FOREX RESERVE

- 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.*

- 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

SOURCE: TRADINGECONOMICS.COM | RESERVE BANK OF INDIA

ITEM	AS ON 25 DEC 2020	
	₹ Cr.	US$ Mn.
Total Reserves	4,272,332	580,841
Foreign Currency Assets	3,953,337	537,474
Gold	270,026	36,711
SDRs	11,108	1,510
Reserve Position in the IMF	37,862	5,145

- The forex reserve accumulation in 2020-21 has been driven mainly by the country's current account balance, the gap between exports and imports, turning positive at $34.7 billion during April-September.

- Foreign Direct Investment inflows including series of investments witnessed by Jio Platforms.

- Rise in investment by Foreign Portfolio Investors.

- All in all, it makes an extraordinary situation of record forex reserves build-up when the economy is experiencing negative growth for the first time in 41 years and amid an unprecedented global pandemic.

KnowMo