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Interconnection of Green Finance, Exchange Rate Fluctuations, and Equity Performance in India

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Abstract: The connection of green equity and exchange rates sheds light on the changing picture of global finance, which is characterized by the growing interconnection between sustainability and economic fundamentals. In a global economy that is undergoing transition, it is essential for investors, policymakers, and financial institutions to have a substantial understanding of this relationship to effectively manage risk and capitalize on opportunities. In this respect, this study focuses on the impact of exchange rate on green equities in Indian stock market considering Auto Regressive Distributed Lag (ARDL) model. Data were collected monthly from the Indian stock market and exchange rates from 2018 to 2024. The stock has been considered as green stock or equity. The study finds an appreciation in Indian rupees apprehends the valuation of green equities in India. Also, it is proved that currency appreciation is essential in long run for a smooth transition in green finance for Indian economy. Result shows there is cointegration between exchange rate and green equities and led to analyse the short run associations. It is proved that short run disequilibrium gets adjusted by 94 percent while moving towards long run stability. There is a growing emphasis on the necessity of green equity research. Thus, this study finds out the relevance of analyzing the interconnection between green stocks and exchange rate to fruitfully recommend the appreciation of Indian currency for the viability of green finance in India. The policy recommendation of the study focuses on the partnership between SEBI and RBI to foster green equity and related indices for performance monitoring with the background of pegged exchange rate. This has the potential to act as a benchmark for regular investors as well as institutional investors, thus, increasing market participation in Indian economy.

Keywords: Sustainable Finance, Green Equity, Exchange Rate, Emerging Economies, India, ARDL

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