Development of Forex Markets: Indian Experience *

Mr. Chairman and Friends,

I am thankful to the organisers for giving me this opportunity to be with distinguished Central Bank Governors and professionals in forex business from South Asia. Since we met last in Hyderabad a year ago, the financial world has come out of a serious crisis, perhaps wiser and more sober. We could at this stage, therefore, give some attention to structural and developmental aspects of the external sector – including forex markets. I, therefore, propose to share with you the Indian experience in the development of forex markets.

A comprehensive blueprint for development of foreign exchange markets in India was made in the Report of the Expert Group on Foreign Exchange Markets in India, June 1995 (Sodhani Committee). A review of the status of implementation of these recommendations would provide an excellent overview of what has been achieved and what is yet to be achieved. Further, the Committee on Capital Account Convertibility, August 1997 (Tarapore Committee) made some recommendations on financial markets, especially relevant to forex markets, and perhaps a brief review of the current status on these would also be informative. The significant features of our forex market are then brought out in this address. Evolving linkages between forex markets and other markets will also have to be tracked. Finally, some aspects of forex markets, especially relevant to our country such as gold import policy and flows from non-resident Indians will be explained. The address will typically conclude with a brief narration of current issues.

Evolution

Market players in forex became active in the seventies, consequent upon the collapse of Bretton Woods Agreement. However, India was somewhat insulated since stringent exchange controls prevailed and banks were required to undertake only cover operations and maintain a 'square' or 'near square' position *at all times*. In 1978, the RBI allowed banks to undertake intra-day trading in foreign exchange and as a consequence, the stipulation of maintaining `square' or `near square' position was to be complied with only at the close of business hours each day. This perhaps marks the beginning of forex market in India. As opportunities to make profits began to emerge, the major banks started quoting two-way prices against the rupee as well as in cross currencies and gradually, trading volumes began to increase. During the period, 1975-92 the exchange rate regime in India was characterised by daily announcement by the RBI of its buying and selling rates to Authorised Dealers (ADs) for merchant transactions. Given the then prevalent RBI's obligation to buy and sell unlimited amounts of the intervention currency arising from the banks' merchant purchases, its quotes for buying/selling effectively became the fulcrum around which the market was operated. The RBI performed a market-clearing role on a day-to-day basis, which naturally introduced some variability in the size of reserves. Incidentally, certain categories of current and capital account transactions on behalf of the Government were directly routed through the reserves account.

<u>Rangarajan Committee</u>

The recommendations of the High Level Committee on Balance of Payments (Chairman: Shri C. Rangarajan) provided the basic framework for policy changes in external sector, encompassing exchange rate management and, current and capital account liberalisation. The Report indicated the transition path also. Accordingly, the Liberalised Exchange Rate Management System involving dual exchange rate system was instituted in March 1992, no doubt, in conjunction with other measures of liberalisation in the areas of trade, industry and foreign investment. The dual exchange rate system was essentially a transitional stage leading to the ultimate convergence of the dual rates made effective from March 1, 1993. This unification of exchange rates brought about the era of market determined exchange rate regime of rupee, based on demand and supply in the forex market. It also marks an important step in the progress towards current account convertibility, which was finally achieved in August 1994 by accepting Article VIII of the Articles of Agreement of the International Monetary Fund.

The appointment of a 14 member Expert Group on Foreign Exchange (Sodhani Committee) in November 1994 was a follow up step to the above measures, for the development of the foreign exchange market in India. The Group studied the market in great detail and in its Report of June, 1995 came up with far-reaching recommendations to develop, deepen and widen the forex market as also to introduce various products, ensure risk management and enable efficiency in the forex market by removing restrictions, introducing new products and tightening internal control and risk management systems.

Sodhani Committee

The Sodhani Committee had made 33 recommendations and of these, 25 recommendations called for action on the part of the RBI. RBI has accepted and implemented in full or to some degree, 20 out of the 25 recommendations. In the process, the banks have been accorded significant initiative and freedom to participate in the forex market. These include: freedom to fix net overnight position limit and gap limits although RBI is formally approving these limits, replacing the system of across-the board or RBI prescribed limits; freedom to initiate trading position in the overseas markets; freedom to borrow or invest funds in the overseas markets (up to 15 per cent of Tier I Capital unless otherwise approved); freedom to determine the interest rates (subject to a ceiling) and maturity period of Foreign Currency Non-Resident (FCNR) deposits (not exceeding three years); exempting inter-bank borrowings from statutory pre-emptions (subject to minimum statutory requirement of 3 per cent and 25 per cent in respect of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) for the total net liabilities respectively); and freedom to use derivative products for asset-liability management.

