



Forex Reserves

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According to the latest **Reserve Bank of India (RBI)** data, India's foreign exchange reserves surged by **\$1.620 billion** to \$430.572 billion due to rise in foreign currency assets.

- The total foreign currencies (of different countries) an economy possesses at a point of time is its 'foreign currency assets/reserves'.
- The Forex Reserves ('foreign exchange reserves') of an economy is its '**foreign currency assets**' added with its **gold reserves, SDRs (Special Drawing Rights) and Reserve Tranche in the IMF.**

Note

Reserve tranche

Reserve tranche is 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.

Special Drawing Rights

- 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.**
- Initially SDR was defined **as equivalent to 0.888671 grams of fine gold**, which at the time, was also **equivalent to one U.S. dollar**. After the collapse of the Bretton Woods system, the SDR was redefined **as a basket of currencies.**
This basket includes five currencies—the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.
- The **collapse of Bretton Woods system in 1973** and the shift of **major currencies to floating exchange rate regimes** lessened the reliance on the SDR as a global reserve asset.

- Officially, the RBI targets neither a particular exchange rate nor foreign exchange reserves, but maintains forex reserves to reduce volatility in the forex market.
 - Forex reserves **act as an insurance** when the rupee tends to be volatile against the dollar,
 - In the process of **supporting weakening rupee**, RBI needs to buy dollars, ultimately, leading to higher forex buildups..
 - But when RBI purchases dollars, it leads to infusion of rupee into the system which leaves **inflationary effect** on the economy.
- Citing the example of China, **the Economic Survey 2014–15** held that India could target foreign exchange reserves of US\$750 billion to \$1 trillion.
- **China has highest forex reserves in the world i.e., \$3.2 trillion. India is currently the sixth largest holder of forex reserves**

Source: TH