• Discuss the Various Avenues to Utilize Excess foreign exchange reserves of the Country to maximise the returns.

14/12/2020

(GS-3, Indian Economy)

Foreign exchange reserves are cash and other reserve assets held by central bank which are used to balance payments, to improve confident of market, to influence currency exchange rate of a country.

India's foreign exchange (FX) reserves is increasing sharply this fiscal with reserve exceeding $580 billion.

Different Areas of Investments:

* These funds can be used to ~~fund~~ finance infrastructure development projects.
* It can be used to Capitalize state-owned banks
* To use funds to Import goods.
* To Set up an investment entity to maximise returns.

Drawbacks of investing in above mentioned Areas:

* Investment in Infrastructure Projects leads to increase in govt. debt. and difficulties in monetary management.
* Capitalising State banks exposes them to currency risks as the capital is in dollars

Advantages of investing in import of goods in defence, technology will ensure acquiring growth enhancing assets and monetary management is easy as transaction takes place in USD.

* The investment firm will be used to utilise funds to ~~improve~~ maximise returns.

~~So~~ * the central banks can also setup manufacturing units ~~for~~ for defence equipments, govt. run medicines manufacturing units can be setup.

* So the central banks in discussion with government can take measures to import goods and other mentioned ideas to ~~fe~~ invest foreign exchange reserves.