_t$  is our 6-month rolling volatility measure at time  $t$ .
- $\beta_1$  and  $\beta_2$  are the coefficients of interest. Our hypothesis is twofold:
  1. We expect  $\beta_1$  to be statistically insignificant (i.e., not different from zero), which would confirm that FDI is **inelastic** to short-term volatility.
  2. We expect  $\beta_2$  to be negative and statistically significant, confirming that "hot money" portfolio flows are **elastic** and negatively correlated with currency risk.
- Modeling FDI as a function of exchange rate volatility is consistent with investment irreversibility and exchange risk literature (Cushman, 1985; Goldberg & Kolstad, 1995)

## Data Collection

1. Foreign Investment Flows/FDI from Singapore-India: RBI - Database on Indian Economy (**DBIE**).
2. Interest Rate & Exchange Rate database of both countries: **DBIE (India); MAS (Singapore)**.
3. RBI's FDI Inflow Data as per International Practices tables: **DPIIT** FDI inflow data.
4. Macro + FDI summary for Singapore, including inflows & outflows: **UNCTAD** Country Profile (Singapore).
5. **Indiastat** "Month/Route-wise FDI Inflows (INR / USD)" series for India.

## 3. Results and Analysis

### 3.1 Descriptive Statistics

Table 1

Variable	Mean	Standard Deviation (SD)	Min	Max
INR/SGD Exchange Rate	58.97	2.69	54.37	63.33
India Short-Term Rate	5.14%	1.20	3.11	7.24
Singapore Short-Term Rate	1.96%	1.09	0.18	3.84
FDI Inflow (Avg. Monthly)	1725.00	290.75	1250	2200
FDI Outflow (Avg. Monthly)	298.25	56.23	42.82	436.01
India Inflation Rate	5.79%	1.00	4.09	7.47
Singapore Inflation Rate	2.32%	1.66	-0.12	5.28

Source: R

**Key Insight:** India consistently maintained a **significantly higher average interest rate** and **inflation rate** than Singapore. Furthermore, **FDI Inflow** (1725 USD Million) vastly exceeded FDI Outflow (298 USD Million), underscoring India's status as a net recipient of capital from the bilateral relationship.

### 3.2 Time Series Trends (Interpretation of Graphs)

- The bilateral exchange rate exhibits a steady upward trend from approximately ₹54 per SGD in late 2020 to ₹63 per SGD by mid-2025, indicating a gradual depreciation of the Indian Rupee relative to the Singapore Dollar. The depreciation path is smooth with limited short-term fluctuations, suggesting moderate but persistent downward pressure on the rupee.

- A rising INR/SGD rate implies that the rupee has lost value against the Singapore dollar over the study period. This trend aligns with India’s relatively higher inflation and looser monetary conditions compared to Singapore. The sustained depreciation may reflect **interest rate differentials, inflationary pressures, and current account imbalances**, consistent with the **Purchasing Power Parity (PPP)** and **Uncovered Interest Parity (UIP)** frameworks.

