Forex Reserves

Why in News

India's Foreign Exchange (Forex) reserves have **crossed the $450-billion mark** for the first time ever on the back of strong investment inflows which enabled the Reserve Bank of India (RBI) to buy dollars from the market.

- India's forex reserves were at $451.7 billion on 3rd December 2019, an increase of $38.8 billion over end-March 2019.
    - The rise in forex reserves will give the central bank the leeway to act against any sharp depreciation of the rupee.
    - At $451.7 billion, the country's import cover is now over 11 months.
- India's forex reserves fell to $274.8 billion in September of 2013, prompting the Centre and RBI to unleash measures to attract inflows. It has been a steady rise for the reserves since then, with $175 billion added in the last six years.

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 (such as dollar)
  - Gold
  - Special Drawing Rights
    - Special drawing rights, or SDR, are an **artificial currency instrument created by the International Monetary Fund,** which uses them for internal accounting purposes.
    - 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 SDR interest rate (SDRi) provides the basis for calculating the interest rate charged to member countries when they borrow from the IMF and paid to members for their remunerated creditor positions in the IMF.
  - 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: TH