

Forex reserves vault over \$600-b mark-Business Journal

By: BUSINESS JOURNAL - June 11, 2021

India's foreign exchange (forex) reserves crossed the important milestone of \$600 billion, aided by a whopping \$6.842 billion jump in the reserves in the week ended June 4, 2021.

As on June 4, 2021, India's reserves stood at \$605 billion. The increase in reserves in the reporting week came mainly on the back of foreign currency assets (FCA) soaring by \$7.362 billion.

FCA comprise multi-currency assets that are held in multi-asset portfolios (investment in securities, deposits with other central banks & BIS, and deposits with commercial banks overseas).

The other three components of the reserves, however, declined: Gold (by \$502 million), Special Drawing Rights (\$1 million) and Reserve Position in the IMF (\$16 million).

During the calendar year so far, the reserves rose 32 per cent year-on-year (or by \$103.305 billion vs. 78.149 billion in the year ago period).

In a recent press meet, Governor Shaktikanta Das said emerging market economies have to build up their own buffers and RBI is no exception to that.

Foreign investment inflows

State Bank of India's Economic Research Department, in its report "Ecowrap", said that India witnessed a record amount of foreign investment inflows into equity markets which supported the rupee. The report emphasised that due to the volatile nature of inflows, they increase the possibility of a currency getting hammered once sentiments start turning sour.

"This is especially true for developing market currencies. Sell-off pressures are only warded off when there are ample foreign reserves with the central bank of the said economy.

"Thus, the Reserve Bank intervened in the forex market through operations in the onshore/offshore OTC (over-the-counter) and exchange traded currency derivatives (ETCD) segments in order to maintain orderly market conditions by containing excessive volatility in the exchange rate and accumulating sizeable reserves as ammunition," said Soumya Kanti Ghosh Group Chief Economic Adviser.

Brickwork Ratings, in its report "Drishtikone", attributed the record level of forex reserves to huge foreign portfolio investment inflows into domestic equity markets in FY21.

"A risk-off by foreign investors due to the prevailing uncertainty on domestic economic recovery already led to capital outflows in April and May.

Exchange rate volatility

"The exchange rate volatility demands more forex interventions by the RBI. Hence, the accumulation of forex reserves helps the RBI to maintain the exchange rate at a comfortable level and also deal with external spillovers," the report said.

CRISIL Research, in a report, observed that record high forex reserves, and foreign investor inflows owing to interest rate differential between India and global economies, will also prop up the rupee.