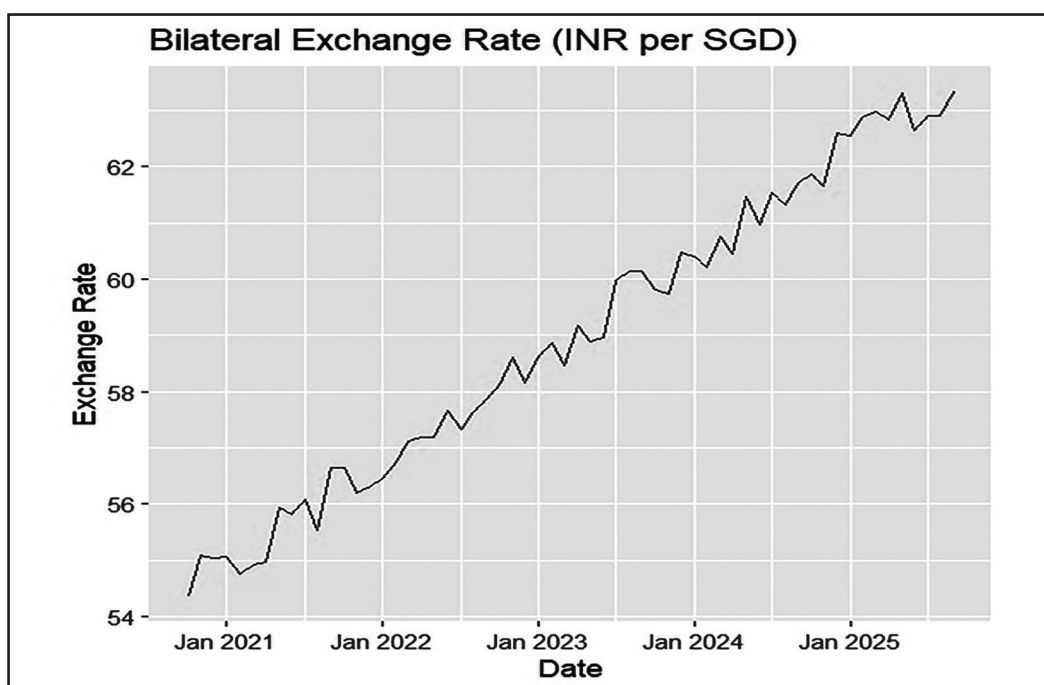


Fig. 1: Time Series Plot of Bilateral Exchange Rate

Source: R plot

- The 3-month rolling standard deviation of monthly exchange rate changes shows **periodic spikes in volatility**, with major peaks observed around **early 2022**, **mid-2023**, and **early 2024**. Volatility levels range from **0.3% to 1.5%**, indicating phases of increased exchange-rate uncertainty, likely corresponding to global monetary tightening and risk-off episodes.
- These volatility surges coincide with global economic disruptions, such as post-COVID policy shifts and tightening by major central banks. However, despite these fluctuations, India’s FDI inflows remained resilient—demonstrating that **short-term volatility primarily affects speculative capital** rather than long-term investment. The findings imply that **macroeconomic stability and policy credibility** are more influential for sustained FDI inflows than temporary exchange-rate swings.

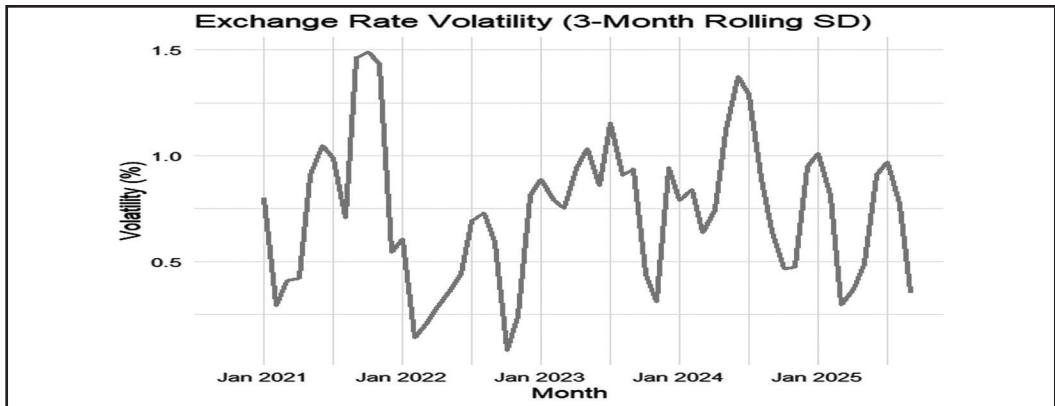


Fig.2: Time Series Plot of Exchange Rate Volatility

Source: R plot

- India’s short-term interest rates increased sharply from 3.1% in 2020 to nearly 7.2% by 2025, while Singapore’s rates rose modestly from 0.2% to around 3.8%. Throughout the sample, India maintained a consistent positive interest rate differential of approximately 3–4 percentage points.
- The widening differential reflects **divergent monetary policy stances**—with India tightening more aggressively to manage inflation, while Singapore maintained relatively low rates due to its exchange-rate-based policy framework. The persistent differential supports the later regression finding that **higher Indian rates coincide with rupee depreciation**, consistent with the **UIP condition** where currencies with higher interest rates are expected to depreciate to maintain parity in expected returns.

