RBI REPORT ON FOREX RESERVES

According to the latest data from the Reserve Bank of India, in the reporting week ended April 17, foreign currency assets (FCA), a major component of the overall reserves, rose USD 1.55 billion to USD 441.88 billion.

The RBI data showed that gold reserves increased USD 1.54 billion to USD 32.68 billion in the reporting week. While, special drawing rights with the International Monetary Fund, IMF were up by USD 3 million to USD 1.43 billion. The country’s reserve position with the IMF remained stable at USD 3.58 billion during the reporting.

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The Forex Reserves (‘foreign exchange reserves’) of an economy is its ‘foreign currency assets’ added with its gold reserves, SDRs (Special Drawing Rights) and Reserve Tranche in the IMF.

Reserve tranche

- Reserve tranche is a portion of the required quota of currency each member country provides to the International Monetary Fund (IMF) that can be utilized for its own purposes.

Special Drawing Rights

- The SDR is an international reserve asset, created by the IMF in 1969 to supplement its official reserves.
- The SDR is neither a currency nor a claim on the IMF.
- Initially SDR was defined as equivalent to 0.888671 grams of fine gold, which at the time, was equal to one U.S. dollar. After the collapse of the Bretton Woods system, the SDR was redefined as a basket of currencies.
  - This basket includes five currencies—the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.
- The collapse of Bretton Woods system in 1973 and the shift of major currencies to floating exchange rate regimes lessened the reliance on the SDR as a global reserve asset.
- Officially, the RBI targets neither a particular exchange rate nor foreign exchange reserves, but maintains forex reserves to reduce volatility in the forex market.
  - Forex reserves act as an insurance when the rupee tends to be volatile against the dollar.
  - In the process of supporting weakening rupee, RBI needs to buy dollars, ultimately, leading to higher forex builds.
  - But when RBI purchases dollars, it leads to infusion of rupee into the system which leads to an inflationary effect on the economy.
- Citing the example of China, the Economic Survey 2014–15 held that India could target foreign exchange reserves of US$750 billion to $1 trillion.
- China has highest forex reserves in the world i.e., $3.2 trillion. India is currently the sixth largest holder of forex reserves.