Foreign Exchange (FX) rate is one of the most important means through which a country’s relative level of economic health is determined. A country's foreign exchange rate provides a window to its economic stability, which is why it is constantly watched and analyzed. If you are thinking of sending or receiving money from overseas, you need to keep a keen eye on the currency exchange rates.

The exchange rate is defined as "the rate at which one country's currency may be converted into another." It may fluctuate daily with the changing market forces of supply and demand of currencies from one country to another. For these reasons; when sending or receiving money internationally, it is important to understand what determines exchange rates.

A macroeconomic factor is one that is related to the broad economy at the regional or national level and affects a large population rather than a few select individuals. Examples of macroeconomic factors are economic output, unemployment, inflation, savings, and investments, and they are key indicators of economic performance that are closely monitored by governments, businesses and consumers.

A macroeconomic factor can include anything that influences the direction of a particular large-scale market; for example, fiscal policy and various regulations can impact the economy of a state or nation and can even have international implications. Not all macroeconomic factors are negative; some promote economic growth.

## 1. Inflation Rates

Changes in market inflation cause changes in currency exchange rates. A country with a lower inflation rate than another's will see an appreciation in the value of its currency. The prices of goods and services increase at a slower rate where the inflation is low. A country with a consistently lower inflation rate exhibits a rising currency value while a country with higher inflation typically sees depreciation in its currency and is usually accompanied by higher interest rates

## 2. Interest Rates

Changes in interest rate affect currency value and dollar exchange rate. Forex rates, interest rates, and inflation are all correlated. Increases in interest rates cause a country's currency to appreciate because higher interest rates provide higher rates to lenders, thereby attracting more foreign capital, which causes a rise in exchange rates

## 3. Country’s Current Account / Balance of Payments

A country’s current account reflects balance of trade and earnings on foreign investment. It consists of total number of transactions including its exports, imports, debt, etc. A deficit in current account due to spending more of its currency on importing products than it is earning through sale of exports causes depreciation. Balance of payments fluctuates exchange rate of its domestic currency.

## 4. Government Debt

Government debt is public debt or national debt owned by the central government. A country with government debt is less likely to acquire foreign capital, leading to inflation. Foreign investors will sell their bonds in the open market if the market predicts government debt within a certain country. As a result, a decrease in the value of its exchange rate will follow.

## 5. Terms of Trade

Related to current accounts and balance of payments, the terms of trade is the ratio of export prices to import prices. A country's terms of trade improves if its exports prices rise at a greater rate than its imports prices. This results in higher revenue, which causes a higher demand for the country's currency and an increase in its currency's value. This results in an appreciation of exchange rate.

## 6. Political Stability & Performance

A country's political state and economic performance can affect its currency strength. A country with less risk for political turmoil is more attractive to foreign investors, as a result, drawing investment away from other countries with more political and economic stability. Increase in foreign capital, in turn, leads to an appreciation in the value of its domestic currency. A country with sound financial and trade policy does not give any room for uncertainty in value of its currency. But, a country prone to political confusions may see a depreciation in exchange rates.

## 7. Recession

When a country experiences a recession, its interest rates are likely to fall, decreasing its chances to acquire foreign capital. As a result, its currency weakens in comparison to that of other countries, therefore lowering the exchange rate.

## 8. Speculation

If a country's currency value is expected to rise, investors will demand more of that currency in order to make a profit in the near future. As a result, the value of the currency will rise due to the increase in demand. With this increase in currency value comes a rise in the exchange rate as well.

**Conclusion:**  
All of these factors determine the foreign exchange rate fluctuations. If you send or receive money frequently, being up-to-date on these factors will help you better evaluate the optimal time for international money transfer. To avoid any potential falls in currency exchange rates, opt for a locked-in exchange rate service, which will guarantee that your currency is exchanged at the same rate despite any factors that influence an unfavorable fluctuation.

**Reference**

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