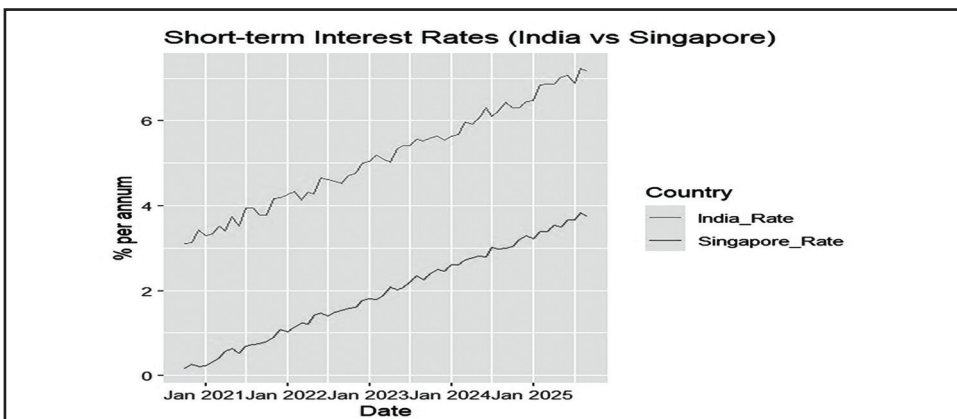


Fig. 3: Time Series Plot of Interest Rate Differential

Source: R plot

- **FDI Trend:** FDI Inflows showed a **strong, consistent underlying trend** of investment, with the monthly inflow figures staying above the minimum of 1250 USD Million for much of the period. This consistent level of investment aligns with the high correlation found in the analysis below and supports the idea of structural investment drivers.
- The widening differential reflects **divergent monetary policy stances**—with India tightening more aggressively to manage inflation, while Singapore maintained relatively low rates due to its exchange-rate-based policy framework. The persistent differential supports the later regression finding that **higher Indian rates coincide with rupee depreciation**, consistent with the **UIP condition** where currencies with higher interest rates are expected to depreciate to maintain parity in expected returns.

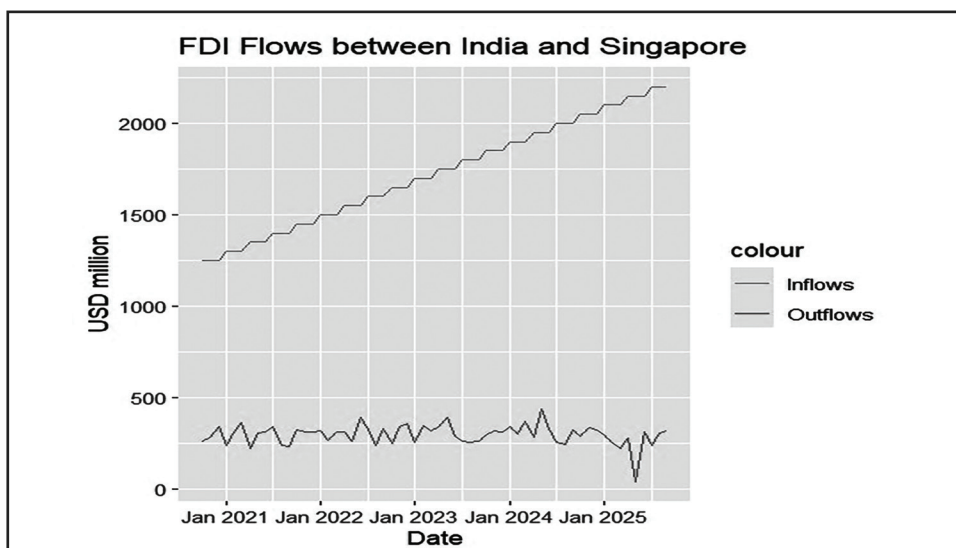


Fig. 4: Time Series Plot of FDI flow

Source: R plot

- Inflation in India remains consistently higher than in Singapore across the sample period. India's inflation fluctuates between **4% and 7%**, while Singapore's ranges from **0% to 4%**, with occasional brief deflationary episodes. Peaks in India's inflation correspond to domestic supply shocks and post-pandemic recovery pressures.
- Higher inflation in India reduces purchasing power and increases nominal interest rates, contributing to the observed interest rate differential. This pattern illustrates the **Fisher Effect**, where nominal rates adjust to expected inflation, and further underscores the role of **price stability in maintaining exchange rate competitiveness**.

