Lecture-14

Reforms in the Foreign Exchange Market

- Market-based exchange rates and the current account convertibility was adopted in 1993.
- The government permitted the commercial banks to undertake operations in foreign exchange.
- Participation of newer players allowed in rupee foreign currency swap market to undertake currency swap transactions subject to certain limitations.
- Replacement of foreign exchange regulation act (FERA), 1973 was replaced by the foreign exchange management act (FEMA), 1999 for providing greater freedom to the exchange markets.
- Trading in exchange-traded derivatives contracts was permitted for foreign institutional investors and non-resident Indians subject to certain regulations and limitations.

Impact of Various Reforms

Impact of Various Reforms in the Financial Sector

- It increased the resilience, stability and growth rate of the Indian economy from around 3.5 % to more than 6% per annum.
- A resilient banking system helped the country deal with the Asian economic crisis of 1977-98 and the Global subprime crisis.
- The emergence of private sector banks and foreign banks increased competition in the banking sector which has improved its efficiency and capability.
- Better performance by stock exchanges of the country and adoption of international best practices.
- Better budget management, fiscal deficit, and public debt condition have improved after the financial sector reforms.