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Financial Resilience in Commerce: Managing Inflation, Currency Volatility, and Liquidity Risk

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Abstract

Financial resilience has become a strategic imperative for commerce in an increasingly volatile, uncertain, complex, and ambiguous (VUCA) global environment. Inflationary pressures, persistent currency fluctuations, and heightened liquidity risks challenge the stability and competitiveness of firms across sectors. This research paper examines the interplay between these financial risks and the mechanisms through which commercial enterprises can anticipate, mitigate, and adapt to them. The study synthesizes contemporary literature, economic theory, and industry cases to propose a comprehensive resilience framework rooted in risk forecasting, operational agility, and strategic hedging. This paper explores various financial risk management strategies, assessing their effectiveness in a globalized economy. By analysing recent literature and real-world case studies, the study highlights emerging trends, regulatory challenges, and innovative approaches to risk mitigation.

Keywords; Financial Resilience, Commerce, VUCA, Inflation, Currency Volatility, Liquidity Risk, Risk Mitigation

INTRODUCTION

Financial resilience in commerce pertains to the ability of firms and markets to absorb, adapt, and recover from financial shocks such as inflation surges, currency volatility, and liquidity constraints. India, as an emerging economy, has faced heightened volatility between 2020 and 2025 due to global disruptions including the COVID-19 pandemic aftermath, geopolitical stresses, and shifting monetary policies worldwide.

Inflation impacts input costs and consumer demand, currency fluctuations affect international trade and profitability, while liquidity risk concerns the availability of adequate financing to sustain operations. This paper analyzes secondary data trends to assess how Indian commerce has managed these challenges and what mechanisms enhance financial resilience.

RESEARCH OBJECTIVES

- To define financial resilience in the context of commerce.
- To analyse the impact of inflation, currency fluctuations, and liquidity risk on businesses during and after COVID-19.
- To review interventions and support measures that increased resilience.
- To provide a comparative analysis using secondary data from different economies.

LITERATURE REVIEW

Extensive literature indicates that inflation and currency volatility significantly affect firm- level financial stability. Dornbusch and Fischer (2000) described exchange rate volatility's adverse effects on emerging market firms, recommending monetary policy

tools to mitigate risk. Ghosh (2003) emphasized inflation's role in elevating production costs and highlighted financial hedging as a risk management strategy. More recent studies on Indian firms, such as the case of Gabriel India Limited (2025), demonstrate currency fluctuations, particularly USD/INR rates, substantially impact revenues and exports, while inflation showed limited direct impact on profitability, suggesting relative resilience to inflation but sensitivity to currency risk. Liquidity management in India has also been critical. Padha (2024) analyzed global liquidity shocks' effects, showing that despite robust financial systems, domestic markets face volatility from international liquidity movements, emphasizing the Reserve Bank of India's (RBI) role in stabilizing liquidity through monetary operations.

METHODOLOGY

This research is a secondary data analysis using government reports, financial market data, and academic studies published between 2020 and 2025 on inflation, exchange rates (USD/INR), liquidity indicators, and commercial financial performance in India

Data sources include:

- a) Reserve Bank of India reports on monetary policy and liquidity
- b) Industry financial reports and export-import statistics.
- c) Academic papers and case studies on inflation and currency risk impacts on Indian firms

Analytical methods entail descriptive statistics to observe trends, correlation analysis to understand relationships between inflation, currency fluctuations, and liquidity measures, and qualitative synthesis from literature.

DATA ANALYSIS AND KEY FINDINGS

Economic Growth and Financial Resilience Context

India's economy demonstrated robust growth during 2020-2025, with GDP growth rates around 6.7% to 7.8% in fiscal years 2024 and 2025. This growth resilience was underpinned by structural reforms, strong domestic demand, digital readiness of MSMEs, and policy support from the government and RBI.

Inflation Analysis

- Inflation rates averaged between 5% and 7% annually, with variability stemming from supply chain disruptions, commodity prices, and global inflationary pressures.
- RBI actively managed inflation through monetary policy interventions, including changing repo rates

and liquidity adjustments, aiming to maintain inflation near the 4% target range.

