GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA
UNSTARRED QUESTION NO. 58
TO BE ANSWERED ON JULY 19, 2021

FOREX RESERVES

58. SHRI MARGANI BHARAT

Will the Minister of FINANCE be pleased to state:

(a) the reaction of the Government at India becoming 4th largest forex reserves in the world with more than US$ 600 billion;
(b) the details of the efforts being made to diversify forex holding away from the dollar by keeping optimal reserves for our needs;
(c) whether current account deficit with large foreign exchange is creditable and if so, the details thereof;
(d) whether it is not true that unless and until our exports exceeds imports, India will remain vulnerable even though we have huge forex reserves; and
(e) if so, the details thereof?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI PANKAJ CHAUDHARY)

(a) India's forex reserves as on June 25, 2021 stood at US$ 608.99 billion. India has emerged as the fifth largest foreign exchange reserves holder in the world after China, Japan, Switzerland and Russia. India's foreign exchange reserves position is comfortable in terms of import cover of more than 18 months and provides cushion against unforeseen external shocks. Government and RBI are closely monitoring the emerging external position calibrating policies or regulations to support robust macroeconomic growth.

(b) RBI takes regular steps for diversification of forex reserves by scaling up operations in forex swap and repo markets, acquisition of gold and exploring new markets/products, while adhering to safety and liquidity standards. Variation in India's forex reserves is primarily the outcome of RBI's intervention in the foreign exchange market to smoothen exchange rate volatility, valuation changes due to movement of US dollar against other international currencies in the reserve basket, movement in gold prices, interest earnings from deployment of foreign currency assets and inflow of aid receipts.

(c) A current account deficit, accompanied by increasing foreign exchange reserves, reflects a surplus on the balance of payments i.e., the magnitude of the net capital inflows exceeds the volume of the current account deficit. In 2020-21, India's balance of payments recorded surplus in both current account and capital account which contributed to the increase in foreign exchange reserves during the year.

(d) & (e) Besides exports and imports of goods and services, the overall stability of the external sector depends on other components of balance of payments including remittances (transfers), income in the current account, the size of net capital flows and external debt. India is comfortable in most of these external sector vulnerability indicators.

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