## Exchange Rate Developments

6.54 The exchange rate of the rupee against the US dollar continued to be broadly market determined. During 1999-2000, the exchange rate market displayed reasonable stability, with the rupee depreciating by about 2.9 per cent from the annual average of Rs.42.07 per US dollar in 1998-99 to Rs.43.33 in 1999-2000. In contrast, the year 2000-01 witnessed significant downward pressures on the rupee-dollar rate from mid-May 2000. The foreign exchange markets experienced considerable uncertainty with the rupee depreciating by 6.7 per cent between end-April and end-October 2000 from Rs.43.655 per US dollar to Rs.46.775. Since November 2000, the situation had shown large improvement and the forex markets were relatively stable. Overall, the rupee depreciated against the US dollar by 5.15 per cent to Rs.45.68 per US dollar in 2000-01.

6.55 The world economy experienced one of the worst shocks in the aftermath of September 11, 2001 events in the United States. Foreign exchange markets in India also became volatile, with the rupee showing a depreciation of 1.3 per cent vis-a-vis the US dollar during the 10-day period of September 10-20, 2001. Adverse external developments after September 11, and their effect on India's financial markets, necessitated a quick response to provide appropriate liquidity and overall comforts to the markets. In order to stabilize domestic financial markets, the RBI announced some measures during the period September 15-25, 2001. These measures had the desired effect of moderating possible panic reactions and reducing volatility in financial markets, particularly in money, foreign exchange and government securities markets. As at the end of January, 2002, the exchange rate of the rupee was Rs.48.58 per US dollar, showing a depreciation of 4.0 per cent, compared with the rate of Rs.46.64 at the end of March 2001.

6.56 The exchange rate management policy continues its focus on smoothing excessive volatility in the 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.