

Fall in Indian FOREX Reserves

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[GS Paper 3 - Indian Economy, Depreciation of Rupee]

Context - India's forex reserves declined by USD 1.774 billion to USD 595.954 billion for the week ended May 6 on the back of a fall in the core currency assets, according to Reserve Bank of India (RBI) data released.

The Indian rupee hit an all-time low against the U.S. dollar this week weakening past the 77 rupees to a dollar mark and selling at 77.63 against the dollar.

Key Developments

- During the reporting week, the fall in the reserves was on account of a decline in the Foreign Currency Assets (FCA), a major component of the overall reserves, and gold reserves, as per RBI's weekly data.
- FCA dropped by USD 1.968 billion to USD 530.855 billion in the week ended May 6.
- 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.
- Gold reserves increased by USD 135 million to USD 41.739 billion in the reporting

week, the data showed.

- The Special Drawing Rights (SDRs) with the International Monetary Fund (IMF) jumped by USD 70 million to USD 18.370 billion.
- The country's reserve position with the IMF decreased by USD 11 million to USD 4.99 billion in the reporting week, the data showed.

Anticipated causes

- The RBI stated that the decline in the forex reserves is attributed to a fall in the dollar value of assets held as reserves by the RBI.
- The arbitrary actions taken by the central bank to support the rupee would be the sudden fall of foreign reserves.
- The continuous domestic Price inflation has also been a reason for the reduction in rupee value.