

INDIA'S FOREX RESERVES JUMP \$ 8.22 BN; CROSS HALF-A-TRILLION DOLLAR MARK FOR FIRST TIME

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Foreign Capital, Foreign Trade & BOP

The country's foreign exchange reserves crossed the half-a-trillion dollar mark for the first time after it surged by a massive USD 8.22 billion in the week ended June 5 helped by higher foreign inflows.

The reserves rose to USD 501.70 billion in the reporting week helped by a whopping rise in foreign currency assets (FCA), the latest data from the Reserve Bank of India.

This amount of foreign exchange reserves is equivalent to a year's imports.

In the previous week ended May 29, the reserves had increased by USD 3.44 billion to USD 493.48 billion.

In the week ended June 5, FCA, which is a major component of the overall reserves, rose USD 8.42 billion to USD 463.63 billion.

Expressed in dollar terms, the foreign currency assets include the effect of appreciation or depreciation of non-US units like the euro, pound and yen held in the foreign exchange reserves.

Principal Economic Advisor in the Ministry of Finance Sanjeev Sanyal in a tweet said, "India's foreign exchange reserves hit USD 501.7 billion. As I have been saying in recent weeks, demand suppressio...would push the INR to appreciate after an initial capital outflow."

"Now, as we open the economy to remove demand suppression, and push up credit growth, we will both revive imports and foreign capital inflows. The point is that demand identities imply macro-dynamics that is quite different from what naive forecasters suggest," he said in a subsequent tweet.

According to a senior official of the finance ministry, foreign exchange reserves crossing USD 500 billion is a historic moment for the country.

"After March 2020, increase of about USD 24 billion is a sign of confidence in the Indian economy," the official said.

India has been rewarded for its strong macroeconomic stability, the official added.

Care Ratings Chief Economist Madan Sabnavis said one of the reasons for this surge in foreign exchange reserves is narrowing of the current account deficit as the trade activity has collapsed due to disruptions caused by the COVID-19 pandemic.

"Secondly, we are seeing capital flows increasing substantially. Due to financial crunch and also as banks are not enthusiastic about lending, most of the companies are trying to look at the external commercial borrowing (ECB) route to raise funds," Sabnavis said.

In 2019-20, foreign direct investment (FDI) in the country rose 13 per cent, the sharpest pace in

the last four financial years, to a record of USD 49.97 billion compared to USD 44.36 billion received in 2018-19.

In the first week of June, foreign portfolio investors pumped in a massive 18,589 crore into the Indian markets.

Reliance Industries' mega rights issue, which closed during the last week and was oversubscribed, and stake sale of 2.8 per cent by Uday Kotak in Kotak Mahindra Bank attracted significant foreign flows.

In the past seven weeks, Reliance Industries has raised 97,886 crore through stake dilution in Jio to eight investors, including Facebook and KKR.

Kotak Securities Deputy Vice-President (Currency and Interest Rate Research) Anindya Banerjee said, "This surge (in forex reserves), which started somewhere around in the first week of April, is a combination of the RBI procuring dollars from the spot market and also due to the depreciation of the US dollar, since March-end, against major currencies like euro, pounds and yen."

In the week ended June 5, gold reserves declined USD 329 million to USD 32.35 billion, the RBI data showed.

In the reporting week, the special drawing rights with the International Monetary Fund (IMF) rose USD 10 million to USD 1.44 billion.

The country's reserve position with the IMF also rose USD 120 million to USD 4.28 billion during the reporting week, the data showed.

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