Visakh Madathil

ECO 5358: International Macroeconomic Theory & Policy

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1991 Indian Economic Crisis

Source: Board of Governors of the Federal Reserve System (US)

Figure 1

In 1991, the Indian rupee exchange rate faced a severe adjustment causing an economic crisis. For years India had been running a fiscal deficit and been reliant on foreign partners for vital resources[[1]](#footnote-1). When the 1990-1991 oil price shock occurred after Saddam Hussein-led Iraq invaded Kuwait, India found itself quickly running out of foreign exchange reserves[[2]](#footnote-2).

At the time, the India rupee’s exchange rate regime was pegged to a basket of currencies. To combat against this crisis, the Reserve Bank of India first devalued the rupee in the summer of 1991 (as seen in Figure 1) and began the process of adopting a market determined exchange rate regime. By 1993, the Indian rupee became a market determined currency[[3]](#footnote-3).

1. World Bank, ["India - Structural Adjustment Credit Project (English) - Presidents Report"](http://documents.worldbank.org/curated/en/999451468260069468/India-Structural-Adjustment-Credit-Project)*.* documents.worldbank.org [↑](#footnote-ref-1)
2. Cerra, Valerie and Saxena, Sweta Chaman, What Caused the 1991 Currency Crisis in India? IMF Staff Papers, Vol. 49, No. 3, pp. 395-425, 2002 [↑](#footnote-ref-2)
3. Ila Patnaik. “Indian Currency Regime and Its Consequences.” Economic and Political Weekly vol. 42, no. 11, pp. 911–913, 2007. [↑](#footnote-ref-3)