Rise in Foreign Exchange Reserve, April 2019

Why in news?

India's foreign exchange reserves has risen to a near one-year high of $418.5 billion (week ended April 26, 2019).

What were the earlier challenges?

- Forex reserves had hit a high of $426 billion in the week ended April 13, 2018.
- But it witnessed a steady slide over the following months and went down to $392 billion in October, 2018.
- In October, the rupee had fallen to its all time low of 74.34 against the dollar.
- This was mainly because, in October, the Brent crude oil prices had hit a high of around $86 per barrel.
- There were also high capital outflows from the debt and equity markets of India.
- So the RBI had to intervene to stem the slide of rupee against the dollar which was also putting pressure on current account deficit.
- Also, in the months after that, crude oil prices fell sharply as well as FPI fund flows stabilised, offering a much needed relief to the rupee.

What are the recent developments?

- There is a continuing strong inflow of funds by Foreign Portfolio Investors (FPI).
- In November and December 2018, FPIs invested a net of over Rs 17,000 crore in the equity and debt markets.
- Since February 1, 2019 FPIs have pumped in a net of close to Rs 76,000 crore into Indian equity and debt markets.
- A growing inflow of FPI money has helped the rupee withstand other pressures.
- It has helped balance the impact of US decision to withdraw waivers for imports from Iran. [Click here to know more.]
- Secondly, RBIs decision to conduct $10 billion dollar-rupee buy-sell swap auction between March and April 2019 has also contributed.
- Resultantly, standing at $399.1 billion in February 2019, forex reserves has

risen sharply by over $19 billion over the last 2 months.
- The current reserve of $418.5 billion is the highest since May 4, 2018 when it stood at $418.94.

How will it benefit the economy?

- Forex reserves in terms of months of import cover has fallen from 14 months from April 2016 to 9 months in October 2018.
- But rising forex reserves had led to an improvement in India's import cover to 11-months in February 2019, and is expected to improve further.
- As forex reserves continue to rise, a decline in imports would lead to improvement in current account deficit in the coming quarters.

Source: Indian Express

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