

INDIA EMERGES AS 5TH LARGEST FOREX RESERVES HOLDER IN THE WORLD WITH \$608.99 BILLION AS ON JUNE 25, 2021

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

With India's forex reserves at \$608.99 billion as on June 25, 2021 stood, India has emerged as the fifth largest foreign exchange reserves holder in the world after China, Japan, Switzerland and Russia. This was stated by Minister of State for Finance Shri Pankaj Chaudhary in a written reply to a question in the Lok Sabha today.

The Minister stated that India's foreign exchange reserves position is comfortable in terms of import cover of more than 18 months and provides cushion against unforeseen external shocks. Government and RBI are closely monitoring the emerging external position calibrating policies or regulations to support robust macroeconomic growth.

Giving more details, the Minister said that RBI takes regular steps for diversification of forex reserves by scaling up operations in forex swap and repo markets, acquisition of gold and exploring new markets/products, while adhering to safety and liquidity standards. Variation in India's forex reserves is primarily the outcome of RBI's intervention in the foreign exchange market to smoothen exchange rate volatility, valuation changes due to movement of US dollar against other international currencies in the reserve basket, movement in gold prices, interest earnings from deployment of foreign currency assets and inflow of aid receipts.

The Minister further stated that a current account deficit, accompanied by increasing foreign exchange reserves, reflects a surplus on the balance of payments i.e., the magnitude of the net capital inflows exceeds the volume of the current account deficit. In 2020-21, India's balance of payments recorded surplus in both current account and capital account which contributed to the increase in foreign exchange reserves during the year.

Besides exports and imports of goods and services, the overall stability of the external sector depends on other components of balance of payments including remittances (transfers), income in the current account, the size of net capital flows and external debt. India is comfortable in most of these external sector vulnerability indicators, the Minister said.

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