

UNIT 15 – BANKING - A Brief on FOREIGN EXCHANGE RESERVES

Dear Readers,

Today we are providing you the notes on one of the most important financial terms FOREIGN EXCHANGE RESERVES. This is important as it can be asked in the General Awareness section in the upcoming exams.

As it was in the news that, our country's foreign exchange reserves rose by \$321.7 million to \$353.648 billion in the week to July 24 on account of increase in foreign currency assets. The country's gold reserves remained unchanged at \$19.074 billion. The special drawing rights with the International Monetary Fund were up by \$5.8 million to \$4.024 billion in the week under review, while the country's reserve position with the Fund also rose by \$1.8 million to \$1.304 billion.

Components of Forex	As on July 24, 2015	
	₹ Bn.	US\$ Mn.
	1	2
Total Reserves	22,551.8	353,648.1
1.1 Foreign Currency Assets	20,995.3	329,245.4
1.2 Gold	1,216.1	19,074.3
1.3 SDRs	257.1	4,024.2
1.4 Reserve Position in the IMF	83.3	1,304.3

Lets discuss What actually is FOREX?

Reserves are maintained by countries for meeting their international payment obligations — both short and long terms, including sovereign and commercial debts, financing of imports, for intervention in the foreign currency markets during periods of volatility, besides helping to boost the confidence of the market in the ability of a country to

meet its external obligations and to absorb any unforeseen external shocks, contingencies or unexpected capital movements.



India's foreign exchange reserves comprise foreign currency assets, gold and special drawing rights allocated to it by the International Monetary Fund (IMF) in addition to the reserves it has parked with the fund. Foreign exchange reserves are held and managed by the RBI.

The Foreign currency assets are investment mainly in instruments abroad which have the highest credit rating and which do not pose any credit risk. These include sovereign bonds, treasury bills and short-term deposits in top-rated global banks besides cash accounts.

The Special Drawing Right (SDR) is an interest-bearing international reserve asset created by the IMF in 1969 to supplement other reserve assets of member countries. The SDR is based on a basket of international currencies comprising the U.S. dollar, Japanese yen, euro and pound sterling. It is not a currency, nor a claim on the IMF, but is potentially a claim on freely usable currencies of IMF members. It can be held and used by member countries, the IMF, and certain designated official entities called "prescribed holders"—but it can not be held, for example, by private entities or individuals.