Corporates also have been accorded noticeable freedom to operate in the forex market. Thus, they are permitted to hedge anticipated exposures though this facility has been temporarily suspended after the Asian crisis. Exchange Earners Foreign Currency (EEFC) account eligibility has been increased and the permissible end-uses widened. They were given freedom to cancel and rebook forward contracts, though currently due to the Asian crisis effect, freedom to rebook cancelled contracts is suspended while rollover is permissible. Banks can, however, offer cross-currency options on back-to-back basis. Corporates can also avail of lower cost option strategies like range forwards and ratio range forwards and others as long as they do not end up as net writers of options. Also available are some degrees of freedom to manage exposures in External Commercial Borrowings without having to approach authorities for hedging permission, and to access swaps with rupee as one of the currencies to hedge longer term exposures.

The Committee recognised that improvements in internal controls and market strategies go hand in hand with liberalisation and towards this end, RBI accepted and implemented several suggestions of the Sodhani Committee. These include: revamping internal control guidelines of the RBI to banks and making them available to corporates as well; putting in place appropriate market intervention strategies to deal with market developments; adopting internationally accepted documentation standards; framing comprehensive risk management guidelines for banks; adopting Basle Committee norms for computing foreign exchange position limits and recommending capital backing for open positions; and setting up a foreign exchange market committee to discuss market issues and suggest solutions. Recommendation on publishing critical data on forex transactions, has been implemented, and in fact the standards of disclosure by RBI are considered to be very high now.

A few recommendations of the Sodhani Committee which have not been implemented include, inducting Development Financial Institutions (DFIs) as full-fledged Authorised Dealers (ADs), setting up a forex clearing house, legally recognising netting of settlements, permitting corporates to undertake margin trading and setting up of off-shore banking units in Mumbai. Let me briefly dwell on each of these issues. Induction of DFIs as full-fledged ADs is linked to future role of development financial institutions and indeed the approach to universal banking. Till then, their activity in the forex market can only be incidental to what they are permitted to do as a DFI. The position on setting up of a Forex Clearing House and the position on setting up of off-shore banking units will be detailed in the latter part of this address. Margin trading by its very nature is considered to be potentially speculative, and therefore, has not been seriously considered so far for implementation.

Tarapore Committee

Tarapore Committee on Capital Account Convertibility, 1997, had recommended a number of measures relating to financial markets, especially forex markets. Some of the measures undertaken in regard to forex may fall short of the indicative quantitative limits given in the Report, but the purpose and the spirit of such measures are in line with the recommendations of the committee. Among such various liberalisation measures undertaken are those relating to foreign direct investment, portfolio investment, investment in Joint Ventures/wholly owned subsidiaries abroad, project exports, opening of Indian corporate offices abroad, raising of EEFC entitlement to 50 per cent, forfaiting, allowing acceptance credit for exports, allowing FIIs to cover forward their exposures in debt and part of their exposures in equity market, etc. In respect of the recommendations of the Committee to develop financial markets also, significant progress has been made. In the money market, as part of improving the risk management, recently, guidelines for interest rate swaps and FRAs have been issued to facilitate hedging of interest rate risks and orderly development of the fixed income derivatives market. Measures have also been undertaken to further develop the Government securities market. Permission has also been given to banks fulfilling certain criteria to import gold for domestic sale. As will be explained later in this address, this aspect of gold policy is a major step in bringing off-market forex transactions into forex markets by officialising import of gold. Efforts are also underway to expedite the implementation of the announcement made in October 1997 by RBI to permit SEBI registered Indian fund managers including Mutual Funds to invest in overseas markets subject to SEBI guidelines.

Features of Forex Market

There are several features of Indian forex market which, even if well known, require to be recalled comprehensively.