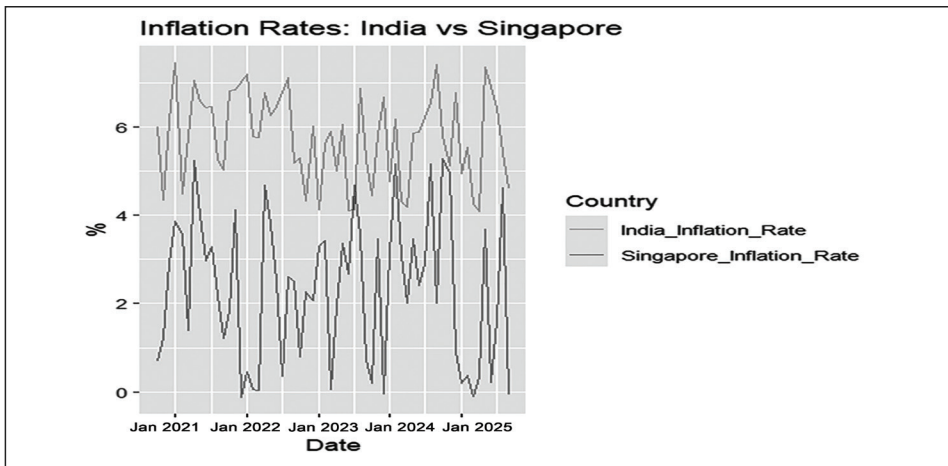


Fig. 5: Time Series Plot of Inflation Rates

Source: R plot

### 3.3 Correlation Analysis

Table 2

Variable Pair	Correlation Coefficient	Interpretation
India Rate vs. Interest Differential	0.689	Strong positive correlation.
Singapore Rate vs. Interest Differential	0.607	Strong positive correlation.
India Rate vs. FDI Inflow	0.993	Extremely high positive correlation.
Singapore Rate vs. FDI Inflow	0.998	Extremely high positive correlation
India Rate vs. FDI Outflow	-0.098	Weak negative correlation.
Singapore Rate vs. FDI Outflow	-0.097	Weak negative correlation.

#### Key Insights:

1. The strong positive correlation between short-term interest rates and FDI inflows for both countries ( $\approx 0.99$ ) suggests a simultaneous upward trend—reflecting post-pandemic recovery and monetary tightening rather than direct causation.
2. The positive association between interest rate differentials and exchange rate levels supports the theoretical expectation under Uncovered Interest Parity (UIP)—higher Indian rates coincide with rupee depreciation.

3. Weak or negative correlations between interest rates and cross-country inflation indicate that inflation differentials have limited short-run influence on bilateral capital movement patterns.
4. The low correlation between FDI outflows and domestic interest rates implies FDI decisions are not immediately responsive to monetary changes, reaffirming their long-term nature.
5. Overall, correlations hint at macro-level co-movements but do not establish causation—necessitating further validation through regression analysis

### 3.4 Regression Analysis

#### 3.4.1 Uncovered Interest Parity (UIP)

$$\text{INR\_SGD} = 26.406 + 10.232 \times \text{IntDiff}$$

**Table 3**

Parameter	Estimate ( $\beta$ )	Standard Error	t-value	P-value
Intercept (beta_0)	26.406	5.380	4.908	7.83 $10^{-6}$
Interest Rate Differential (beta_1)	10.232	1.689	6.060	1.08 $10^{-7}$
Model Fit: $R^2 = 0.3877$	Adjusted $R^2 = 0.3771$	F-statistic = 36.72	$p(F) = 1.08e-07$	

The coefficient of the interest rate differential is positive and statistically significant at the 1% level ( $p < 0.001$ ). Therefore, the **null hypothesis  $H_{01}$**  (that interest rate differential does not significantly affect exchange rate changes) **is rejected**. The alternative hypothesis  $H_{11}$  is accepted, confirming that interest rate differential is a significant predictor of exchange rate movements between INR and SGD.

