

Exchange rate developments

6.66 The exchange rate of rupee is broadly market determined. The exchange rate management policy continues its focus on smoothening excessive volatilities in exchange rate with no fixed rate target, while allowing the underlying demand and supply conditions to determine the exchange rate movements over a period in an orderly way. Towards this end, the RBI monitors closely the developments in the financial markets at home and abroad and carefully coordinates its market operations with suitable monetary, regulatory and other measures, as considered necessary from time to time. In 2001-02, volatility in global exchange markets and other adverse developments following the events of "September 11" in the United States necessitated such an intervention by the RBI. Its timely announcement of suitable measures resulted in moderating the volatility and in providing appropriate liquidity and overall comfort to the financial markets. The exchange rate of rupee moved in a range of Rs.46.56 – Rs.48.85 per US dollar during 2001 02 and the monthly average exchange rate of rupee depreciated by 4.0 percent during the year.

6.67 During the current financial year, after reaching Rs.49.06 per US dollar in May 2002, the rupee has been strengthening against US dollar and stood at Rs. 47.80 per US dollar at the end of January 2003, indicating an appreciation of 2.1 percent over the end of March 2002 level. The monthly average exchange rate of rupee, however, has depreciated against Pound Sterling, Euro and Japanese Yen by 8.9 percent, 14.9 percent and 7.4 percent respectively between April 2002-January 2003. The US dollar, in terms of monthly average, has depreciated against Pound Sterling, Euro and Japanese Yen by 9.2 percent, 13.2 percent and 6.7 percent respectively, in the current fiscal year so far (up to December 2002). The movement of the rupee against major international currencies, has been reflected in the depreciation of Nominal and Real Effective Exchange Rates (NEER and REER) by 4.6 percent and 2.1 percent, respectively, during April-November 2002. Taking 1993-94 as the base year, when exchange rate of rupee became market determined, the rupee has depreciated by 31.41 percent in NEER terms in November 2002. However, in REER terms, the rupee stands appreciated by 2.05 percent in November 2002.