

## Exchange rate developments

6.65 With a flexible exchange rate regime, and interventions limited to maintaining orderly market conditions, the Rupee exhibited considerable two-way movement in 2005-06 and 2006-07 so far. The average annual exchange rate of the Rupee steadily depreciated from Rs.33.45 per US dollar in 1995-96 to Rs.48.40 per US dollar in 2002-03. It has since appreciated steadily to reach Rs.44.27 per US dollar in 2005-06.

6.66 Movements in monthly average exchange rates and daily exchange rates provide further evidence of the flexibility of the Rupee exchange rate. The monthly exchange rate of the Rupee vis-à-vis the US dollar has moved in the range of Rs.43.49 to Rs.46.34 in the last two years. Against other major world currencies, particularly Euro and Pound, the Rupee has exhibited similar two-way movements.

6.67 In 2006-07 so far, in terms of the monthly average of the exchange rate of the Rupee vis-à-vis the US dollar, the rupee depreciated steadily until August 2006, before starting to appreciate thereafter. This broad

pattern was mirrored even in the Rupee rates vis-à-vis the other major currencies such as Euro and Pound. Against Yen, however, the Rupee started appreciating from June 2006 rather than August 2006.

6.68 The NEER-5 (base 2000=100) composed of a basket of five currencies, namely, US dollar, Euro, Pound Sterling and Yen, had been depreciating on a yearly basis till 2004-05 to reach a level of 90.76. With a bout of appreciation initially in April-July 2005 and subsequently in January-February 2006, it rose, on an annual basis, to 94.06. It depreciated steadily in 2006-07 till August 2006, reaching a low of 88.05, whereafter it has picked up and was at 91.31 in November 2006.

6.69 The real effective exchange rate (REER), which is the NEER adjusted for price differentials, displayed some signs of appreciation. REER-5 (Base 2000=100) with the same currency basket as NEER-5, rose steadily to reach 106.79 in 2005-06. During 2006-07, it declined to reach a level of 100.65 in August 2006 and thereafter has risen to 109.04 in November 2006.