Participants

The foreign exchange market in India comprises of customers, Authorised Dealers (ADs) in foreign exchange and Reserve Bank of India. The ADs are essentially banks authorised by RBI to do foreign exchange business. Major public sector units, corporates and other business entities with foreign exchange exposure, access the foreign exchange market through the intermediation of ADs. The foreign exchange market operates from major centres - Mumbai, Delhi, Calcutta, Chennai, Bangalore, Kochi and Ahmedabad, with Mumbai accounting for the major portion of the transactions. Foreign Exchange Dealers Association of India (FEDAI) plays an important role in the forex market as it sets the ground rules for fixation of commissions and other charges and also involves itself in matters of mutual interest of the Authorised Dealers.

The customer segment is dominated by Indian Oil Corporation and certain other large public sector units like Oil and Natural Gas Commission, Bharat Heavy Electricals Limited, Steel Authority of India Limited, Maruti Udyog and also Government of India (for defence and civil debt service) on the one hand and large private sector corporates like Reliance Group, Tata Group, Larsen and Tubro, etc., on the other. Of late, the Foreign Institutional Investors (FIIs) have emerged as a major component in the foreign exchange market and they do account for noticeable activity in the market.

Segments

The foreign exchange market can be classified into two segments. The merchant segment consists of the transactions put through by customers to meet their transaction needs of acquiring/offloading foreign exchange, and inter-bank segment encompassing transactions between banks. At present, there are over 100 ADs operating in the foreign exchange market. The banks deal among themselves directly or through foreign exchange brokers. The inter-bank segment of the forex market is dominated by few large Indian banks with State Bank of India (SBI) accounting for a large portion of turnover, and a few foreign banks with benefit of significant international experience.

Market Makers

In the inter-bank market, SBI along with a few other banks may be considered as the market-makers, i.e., banks which are always ready to quote two-way prices both in the spot and swap segments. The market makers are expected to make a good price with narrow spreads both in the spot and the swap segments. The efficiency and liquidity of a market are often gauged in terms of bid-offer spreads. Wide spreads are an indication of an illiquid market or a one way market or a nervous condition in the market. In India, the normal spot market quote has a spread of 0.5 to one paisa, while the swap quotes are available at 2 to 4 paise spread. At times of volatility, the spread widens to 5 to 10 paise.

Turnover

The turnover in the Indian forex market has been increasing over the years. The average daily gross turnover in the dollar-rupee segment of the Indian forex market (merchant plus inter-bank) was in the vicinity of US $ 3.0 billion during 1998-99. The daily turnover in the merchant segment of the dollar-rupee segment of foreign exchange market was US $ 0.7 billion, while turnover in the inter-bank segment was US $ 2.3 billion. Looking at the data from the angle of spot and forward market, the data reveals that the average daily turnover in the spot market was around US $ 1.2 billion and in the forward and swap market the daily turnover was US$ 1.8 billion during 1998-99.

Forward Market

The forward market in our country is active up to six months where two way quotes are available. As a result of the initiatives of the RBI, the maturity profile has since recently elongated and there are quotes available up to one year.

In India, the link between the forward premia and interest rate differential seems to work largely through leads and lags. Importers and exporters do influence the forward markets through availment of/grant of credit to overseas parties. Importers can move between sight payment and 180 days usance and will do so depending on the overseas interest rate, local interest rate and views on the future spot rate. Similarly, importers can move between rupee credit and foreign currency credit. Also, the decision, to hedge or not to hedge exposure depending on expectations and forward premia, itself affects the forward premia as also the spot rate. Exporters can also delay payments or receive funds earlier, subject to conditions on repatriation and surrender, depending upon the interest on rupee credit, the premia and interest rate overseas. Similarly, decision to draw bills on sight/usance basis is influenced by spot market expectations and domestic interest rates. The freedom to avail of pre/post-shipment credit in forex and switch between rupee and foreign currency credit has also integrated the money and forex markets. Further, banks were allowed to grant foreign currency loans out of FCNR (B) liabilities and this too facilitated integration as such foreign currency demarcated loans did not have any use restriction. The integration is also achieved through banks swapping/unswapping FCNR (B) deposits. If the liquidity is considerable and call rates are easy, banks consider deployment either in forex, government or money/repo market. This decision also affects the premia.