- Firms demonstrated adaptive strategies such as cost-pass-through pricing and sourcing adjustments to mitigate inflation impacts on margins

Currency Fluctuations Impact

- The USD/INR exchange rate fluctuated significantly, ranging roughly from 70 to 83 INR per USD, reflecting global market volatility, geopolitical tensions, and monetary tightening abroad.
- Export-oriented firms and sectors experienced pronounced impacts as currency depreciation improved competitiveness but increased input costs for imported raw materials.
- Hedging and financial management strategies became critical tools for managing currency risk, especially for MSMEs engaged in international trade.

Liquidity Risk and Financial System Stability

- The Indian financial system showed robustness with adequate capital buffers in banks and non-banking financial institutions (NBFIs), enabling sustained lending during shocks.
- RBI's liquidity management tools, including variable rate reverse repo and fine-tuning operations, helped mitigate market liquidity shocks caused by global financial tightening.
- Credit expansion and improved access to formal finance, also facilitated by digital financial inclusion, helped commerce maintain operational liquidity.

MSME Sector Resilience

- MSMEs integrated with e-commerce platforms showed better resilience through improved access to finance, international markets, and digital payment systems.
- Financial constraints eased for firms leveraging digital ecosystems, enabling more stable cash flows and growth prospects.
- Sector-wise analysis indicated certain sectors like textiles and garments faced higher vulnerabilities due to external shocks and credit constraints, highlighting the need for targeted policy support.

Key Findings

- Financial resilience in Indian commerce is strongly influenced by macroeconomic policy stability and digital financial infrastructure.

- Inflation management by RBI through monetary policy has been effective in limiting adverse effects on commercial margins.
- Exchange rate volatility remains the most significant risk for firms engaged in international trade; hedging and risk management strategies are vital in mitigating these risks.
- Robust liquidity management mechanisms and expanding formal credit access have preserved the operational viability of firms during periods of stress.
- E-commerce and digital financial inclusion have emerged as pivotal factors in enhancing MSMEs' financial resilience and market reach.
- Sector-specific vulnerabilities call for targeted interventions focusing on credit availability, export diversification, and supply chain strengthening.

Currency Fluctuations and Commerce

The USD/INR exchange rate experienced significant fluctuations between 70 and 83 INR per USD during 2020-2025. These fluctuations influenced export revenues and import costs directly. Empirical data from case studies like Gabriel India Limited found an 86% explanatory power of exchange rates on revenue variation, showing high sensitivity.

Export-driven sectors benefited during INR depreciation but faced input cost pressures from imported raw materials. Currency risk management through hedging instruments like forward contracts became critical for financial stability.

Liquidity Risk and Financial System Stability

Global liquidity shocks affected India's financial markets via capital flow reversals and market volatility. The RBI responded with variable rate reverse repo operations, fine-tuning liquidity conditions to avoid market dislocations. The 2023-24 economic survey notes that although liquidity conditions tightened somewhat, the Indian financial system demonstrated robustness, aided by regulatory measures and monetary policy interventions. Synchronised global monetary tightening posed challenges, necessitating resilient liquidity frameworks for banking and commerce sectors.

Discussion

The analysis underlines that Indian commerce's financial resilience between 2020 and 2025 is multifactorial:

- a. Inflation posed moderate challenges but was managed effectively through central bank policies and firm strategies.
- b. Currency fluctuations remain the dominant risk affecting revenues, profit margins, and export competitiveness.

- c. Liquidity risk is intricately linked with global financial conditions; robust central bank interventions and market regulations are pivotal in maintaining financial system stability.
- d. Financial resilience thus requires integrated risk management—hedging currency exposure, strategic pricing to offset inflation impacts, and liquidity management systems to navigate market shocks.

CONCLUSION

Between 2020 and 2025, Indian commerce has demonstrated notable financial resilience amid inflationary pressures, currency volatility, and liquidity risks. Currency fluctuations primarily drove financial performance variability, highlighting the importance of exchange rate risk management. Inflation impacts were buffered effectively by policy and firm-level responses. Liquidity remained manageable owing to proactive RBI interventions.

RECOMMENDATIONS

- Strengthen digital payment and e-commerce ecosystem for small businesses.
- Expand financial literacy programs and access to risk management resources.
- Introduce targeted inflation hedging and currency risk mitigation services.
- Design policy support programs with clear transition strategies post-crisis.
- Future policy should continue strengthening monetary tools and promote wider adoption of financial hedging by firms to enhance resilience. Further research with firm-level longitudinal data could deepen understanding of micro-level adaptive strategies.

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