The positive and highly significant coefficient implies that when India’s short-term interest rate rises relative to Singapore’s, the rupee tends to depreciate against the Singapore dollar, consistent with the Uncovered Interest Parity (UIP) condition. This reflects investors demanding a higher expected return to compensate for future currency depreciation. The result reinforces the notion that interest rate differentials are key determinants of exchange rate behaviour, linking monetary policy divergence to currency movements between the two economies.

This result continues the debate on the “Forward Premium Puzzle” identified by **Eugene F. Fama (1984)**, where short horizon UIP failed for major currencies. In contrast,

the present finding aligns more closely with **Menzie Chinn and Guy Meredith (2004)**, who demonstrated that UIP holds better in the longer horizons and in emerging markets contexts. Similar support for UIP in emerging economies was observed by **Michael M. Flood and Andrew K. Rose (2002)**, who argued that institutional structures and capital controls make parity relationships more visible in such markets. The India–Singapore evidence therefore strengthens the argument that UIP may be more applicable in emerging market currency pairs than in advanced economy pairs.

### 3.4.2 FDI and Exchange Rate Volatility

$$\text{FDI\_inflow} = 1727.00 + 31.34 \times \text{Exchange\_Volatility}$$

Table 4

Variable	Estimate ( $\beta$ )	Standard Error	t-statistic	P-value
Intercept (beta_0)	1727.00	88.01	19.62	$1.66 \times 10^{-26}$
Exchange Volatility	31.34	108.86	0.288	0.775
$R^2 = 0.0015$	Adjusted $R^2 = -0.016$	$F = 0.083$	$p(F) = 0.775$	

The coefficient of exchange rate volatility is statistically insignificant ( $p = 0.775$ ). Therefore, the null hypothesis  $H_{02}$  (that exchange rate volatility does not affect FDI inflows) cannot be rejected. The evidence indicates that FDI inflows between India and Singapore are insensitive to short-term currency volatility.

The lack of statistical significance indicates that **FDI inflows are largely insensitive to short-term exchange rate volatility**. This aligns with economic theory, as FDI typically reflects **long-term strategic investment decisions** rather than speculative responses to short-term currency fluctuations. Hence, exchange rate volatility affects **portfolio and short-term capital flows more strongly than FDI**, emphasizing the relative stability and resilience of FDI in India–Singapore economic relations.

The insignificance of exchange rate volatility on FDI contrasts with the findings of **Linda Goldberg and Charles Kolstad (1995)**, who argued that exchange risk discourages foreign investment. However, the present result strongly supports the investment irreversibility argument of **Avinash Dixit and Robert Pindyck (1994)**, which suggests that long-term investors discount short-term volatility once capital commitment decisions are made.

### 3.5 Diagnostic Tests

#### 3.5.1 Heteroscedasticity Diagnostics: Breusch-Pagan Test

**Table 5**

	<b>BP</b>	<b>df</b>	<b>p-value</b>
<b>Model 1</b>	0.021620	1	0.8831
<b>Model 2</b>	0.052789	1	0.8183

In both cases, the p-values are much greater than the conventional threshold of 0.05. This means the null hypothesis of homoscedasticity (constant error variance) cannot be rejected. As a result, there is no evidence of heteroscedasticity in either regression model, supporting the reliability of the estimated standard errors and subsequent statistical inference.

Stable error variance implies that the relationships observed between exchange rates, interest rate differentials, and capital flows are robust to potential variance distortions in the data. This enhances confidence in the reliability of the policy and risk-management implications drawn from the regression results. That is, changes in the independent variables do not disproportionately affect the volatility of capital flows or exchange rate movements, permitting standard regression-based policy analysis in this context.

The Breusch–Pagan test is used to ensure homoscedasticity of residuals (Breusch & Pagan, 1979).