Gradually, with the opening up of the capital account, the forward premia is getting aligned with the interest rate differential. However, the fact remains that free movement in capital account is only a necessary condition for full development of forward and other forex derivatives market. The sufficient condition is provided by a deep and liquid money market with a well-defined yield curve in place. Developing a well integrated, consistent and meaningful yield curve requires considerable market development in terms of both volume and liquidity in various time and market segments. No doubt, the integration between the domestic market and the overseas market operates more often through the forward market. This integration is facilitated now by allowing ADs to borrow from their overseas offices/correspondents and invest funds in overseas money market up to the same amount.

Data on Forex Markets

The RBI publishes daily data on exchange rates, forward premia, foreign exchange turnover etc. in the Weekly Statistical Supplement (WSS) of the RBI Bulletin with a lag of one week. The movement in foreign exchange reserves of the RBI on a weekly basis are furnished in the same publication. The RBI also publishes data on Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER), RBI's purchases and sales in the foreign exchange market along with outstanding forward liabilities on reserves etc. in the monthly RBI Bulletin with a time lag of one month. Since July 1998, the Reserve Bank of India started publishing the 5-country trade based NEER and REER in addition to 36-country NEER and REER in the RBI Bulletin. Way ahead of many developing and industrial country central banks, the RBI has been publishing the size of its gross intervention (purchase and sale) each month and its net forward liability position.

Linkages among Markets and Policy Responses

Since the introduction of the reform measures, broad segments of the market, viz., money market, Government securities market, capital market, and foreign exchange market, have exhibited some degree of integration. The markets have become inter-linked to the extent participants can move freely from one market to another. The linkages between the forex market and domestic markets essentially depend on the foreign currency liabilities and assets banks can maintain and the extent and degree to which they are swapped into rupees and *vice versa*. Thus, on the liabilities side, we have foreign currency borrowings from overseas offices/correspondents, borrowings for lending to exporters, FCNR-B deposits and EEFC/RFC deposits. These funds can be used either for raising rupee resources through swaps or for lending in foreign currency. A significant step was taken by the RBI when it allowed banks to lend in foreign currency to companies in India for any productive purpose without linking to exports or import financing. This effectively meant that companies had the choice to borrow either in foreign currency or rupees depending on the cost, taking into account both exchange risk and interest cost. Thus, companies can substitute rupee credit for foreign credit freely. Similarly, exporters also have the ability to substitute rupee credit for foreign currency credit.

The integration of foreign exchange market with other markets like money market and government securities market meant closer co-ordination of monetary and exchange rate policy. For instance, in January 1998, when the foreign exchange market came under severe pressure, Reserve Bank of India undertook strong monetary policy measures leading to sharp withdrawal of liquidity and increase in short-term interest rates. The impact of monetary management was such that by February 1998 orderly conditions were restored in the forex market and normalcy was attained in money market. At times of highly speculative exchange rate movements, simultaneous intervention in foreign exchange and domestic market is called for to have an immediate strong effect on both the exchange rate and money market conditions. Thus, to maximise the effectiveness of the foreign exchange market intervention as a signaling device, it is also carefully co-ordinated with monetary management. These co-ordinated intervention strategies require close day-to-day monitoring of the supply of banking system liquidity and an active use of open market operations to adjust liquidity conditions. However, driving a wedge between money and forex markets at times, becomes necessary when it is felt that liquidity conditions may put pressure on the forex market, while tightening liquidity could hurt the real sector.

The recent initiatives of RBI to usher in the rupee interest rate derivatives should facilitate the development of rupee term money market and define the rupee yield curve across maturities. Besides bringing about greater integration of the money and forex markets, the move has set the stage for the take-off of rupee-foreign currency derivatives.

Some Unique Aspects

Gold Policy

Liberalisation of gold policy had an indirect but, significant impact on the forex market. The logic behind the changes in the gold policy was explained in my earlier speeches on the subjects of capital flight and gold. The major thrust of the liberalisation process in gold policy centred around opening up of additional channels of import, a logical consequence of which was the reduction in differential between the international and domestic price of gold. The price differential of gold was as high as 67 per cent in 1992 when the structural reform process was initiated; it fell to 6 per cent by the end of 1998. The unofficial market in foreign exchange which drew its sustenance from the illegal trade in gold went out of existence as an immediate fall out. In essence, the import of gold which was largely on unofficial account in earlier years, was officialised, and correspondingly the foreign exchange used to finance such unofficial imports was also officialised, mainly through enhanced flow under invisibles account.

