

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2888
ANSWERED ON:26.11.2010
INFLATION AND RUPEE APPRECIATION
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Will the Minister of FINANCE be pleased to state:

- (a) the steps taken by Reserve Bank of India (RBI) in the currency market to prevent rupee appreciation during the last three years;
- (b) whether such steps / measures go against the policy of the Government on controlling inflation; and
- (c) if so, the details thereof and reaction of the Government thereon?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) to (c) The exchange rate policy in India has been guided by the broad principles of careful monitoring and management of exchange rates with flexibility, while allowing the underlying demand and supply conditions to determine the exchange rate movements over time.

The average monthly exchange rate of rupee vis-à-vis US dollar during the last three years, appreciation / depreciation of rupee, Reserve Bank of India's net purchase and sale of foreign exchange are given in the table below:

Year	Rs. per US\$	Appreciation (+) / Depreciation (-)	RBI Net Purchase (+) / Sale (-)
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2007-08	40.36	(+) 9.1	(+) 78.2
(March 2008) #			

2008-09	51.23	(-) 21.2	(-) 34.9
(March 2009) #			

2009-10	45.50	(+) 12.6	(-) 2.6
(March 2010) #			

month average exchange rate, Source: RBI

The excess liquidity in the system due to intervention by the RBI in the foreign exchange market in the past was largely managed through monetary policy instrument mix of market stabilization scheme, open market operations, auctions under the day-to-day liquidity adjustment facility (LAF) and variations in the Cash Reserve Ratio etc.