GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

RAJYA SABHA
UNSTARRED QUESTION NO. 1679
TO BE ANSWERED ON 10.12.2024

REASONS FOR DECLINING FOREX RESERVES

1679 Shri Raghav Chadha:

Will the Minister of FINANCE be pleased to state:

(a) the primary reasons behind the decline in India's foreign exchange reserves for six consecutive weeks;
(b) how Government plans to address the potential economic risks posed by declining forex reserves, especially in maintaining currency stability;
(c) the measures taken to strengthen India's foreign exchange reserves and prevent further depletion in the coming months;
(d) in what manner Government is ensuring that the decline in reserves does not negatively impact import costs and inflation; and
(e) the timeline for stabilizing and rebuilding forex reserves to optimal levels?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) The level of Foreign Exchange Reserves (FER) in last six weeks is as below.

As on (Week ending)	**FER position (US$ billion)**
October 25, 2024	684.80
November 01, 2024	682.13
November 08, 2024	675.65
November 15, 2024	657.89
November 22, 2024	656.58
November 29, 2024	658.09
Source: RBI	

As is evident from the data, the week of 29 November, 2024 has witnessed an upward movement in the level of FER.

The changes in the FER are due to the movements in the Foreign Currency Assets (FCA) which occur mainly on account of purchase and sale of foreign exchange by the Reserve Bank of India (RBI), income arising out of the deployment of the FER and external aid receipts of the Central Government.

(b) to (e): Accretion to or depletion of forex reserves depends on the amount of net capital inflows through the capital account and the absorption of such inflows by the economy as measured by the balance on the current account of the balance of payments. If the capital inflows are more than the absorptive capacity represented by the current account deficit, the excess capital inflows would add to the forex reserves. The level of FER at any given point in time is a function of revaluation of FCA and market operations to smooth volatility.

The foreign exchange reserves were at US$ 675.7 billion on November 8, 2024. At the current level, reserves cover more than 11 months of imports and more than 99 per cent of external debt outstanding at end-June 2024. Thus, the reserves are at a comfortable level and there is no perceived economic risk.

****