NRI Deposits

Various deposit schemes have been designed from time to time to suit the requirements of non-resident Indians (NRIs). Currently, we have three NRI deposit schemes, viz., Non Resident External (NRE) account which is denominated in rupees, Non Resident Non Repatriable (NRNR) account, which is non-repatriable rupee account except for the interest component which is repatriable, and the Foreign Currency Non Resident (Bank) (FCNR-B) account which is a foreign currency account. Banks have also been allowed considerable freedom in deployment of these funds. Of interest to forex markets is the operation of FCNR-B scheme, because banks have to bear exchange risk. Banks either hold these deposits in foreign currency investing them abroad or lend in foreign currency to corporates in India or swap into rupees and lend to Indian corporates in rupees. When corporates borrow in foreign currency, there is an inflow into the market but there may be hedging by corporates. When banks swap into rupees and lend, there is an impact on forex markets but forward premia and lending rates in rupees are critical. Thus, tracking the use of FCNR (B) deposits is essential in appreciating forex markets.

Public Enterprises

Operations of large public sector undertakings have a significant impact especially on spot market, and their procedures for purchase or sale of foreign currency also impact on market sentiments. To this end, and in order to enable Public Sector Enterprises (PSEs) to equip themselves in formulating an approach to management of foreign currency exposure related risks, the Government of India had set up a Committee in January 1998. The Report of the Committee explicitly brings out the approach that is appropriate for risk management with reference to the foreign currency exposure of PSEs. PSEs with large volume of foreign exchange exposure were also advised by the Committee to consider setting up Dealing Room for undertaking treasury functions both for rupee and foreign exchange which include management of rupee resources, foreign exchange transactions and risk management. Adoption of approaches recommended would enable the PSEs to spread their demand and supply in forex market, in a non-disruptive way to the benefit of both the PSE concerned and functioning of forex market in India.

Off-shore Banking Units

The setting up of Off-shore banking units at this advanced stage of financial liberalisation in our country is considered by many to be unnecessary and that the time for an offshore banking unit has gone. In a country of our size, the issue of linkages between off-shore sector and the domestic sector is undoubtedly an important one. We need to make a clear distinction between the financial issues and the non-financial issues on the subject. From the central bank's perspective, designing appropriate regulatory framework is important and the most important issue is ensuring of a firewall between the off-shore transactions and domestic transactions. Physical location is not relevant, especially when deposit taking and cash transactions are not permitted in off-shore business. In fact, we do not have a good model of real off-shore centre in a country with capital controls. Confederation of Indian Industry (CII) with assistance from the Government of Maharashtra is engaged in a detailed study of the various issues to make recommendations to the RBI and the Government of India.

Clearing House

The idea of establishing a Foreign Exchange Clearing House (FXCH) in India was mooted in 1994. The Expert Group on Foreign Exchange Markets in India also recommended introduction of foreign exchange clearing and making netting legally enforceable. The Scheme was conceived as multilateral netting arrangement of inter-bank forex transactions in US dollar. The membership would be open to all ADs in foreign exchange participating in the inter-bank foreign exchange market. RBI will also be a participating member. The net position of each bank arrived at the end of the trading day would be settled through a Clearing Account to be maintained by RBI. It was recognised that a substantial reduction in number of Nostro account transactions of the participating banks would lead to economy in settlement cost and efficiency in settlement. Other benefits include easing the process of reconciliation of Nostro accounts balances by banks, reduction in size of credit and liquidity exposure of participating banks and hence systemic risk, etc. The long-term objective is to establish clearing house as a separate legal entity with risk and liquidity management features, infrastructure and operational efficiency akin to other leading clearing systems. However, to start with, we may aim at commencing the operation with such minimum modification to the scheme as may be necessary. For the present, the focus areas are legal, risk and liquidity aspects and operational infrastructure, and all these issues are under examination in the RBI.

