

India's Forex Reserves

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In news: Recently, Foreign Exchange Reserves of India surpassed Russia's FERs to become fourth biggest and RBI continues to hoard dollars to cushion the economy against any sudden outflows.

Key updates

- India surpassed Russia as Russian holdings declined at a faster rate in recent weeks. But the FERs for both India & Russia have mostly flattened out this year after months of rapid increase
- **Countries with largest reserves:** China has the largest reserves, followed by Japan and Switzerland on the International Monetary Fund table.
- According to RBI, Country's reserves, enough to cover roughly 18 months of imports, have been bolstered by a rare current-account surplus, rising inflows into the local stock market and FDI.

Fourth Biggest

India's forex pile has overtaken Russia's

■ Bank of Russia weekly International Reserves of the Russian Federation mln USD - Last Price

■ India Foreign Exchange Reserves USD - Last Price



Source: Bloomberg

Key facts by RBI

- In the previous week ended February 26, the reserves rose by USD 689 million to USD 584.554 billion. It had touched a record high of USD 590.185 billion in the week ended January 29, 2021.
- In the reporting week ended March 5, the fall in reserves was due to a decline in the **Foreign Currency Assets (FCA)**.
- The FCA dipped by USD 3.002 billion to USD 539.613 billion, the Reserve Bank of India's (RBI) weekly data showed.
- Expressed in dollar terms, FCA includes the effect of appreciation or depreciation of non-US units like the

euro, pound and yen held in the foreign exchange reserves.

Significance:

As per the market analysts, a strong reserves position gives foreign investors and credit rating companies added comfort that the government can meet its debt obligations despite a deteriorating fiscal outlook and the economy heading for its first full-year contraction in more than four decades.

What are foreign exchange reserves(FER)?

- In general terms, FERs are cash and other reserve assets such as gold held by a central bank or other monetary authority that are primarily available to balance payments of the country, influence the foreign exchange rate of its currency,
- India has large foreign-exchange reserves; holdings of cash, bank deposits, bonds, and other financial assets denominated in currencies other than India's currency, the Indian rupee.
- In India, these reserves are managed by the RBI for the Indian government and the main component is foreign currency assets.
- Reserve Bank of India Act and the Foreign Exchange Management Act, 1999 set the legal provisions for governing the foreign exchange reserves. RBI accumulates foreign currency reserves by purchasing from authorized dealers in open market operations.
- The Foreign exchange reserves of India consists of below four categories:
 - Foreign Currency Assets
 - Gold
 - Special Drawing Rights
 - Reserve Tranche Position
- These reserves act as the first line of defense for India in case of economic slowdown, but acquisition of

reserves has its own costs