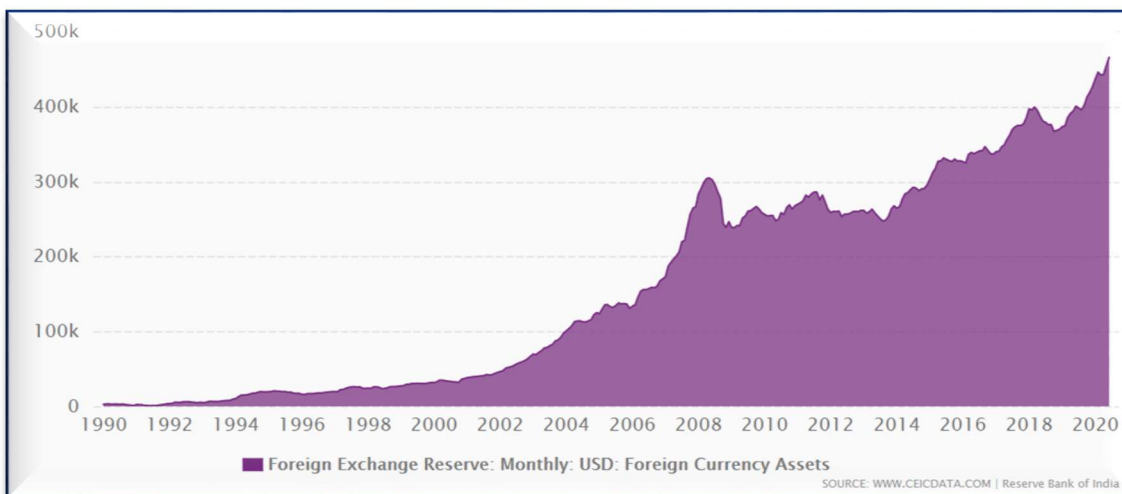# FOREX RESERVE

INTRODUCTION

- Foreign Exchange Reserves are the foreign assets held or controlled by the country's central bank.
- Usually used for backing the exchange rate and influencing monetary policy.
- In case of India, forex reserves include dollars, gold, and the International Monetary Fund's quota for Special Drawing Rights (SDR).

- *The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves.*
- *It is built from a basket of important national currencies.*

WHY IS IT IMPORTANT?

- All international transactions are settled in US dollars and are therefore needed to support our imports.
- It helps limit any vulnerability because of a sudden disruption in foreign capital flows, which could happen during a crisis.
- It is a big cushion in the event of any crisis on the economic front and enough to cover the import bill of the country for a year.
- It provides a level of confidence to markets that a country can meet its external obligations, demonstrate the backing of domestic currency by external assets, assist the government in meeting its foreign exchange needs and external debt obligations and maintain a reserve for external shocks.

INCREASING TREND

Foreign Exchange Reserve: Monthly: USD: Foreign Currency Assets
SOURCE: WWW.CEICDATA.COM | Reserve Bank of India

As on 31st July 20

$534.5 Billion

Item	As on Jul. 31, 2020		Variation over					
			Week		End-March 2020		Year	
	₹Cr.	US$ Mn.	₹Cr.	US$ Mn.	₹Cr.	US$ Mn.	₹Cr.	US$ Mn.
	1	2	3	4	5	6	7	8
1 Total Reserves	3998979	534568	88120	11938	396823	56761	1017859	105616
1.1 Foreign Currency Assets	3671792	490829	76348	10347	337977	48616	900715	92105
1.2 Gold	281463	37625	11329	1525	50936	7047	106579	12461
1.3 SDRs	11036	1475	83	12	235	43	1065	41
1.4 Reserve Position in the IMF	34688	4639	360	54	7675	1056	9500	1010

REASONS OF INCREASE

- Rise in investment by Foreign Portfolio Investors post sharp cut in Corporate Tax rates in Sep'20.
- Foreign Direct Investment inflows including series of investments witnessed by Jio Platforms
- Fall in crude oil prices, bringing down the oil import bill
- Dip in Gold imports
- Steep fall in foreign travel, declining dollar outflow
- A slowdown means lower domestic consumption, which implies lower imports

KnowMo