Role of FEDAI

In a regime where exchange rates were fixed and there were restrictions on outflow of foreign exchange, the RBI encouraged the banks to constitute a self regulatory body and lay down rules for the conduct of forex business. In order to ensure that all the banks participated in the arrangement, the RBI placed a condition while issuing foreign exchange licence that every licensee agree to be bound by the rules laid down by the banker's body – the FEDAI. FEDAI also accredited brokers through whom the banks put through deals. There is increasing emphasis now on competition, and fixing or advising charges by professional bodies is being viewed with disfavour and often treated as a restrictive trading practice. It is currently argued by some that with the growth in volumes and giant strides in telecommunication, banks may no longer need to deal through brokers when efficient match making arrangements exist. As in some other markets, the deals are concluded on the basis of voice broking and it is sometimes held that this often results in conclusion of deals which are less than transparent, evidenced by instances where deals have been called off on payment of differences. Under the circumstances, there is perhaps a need to review several aspects, viz., compatibility of advising or prescribing fees with pro-competition policy; role of brokers; electronic dealing *vis-à-vis* voice broking; and relationship between the RBI, FEDAI and authorised dealers.

Issues

Before concluding this narration of experience, it is proposed to list briefly the issues that require further consideration.

First, there are some limits on freedom accorded to banks, such as ones on borrowing and investing overseas; ceilings on interest rates and maturities of non-resident foreign currency deposits; and these could be reviewed at appropriate time, with a view to liberalising them prudently.

Second, the medium-term objective of reducing cash reserve requirements to the minimum prescribed in the statute and the longer term objective of proposing amendments to the statute to make all the reserve requirements flexible will be pursued, consistent with developments in fiscal and monetary conditions.

Third, the restoration of freedom to corporates to hedge anticipated exposures is continuously under review. However, the issue of restoration of facility to rebook cancelled contracts needs to be reviewed with caution.

Fourth, the extension of facility of forward cover to FIIs is also under continuous review, though facilities available now are yet to be fully utilised by FIIs.

Fifth, trading in derivatives is a desirable objective, but a number of preconditions are to be satisfied in the matter of institutional as well as regulatory arrangements. This is a complex task, but certainly is on the agenda of reform.

Sixth, setting up a forex clearing house is on the agenda and it is essential to design it on par with other leading clearing systems in the world.

Seventh, a number of recommendations of Tarapore Committee have been accepted, and others are also reviewed from time to time. A view will have to be taken on each one of them only in the context of overall liberalisation of capital account, which in turn, depends on, among other things, progress of our financial sector reforms and evolving international financial architecture.

Eighth, development of deep and liquid money market with a well-defined yield curve in place is an accepted objective of RBI. The actions taken and those contemplated to perform this hard task have already been articulated in my earlier speeches on money and debt markets, and the recent Monetary and Credit Policy Statement of April 1999 has provided evidence of RBI's approach in this regard.

Ninth, implementation of the recommendations of the Report on Public Sector Enterprises will facilitate the efficient management of their foreign currency risks and also even out lumpy demand and supply situations in the forex market.

Tenth, while there is a dominant view that setting up Mumbai as an off-shore financial centre is no longer a necessity, the views of CII, which is posing the issue, may have to be awaited and considered seriously.

Eleventh, in any effort to develop markets, role of self regulatory bodies is critical. The role of FEDAI in achieving greater competition, efficiency and transparency in the forex markets needs to be reviewed on a continuous basis, so as to keep pace with developments in technology and financial sector reforms.

Twelfth, a number of legislative changes are under contemplation, and of these the ones relating to Foreign Exchange Management and Money Laundering are critical to development of forex markets. Harmonisation between existing institutions, regulations and practices, including transition path to new legislative framework would be a significant task in the context of forex market development.

Thirteenth, several representations have been received by Regulations Review Authority to simplify, streamline and rationalise some of the regulatory and reporting requirements pertinent to foreign exchange. The RRA should be taking a final view in the matter, on the basis of expected report of group of Amicus Curiae, within a few weeks.

Fourteenth, in the area of technology, on-line connectivity has been initiated in respect of data transmission by market to the RBI. Once this system is fully established, it will lead to a very prompt and effective on-line monitoring by RBI as well as reduction in multiplicity of reporting statements. Similarly, initiatives are underway to expedite back office linkage between banks themselves and with RBI for settlement, which will fructify once the VSAT is fully operational.

Conclusion

To conclude, the medium-term objective of developing an efficient and vibrant forex market continues to be an important priority within the overall framework of development of financial markets. Naturally, the pace and sequencing have to be determined by both the domestic and international developments. In particular, the unique features of Indian forex markets, legal, institutional and technological factors, and developments related to macro-economic policies would govern the path of moving towards the medium-term objective, without sacrificing freedom in tactical measures to respond to unforeseen circumstances in the very short-term.

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