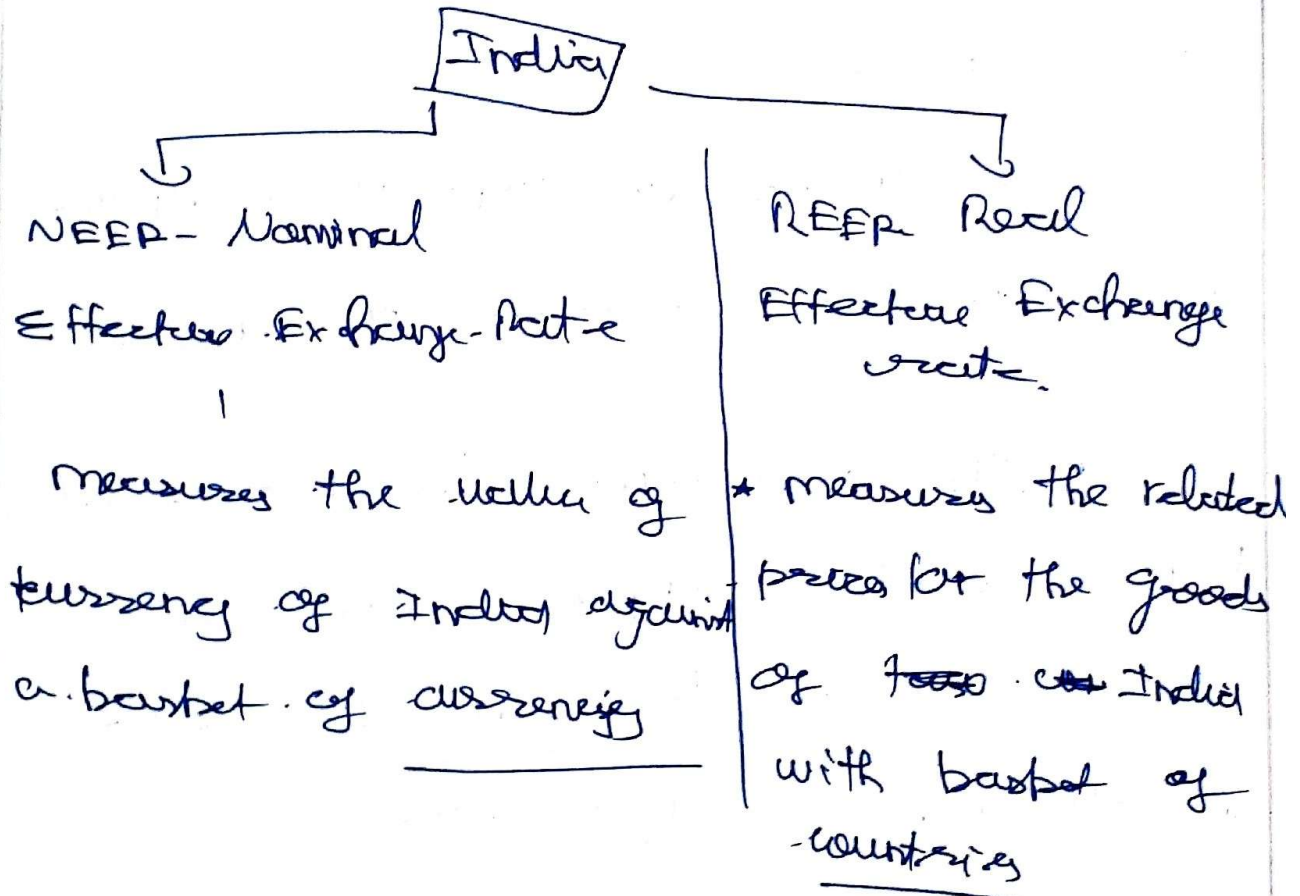


What are two measures of effective exchange rate followed in India?
How exchange rate regime determines strength/weakness of INR.

Effective exchange rates are used to assess the fair value of a currency. It also measures the external competitiveness of an economy.



Exchange rate and Rupee

Indian rupee has depreciated by 27% from 560 to 83 / dollar since 2014. This is measured in terms of

nominal exchange rate. At the same time India's NEER with non-dollar countries has seen an uptick.

* The NEER captures the external value of rupee against a basket of currencies.

* An increase in NEER value indicates the appreciation of local currency.

On the other hand, the Real Effective Exchange rate compares prices of goods. A value less than 100 indicates the currency as undervalued.

India's REER has been on the rise hovering around 101 to 103.

The exchange rates are useful in gauging the inflation trends.

domestically.

Through the unification lessens

the global

acceptance

of the

currency.