



Forex Reserves

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Why in News

According to the recent data from the **Reserve Bank of India**, India's **Foreign Exchange (Forex) reserves declined by \$113 million** to \$479.45 billion in the week to 24 April, 2020 due to a fall in **foreign currency assets**.

Key Points

- **Changes in forex reserves holdings.**
 - The **foreign currency assets (FCAs)** decreased by \$321 million to \$441.56 billion.
 - **Gold reserves** rose by \$221 million to \$32.901 billion.
 - The **special drawing rights** with the International Monetary Fund (IMF) fell by \$6 million to \$1.42 billion.
 - The country's **reserve position with the IMF** also was down by \$8 million to \$3.57 billion.
- Earlier, the reserve **had touched a life-time high of \$487.23** billion in the week ended by 6 March, 2020.
- During 2019-20, the country's foreign exchange reserves rose by almost \$62 billion.

Foreign Exchange Reserves

- Foreign exchange reserves are **assets held on reserve by a central bank in foreign currencies**, which can include bonds, treasury bills and other government securities.

It needs to be noted that most foreign exchange reserves are held in U.S. dollars.
- These assets serve many purposes but are most significantly held to ensure that the central bank has backup funds if the national currency rapidly devalues or becomes altogether insolvent.

- **India's Forex Reserve include:**

- Foreign Currency Assets
- Gold reserves
- Special Drawing Rights
- Reserve position with the **International Monetary Fund (IMF)**

Foreign Currency Assets (FCA)

- FCAs are assets that are valued based on a currency other than the country's own currency.
- FCA is the **largest component of the forex reserve**. It is expressed in dollar terms.
- The FCAs include **the effect of appreciation or depreciation of non-US units** like the euro, pound and yen held in the foreign exchange reserves.

Special drawing rights (SDR)

- The SDR is an **international reserve asset**, created by the IMF in 1969 to supplement its member countries' official reserves.
- The SDR is neither a currency nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members. SDRs can be exchanged for these currencies.
- The value of the SDR is calculated from a weighted basket of **major currencies**, including the U.S. dollar, the euro, Japanese yen, Chinese yuan, and British pound.
- The interest rate on SDRs or (SDRi) is the interest paid to members on their SDR holdings.

Reserve Position in the International Monetary Fund

- A reserve tranche position implies a **portion of the required quota of currency each member country must provide to the International Monetary Fund (IMF)** that can be utilized for its own purposes.
- The reserve tranche is basically **an emergency account** that IMF members can access at any time without agreeing to conditions or paying a service fee.

Source: IE