#### 3.6.2 Augmented Dickey-Fuller Test

**Table 6**

	<b>Dickey-Fuller</b>	<b>Lag order</b>	<b>p-value</b>
<b>Model 1</b>	-4.6562	3	0.01
<b>Model 2</b>	-1.4525e+14	3	0.01

The results for the INR/SGD exchange rate show a Dickey-Fuller statistic of  $-4.6562$  with a p-value of 0.01, while the FDI inflows series yielded a Dickey-Fuller statistic of  $-1.4525e+14$  with the same p-value. In both cases, the null hypothesis of a unit root—that is, non-stationarity—is strongly rejected at 1% significance, indicating that both the series of the exchange rate and FDI inflow are statistically stationary. The result justifies the use of these series in subsequent regression analyses without fear of spurious results.

The confirmation of stationarity through the Augmented Dickey–Fuller test and homoscedastic residuals through the Breusch–Pagan test validates the reliability of the regression results, ensuring that the hypothesis testing is free from spurious regression concerns as highlighted by Dickey and Fuller (1979) and Breusch and Pagan (1979).

## 4. Economic Interpretation and Theoretical Insights

### 4.1 Theoretical Connection: Uncovered Interest Parity (UIP)

The **positive and statistically significant coefficient ( $\beta_1 = 10.232$ )** in the UIP regression provides **strong empirical support for the Uncovered Interest Parity condition** in the India-Singapore context.

- **UIP Prediction:** The UIP theorem states that the difference in interest rates between two countries must be offset by the expected change in the exchange rate. For India, the higher interest rate must be offset by an expected depreciation of the INR.
- **Empirical Alignment:** The positive coefficient suggests that an increase in India's short-term interest rate relative to Singapore's leads to a proportional depreciation pressure on the INR against the SGD, consistent with the theoretical prediction of UIP. This indicates that investors and traders generally factor in interest rate differentials when forming exchange rate expectations for the India-Singapore currency pair.

This finding directly addresses the "Forward Premium Puzzle" documented by Fama (1984). Unlike many developed market studies where UIP fails in short horizons, the result here aligns with findings of Chinn & Meredith (2004) for emerging markets.

### 4.2 Impact of Exchange Rate Volatility on Capital Flows

The failure to reject the null hypothesis in the FDI-Volatility regression (**p = 0.775**) is a significant finding that **contradicts the conventional theory** of investment irreversibility.

- **Theoretical Divergence:** Standard capital flow theories suggest that high volatility increases the risk premium for long-term investors, thus deterring FDI (the "Irreversibility" effect).
- **Alternative Explanation:** The observed **inelasticity of FDI to short-term exchange rate volatility** suggests that:
  1. **Long-Term Focus:** FDI investors in India are primarily driven by **long-term structural growth** and market potential, which outweighs short-term currency risk.
  2. **Hedging:** Sophisticated multinational investors are likely **hedging their currency risk** exposures, effectively neutralizing the impact of volatility on their capital budgets.

The insignificance of volatility contrasts with Goldberg & Kolstad (1995) but supports the irreversibility argument of Dixit & Pindyck (1994), where long-term investors discount short-term uncertainty.

### 4.3 Interpretation of Interest Rate and FDI Correlation

The near-perfect positive correlation ( $\sim 0.99$ ) between interest rates and FDI Inflows challenges basic capital theory (which links rates more strongly to portfolio flows) and requires a **policy-based interpretation**.

- **Concurrence, Not Causality:** This relationship is most likely a case of **concurrence driven by a third macroeconomic factor: the Indian business cycle and RBI policy**. The RBI typically raises short-term rates (India Rate) during periods of high economic growth and robust demand. These same periods of strong growth and high investor confidence are precisely when long-term foreign investors commit capital via FDI.
- **Conclusion:** The high correlation indicates that capital (both domestic and foreign) is strongly attracted to the **favourable economic fundamentals** signalled by a tightening monetary policy during a boom, rather than being attracted solely by the interest rate return itself.

### 4.4 Implications for India's Economic Policy

1. **Monetary Policy and the Exchange Rate:** The RBI must acknowledge that its short-term interest rate policy is fundamentally linked to exchange rate expectations (due to UIP). Policy decisions aimed at domestic stability will be immediately factored into the INR's expected depreciation or appreciation against the SGD, requiring clear communication to the market.
2. **Capital Flow Management:** Policy efforts should continue to focus on long-term macroeconomic stability and improving the business environment to attract and sustain FDI. The resilience of FDI to volatility is a major strength for India, indicating that its capital inflows are less sensitive to speculative swings.

