



India

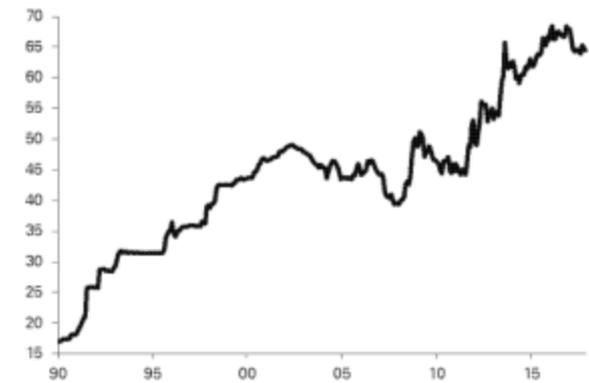
Between 1947 and 1975 the rupee was linked to GBP. Import restrictions and export subsidies were punctuated with periodic devaluations to address balance of payment crises. Its anchor was switched to a trade-weighted FX basket, but the central bank (RBI) was forced to devalue the rupee in 1991 and introduce a two-tier system of FX. The current regime dates back to March 1993, when the government reintroduced a unified, market-determined managed float. The Foreign Exchange Management Act was introduced in 2000.

The monetary framework of the Reserve Bank of India was formerly built on multiple indicators. However, following the recommendation of the Urijit Patel Committee Report, RBI shifted to a consumer price inflation targeting approach in 2014. RBI aimed to guide CPI to below 6% by Jan 2016 and below 5% by March 2017, with a long-term inflation objective of 4%. In 2016, the Finance Ministry officially adopted an inflation target of 4% for the next five years with +/-2% tolerance limits. RBI sets its policy primarily via the repo/reverse repo rate corridor, but supplements it with liquidity management tools such as the liquidity adjustment facility, cash reserve ratios, open market operations and term repos. In 2016, RBI moved from a long-standing liquidity deficit regime, to targeting liquidity neutrality to encourage greater monetary transmission. RBI also introduced a six-member MPC.

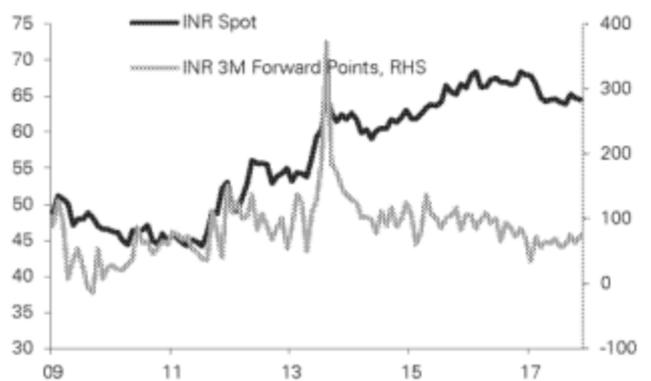
In the early to mid-2000s, FX policy was oriented at ensuring that the rupee maintained its competitiveness in inflation-adjusted terms. After the 2008 financial crisis, the current account deficit steadily deteriorated. Reserves were not aggressively accumulated in 2009-2010, when large inflows led to appreciation. As capital flow volatility began to increase in late 2011 alongside a deepening deficit, the rupee depreciated, often sharply. During the extreme stress of mid-2013, a scheme to incentivize non-resident Indian USD deposits inflows was introduced, gold import restrictions were tightened and oil USD demand was managed to curb currency pressure. Since 2013, the current account has dramatically improved; portfolio inflows have been strong; RBI has aggressively built back reserves, and volatility in the currency has been very closely managed. The rupee is convertible for current account transactions, but has restrictions on the capital account. Foreign portfolio investment policy is more liberal for equity than debt, with the latter managed via a quota system. A medium-term framework for FPI investment in debt securities was put in place in 2015, targeting an increase in foreign limits to 5% of the outstanding government debt securities market by 2018. Corporate borrowing in

foreign currency is subject to regulation and caps. FDI liberalization has been a growing focal point.

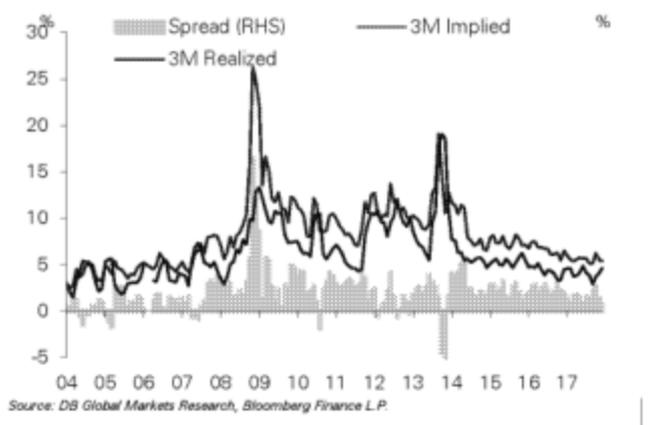
USD/INR exchange rate



USD/INR spot rate and 3M NDF premium



USD/INR 3M historical vs. implied volatility



Source: DB Global Markets Research, Bloomberg Finance L.P.