

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA
UNSTARRED QUESTION NO. 4313
DUE FOR ANSWERED ON MARCH 27, 2023

USE OF FOREX RESERVES FOR CAPITAL DEVELOPMENT

4313. Shri Shyam Singh Yadav:

Will the Minister of FINANCE be pleased to state:

- (a) the reasons for the decrease in forex reserves for fourth week in a row as of 24.02.2023;
- (b) whether the Government proposes to use forex reserves for capital development in the country and if so, the details thereof; and
- (c) the amount of forex reserves used by the Government for capital development during each of the last eight years?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) The Foreign Exchange Reserves (FER) as on January 27, 2023 stood at USD 576.76 billion which declined to USD 560.94 billion as on February 24, 2023. The decrease in FER can be predominantly attributed to revaluation changes arising out of appreciation of US Dollar vis-a-vis other foreign currencies like EUR, GBP, JPY etc. as well as due to rising yields of foreign securities and decline in gold prices. Further, some of the decrease was due to intervention operations in the foreign exchange market to curb excessive volatility in USD/INR exchange rate.

(b) & (c): The Reserve Bank of India Act, 1934 provides the overarching legal framework for deployment of reserves in different foreign currency assets and gold within the broad parameters of currencies, instruments, issuers, and counterparties. The essential legal framework for reserve management is provided in sub-sections 17(6A), 17(12), 17(12A),

17(13) and 33 (6) of the above Act. In brief, the law broadly permits the following investment categories:

- (i) deposits with other central banks and the BIS;
- (ii) deposits with commercial banks overseas;
- (iii) debt instruments representing sovereign/sovereign-guaranteed liability with residual maturity for the debt papers not exceeding 10 years;
- (iv) other instruments/institutions as approved by the Central Board of the Reserve Bank in accordance with the provisions of the Act; and
- (v) dealing in certain types of derivatives.

RBI has entered into an Agreement with India Infrastructure Finance Company (IIFC) (UK) Ltd. for subscribing to the bonds issued by them up to USD 5 billion for supporting the investment in infrastructure sector. These bonds are guaranteed by the Government of India for payment of interest and repayment of principal. RBI had invested an amount of USD 2,500 million in bonds issued by IIFC (UK) in terms of the subscription agreement with IIFC (UK). Presently, balance of RBI investment in IIFC bonds stands at USD 1,323 million as cumulatively USD 1,177 million has been repaid by IIFC (UK) till December 31, 2022.