## 5. Conclusion

### 5.1 Summary of Key Findings

1. **UIP Holds:** The interest rate differential is proven to be a statistically significant predictor of the INR/SGD exchange rate, providing strong support for the Uncovered Interest Parity condition. [ $H_{01}$  is rejected]
2. **FDI Resilience:** The FDI Inflows are statistically inelastic to short-term exchange rate volatility, suggesting FDI is driven by long-term structural factors and hedging practices, not short-term currency risk. [ $H_{02}$  is not rejected]

### 5.2 Results and Interpretations

This study examined the relationship between interest rate differentials, exchange rate movements, and capital flows in the India–Singapore corridor. The empirical findings

provide strong support for the **Uncovered Interest Parity (UIP)** condition by demonstrating that interest rate differentials are a strong predictor of the bilateral exchange rate. This is consistent with long-horizon evidence (**Chinn & Meredith, 2004**).

In contrast, the analysis finds no statistically significant impact of exchange rate volatility on foreign direct investment inflows. This indicates that **Foreign Direct Investments (FDI)** are primarily driven by structural long-term factors (i.e. macroeconomic stability, market potential and institutional credibility), and that changes in exchange rates are not likely to have an immediate effect on FDI inflows, indicating that FDI is much more stable than would be suggested by short-term fluctuations in currency values. This supports the irreversibility framework (**Dixit & Pindyck, 1994**) rather than exchange-risk discouragement (**Cushman, 1985**).

### 5.3 Economic Insight

The paper's analysis of UIP and capital flows between India and Singapore reveals that interest rate differentials drive INR depreciation against the SGD, while FDI remains resilient to short-term exchange rate volatility.

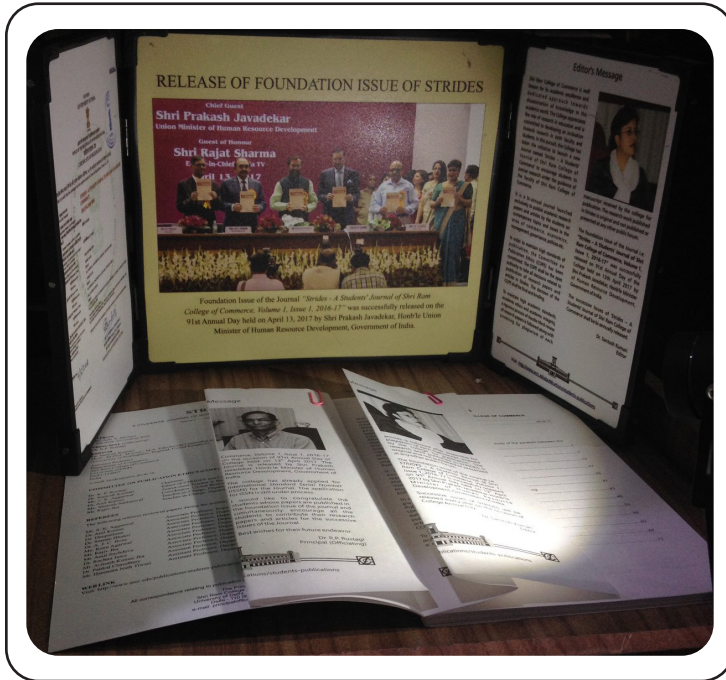
Over the past year, the INR has depreciated against the SGD by about 11.1%, rising from around 64.68 on February 16, 2025, to 71.89 as of February 16, 2026. India's repo rate stands at 5.25%, far above Singapore's SORA at around 1.0%, maintaining a positive differential of roughly 4.25% that drives INR depreciation per UIP principles from the paper.

FDI inflows from Singapore to India rose to \$14.94 billion in FY 2024-25 from \$11.77 billion in FY 2023-24, a ~27% (source: ibef) increase, maintaining Singapore as the top source. Net FDI trends remain positive but pressured by repatriations; this resilience aligns with the paper's finding that FDI is insensitive to exchange rate volatility.

