

## Exchange Rate Developments

6.61 After exhibiting relative stability, the Indian Rupee, in August 1997, experienced a mild attack of contagion emanating from currency turmoil in East Asia. Beginning in the second week of November, 1997, the exchange rate of the rupee against the US dollar came under renewed downward pressure. The rupee depreciated to a low of Rs.40.36 per US dollar by January 16, 1998, but recovered to Rs.39.49 on March 10, 1998. The rupee-dollar rate came under downward pressure in May 1998 and again in July 1998, following uncertainty arising from economic sanctions imposed on India, the downgrading of India's investment rating by international investment rating agencies and continued turbulence in international financial markets. Since September 1998, the rupee displayed reasonable stability upto end March 1999. From April onwards, the exchange rate had been reacting to the uncertainty linked to political developments, followed by the Kargil episode. Against this backdrop, by end September 1999, the rate had reached Rs.43.60 per US dollar compared with Rs.42.51 per US dollar on April 6, 1999. However, since October

1999, the exchange rate has displayed reasonable stability and at the end of January 2000 the rate was Rs.43.64 per US dollar.

6.62 The period beginning in early-January 1999, marked the bottom of the crisis and the beginnings of recovery for most of the countries and currencies in the East Asian region. Between end-June 1997 and end-December 1999, depreciation of these currencies vis-a-vis the US dollar ranged between 14 to 65 per cent. The strength of India's economic fundamentals, combined with the RBI's intervention in the foreign exchange (spot and forward) market and deployment of a range of monetary measures to effectively counter the speculative pressure on the Indian rupee in the foreign exchange market, helped to limit the impact of contagion emanating from the East-Asian currency crisis on the Indian rupee.

6.63 The exchange rate of the rupee continues to be broadly market determined. Exchange market intervention and other actions by the RBI are focused on moderating excessive volatility in the exchange rate and maintaining orderly foreign exchange market conditions.