

INDIA'S FOREX RESERVES CROSS HALF TRILLION DOLLARS FOR THE FIRST TIME

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

MUMBAI: India's [foreign exchange reserves](#) rose \$8.2 billion in the week of June 5 and has now crossed the milestone \$500 billion mark for the first time in country's history.

The healthy surge in [the forex kitty](#) was largely on the back of capital raising rounds by [Reliance](#) and [Kotak Mahindra](#) as the foreign currency asset held by the [Reserve Bank of India](#) rose \$8.4 billion and stood at a record \$463 billion in the reporting week, data released by the central bank on Friday showed.

Expressed in US dollars, foreign currency assets include the effect of appreciation or depreciation of non-US currencies such as the euro, pound and yen held in the reserves. India's central bank has been shoring up its foreign reserves since over a year and in the process has leapfrogged Russia and South Korea as the third-biggest holder of forex reserves only behind China and Japan.

"We feel that the inflows coming in on account of [Foreign Direct Investment](#) and debt raising exercises by domestic financial institutions and Non-Banking companies would have largely contributed to the surge in inflow," Saugata Bhattacharya is the Chief Economist at Axis Bank.

"In times like this, the news is a significant psychological milestone." Rating agency S&P's decision earlier this week to not downgrade India's sovereign rating and outlook is also expected to improve the foreign fund flow from global investors.

The prime objective of RBI's reserve management policy is liquidity and safety of reserves.

A strong kitty allows the central bank to timely intervene in forward and spot currency markets to arrest any slide in rupee devaluations. For example, the assimilation of reserve with the central bank and subsequent interventions helped the rupee recover by around 2% from a record low of 76.92 witnessed in April 2020. Since then, INR has been quite resilient, trading in the range of 75-76.

"Something which have differentiates our reserves from China and Japan is the sporadic FDI inflows and contribution of inward remittances. However, over the recent months, capital inflows to some of the largest corporates have indicated that not just sunrise sectors but even the mature industries are finding interest among global investors," said K Harihar of First Rand Bank.

Other components of India's foreign reserves such as its reserves held in gold declined by \$329 million in the reporting week and stood at \$32.352 billion, the latest RBI data showed.

Separately, SDR and central bank's reserve position at IMF stood at \$1.4 billion and \$4.2 billion respectively, in this period.

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