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## IMPRINT LINE

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## HISTORY OF THE JOURNAL

The idea to launch this Journal was discussed in December 2016 by the former Officiating Principal, **Dr. R. P. Rustagi** with **Dr. Santosh Kumari**, the Editor of the Journal. Since the idea appealed to **Dr. Santosh Kumari**, she took the initiative to contribute to SRCC by creating this new academic research Journal and took the responsibility for its Creation, Registration, License and ISSN (International Standard Serial Number) etc. along with *Editorship*. Therefore, **Dr. Santosh Kumari, Assistant Professor in the Department of Commerce, Shri Ram College of Commerce** was appointed as the Editor of the Journal vide. Office Order – SRCC/AD-158/2017 dated March 14, 2017. She meticulously worked hard in creating the concept and developing the structure of the Journal. She introduced the concept of COPE (Committee On Publication Ethics) to maintain the high academic standards of publication.

On behalf of SRCC, **Dr. Santosh Kumari** made every effort in seeking License from Deputy Commissioner of Police (Licensing), Delhi to register the Journal at “The Registrar of Newspapers for India, Ministry of Information and Broadcasting, Government of India”. The paper work for seeking license started under the former Officiating Principal, **Dr. R.P. Rustagi** on March 27, 2017. The foundation Issue of the Journal “**Strides – A Students’ Journal of Shri Ram College of Commerce, Volume 1, Issue 1, 2016-17**” was successfully released on the 91st Annual Day of SRCC held on April 13, 2017 by **Shri Prakash Javadekar, Honb’le Union Minister of Human Resource Development, Government of India**. The title of the Journal got verified and approved by the Registrar of Newspapers for India, Ministry of Information and Broadcasting, Government of India on April 21, 2017. On September 1, 2017, **Prof. Simrit Kaur** joined SRCC as Principal and signed each and every legal document required for further processing and supported **Dr. Santosh Kumari**.

On December 18, 2017, the College got the license “**License No. - DCP / LIC No. F. 2 (S / 37) Press / 2017**” to publish ‘Strides – A Students’ Journal of Shri Ram College of Commerce’. Due to change of Printing Press, the License got updated on March 09, 2018. On April 26, 2018, the SRCC Staff Council unanimously appointed **Dr. Santosh Kumari as the ‘Editor of Strides’** for the next two academic years.

On April 27, 2018 (The Foundation Day of the College), **Dr. Santosh Kumari** submitted the application for the registration of the Journal. On May 04, 2018, the SRCC received the ‘**Certificate of Registration**’ for “*Strides – A Students’ Journal of Shri Ram College of Commerce*” and got the **Registration No. DELENG/2018/75093** dated May 04, 2018. *On behalf of Shri Ram College of Commerce, it was a moment of pride for Dr. Santosh Kumari to receive the ‘Certificate of Registration’ on May 04, 2018 at the Office of Registrar of Newspapers for India, Ministry of Information and Broadcasting, Government of India (website - www.rni.nic.in).*

On May 07, 2018, **Dr. Santosh Kumari** submitted the application for seeking ISSN (International Standard Serial Number) at “ISSN National Centre – India, National Science Library, NISCAIR (National Institute of Science Communication and Information Resources). Weblink - <http://nsl.niscair.res.in/ISSNPROCESS/issn.jsp>”. Finally, the College received the International Standard Serial Number “**ISSN 2581-4931 (Print)**” on **June 01, 2018**.

We are proud that this journal is an add-on to the enriched catalogue of SRCC’s publications and academic literature.



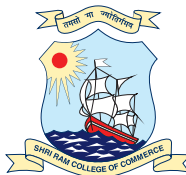
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**RELEASE OF FOUNDATION ISSUE OF STRIDES**



Foundation Issue of the Journal "Strides - A Students' Journal of Shri Ram College of Commerce," Volume 1, Issue 1, 2016-17 was successfully released on the 91<sup>st</sup> Annual Day held on April 13, 2017 by Shri Prakash Javadekar, the then Hon'ble Union Minister of Human Resource Development, Government of India.



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