

Exchange Rate Developments

50. After reasonable stability lasting for a period of about eighteen months, the exchange rate of the Rupee against the U.S. dollar came under downward pressure intermittently since the last week of August 1997. However, since September 1998, the Rupee has shown slight appreciation against the U.S. dollar. The downward pressure on the exchange rate of the Rupee since late August 1997 may, largely, be attributable to the East Asian financial crisis and uncertainties related to domestic developments. At the end of January 1999, the exchange rate vis-à-vis the U.S. dollar was Rs.42.50, recording a cumulative depreciation of about 7.1 per cent from the end-March 1998 level of Rs.39.50.

51. The movements in the exchange rate during the first half of 1998-99 corrected for the appreciation of Rupee in real effective exchange rate terms, which had occurred over the previous one year or so because of the inflation differential between India and her major trading partners. The market driven correction in the exchange

rate offset some of the competitive disadvantages arising from the sharp depreciation of currencies of our competitors in East Asia and neighbouring countries and helped restrain import growth and strengthen our efforts at cost effective import substitution.

52. Exchange rate management by the RBI continues to focus on moderating excessive volatility in the exchange rate and maintaining orderly market conditions to ensure that the exchange rate remains consistent with economic fundamentals. Since July 1997, there has been an unusual degree of uncertainty prevailing in the international arena. The RBI, as and when necessary, has intervened in the foreign exchange markets and deployed suitable monetary and other measures to counter speculative pressures on the Rupee and to ensure orderly foreign exchange market conditions. These measures have helped to maintain reasonable stability in the external value of the Rupee during periods of external pressures and to maintain the level of exchange rate consistent with the preservation and improvement of India's external competitiveness.

BOX 6.5 Sanctions

Sanctions by the U.S.

Under its Nuclear Proliferation Prevention Act 1994 (NPPA), which also includes the Glenn Amendment to the Arms Export Control Act, the US ordered sanctions against India on May 13, 1998.

- All assistance relating to humanitarian purposes, food or other agricultural commodities are outside its scope.

US sanctions involved :

- denial of any credit and credit guarantees by US Government entities which included termination of all new EXIM Bank credits and credit guarantees for US exports to India as well as discontinuance of US Overseas Private Investment Corporation (OPIC) guarantees for US FDI ventures in India. EXIM Bank loans already approved were not affected;
- prohibition of US banks from making any loans or credits to Government of India except for food or other agricultural commodity purchases;
- opposition to non-humanitarian loans by multilateral financial institutions;
- termination of sales of defense articles, services, and design under the Arms Export Control Act, cancellation of licenses for the export of any item on United States Munitions list and of all military financing under the Foreign Military Sales Finance Program;
- prohibition of US exports of dual use goods and technology which was earlier subject to export licensing. Plans for setting up the Indo-US Science & Technology Forum have been put on hold. On-going scientific projects will be subject to State Department review and clearance;
- US Commerce Department's release of a list of entities against whom trade embargoes have been placed. Almost all organisations relating to Defense and Atomic Energy find mention in this list. Major public sector undertakings and big business houses are also included.

Easing of U.S. sanctions

On November 6, 1998, on the basis of authority given to the US President by the Brownback Amendment passed by the US Congress, partial lifting of sanctions was announced. The order giving effect to these relaxations was signed by the US President on 1 December 1998. These relaxations are:

- restoration of EXIM Bank, Trade Development Agency (TDA) Programmes and OPIC operations;
- resumption of US Bank activities;
- resumption of Military Education and Training Programmes (IMET).

Position in respect of some other countries/multilateral institutions:

World Bank : Disbursements on on-going projects continue. New projects relating to basic human needs are being supported.

ADB : On-going projects and current year's disbursements are unaffected. New projects relating to basic human needs are being supported.

Japan : Grant aid for new projects is frozen, except for emergency, humanitarian and grassroots projects. Yen-loan programme for new projects is frozen; on-going projects are unaffected.

European Commission : Disbursements for on-going projects are unaffected.

Germany : Canceled the 1998 aid negotiations. Funding for on-going projects is unaffected. Recently, the German Government has made a fresh commitment of DM 22.5 million for Technical Assistance Projects.

UK : Disbursements on on-going projects are continuing and new projects are being sanctioned.

France : Will not cut development aid.

Netherlands : Decided to freeze macroeconomic aid which is mainly in the form of debt relief. Grants to on-going and future projects will not be affected.

Sweden : Terminated its current three-year (1997-1999) Co-operation Agreement with India. However, the Swedish Government has decided to allocate SEK 40 million to a social sector project for the period July 1998 to June 1999.

Denmark : Decided to reduce aid as against the increase envisaged in the aid talks in January 1998. On-going projects will be unaffected.

Switzerland : Budget reduction of approximately SFR 3 million. Suspension of new programme in which Government of India is a partner except in the areas of poverty alleviation, human rights, decentralisation and the promotion of civil society. There will be continued focus on non-government projects.

Norway : Decided to freeze all aid except those directed towards poverty alleviation programmes.

Italy and Belgium : There has been no effect on development cooperation.

Canada : CIDA has indicated that all on-going projects will continue. In future, programmes with a humanitarian thrust will be unaffected.