GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1214
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FOREIGN EXCHANGE RESERVE
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Will the Minister of FINANCE be pleased to state:

(a) whether the India's foreign exchange reserve fell sharply in the recent past;

(b) if so, the details thereof;

(c) the factors responsible for fall in foreign exchange reserve;and

(d) the steps taken by the Government in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI PAWAN KUMAR BANSAL)

(a) & (b): India's foreign exchange reserves fell from a level of US $ 309.7 billion at end March 2008 to a level of US $ 274.0 billion (as on October 10, 2008).

(c) & (d): The extent of capital flows and the levels of intervention by the Reserve Bank of India (RBI) in the foreign exchange markets are major factors affecting the level of foreign exchange reserves.The lower levels of capital inflows on the supply side arising out of the turbulence in global financial markets and increased demand from market participants have resulted in a sharp depreciation of the rupee against US dollar in the current financial year.Foreign exchange reserves are instruments to maintain or manage the exchange rate,while enabling orderly absorption of international money and capital flows.In the face of inadequate supply in the current financial year,the RBI intervened in the foreign exchange market to maintain orderly conditions through sales of US dollar.Hence the decline in foreign exchange reserves.The RBI will continue to sell foreign exchange (US dollar) through agent banks to augment supply in the domestic foreign exchange market or intervene directly to meet any demand-supply gaps.The exchange rate policy in recent years has been guided by the broad principles of careful monitoring and management of exchange rates with flexibility,without a fixed target or a pre-announced target or a band,coupled with the ability to intervene,if and when necessary.To improve supply of US dollars in the foreign exchange market,the following measures have been taken/announced by the RBI and the Securities and Exchange Board of India: modulated interest rates on non-resident deposits to attract capital flows; banks were allowed to borrow funds from their overseas branches and correspondent banks up to a limit of 50 per cent of their unimpaired Tier I capital as at the close of the previous quarter or US $ 10 million whichever is higher as against the existing limit of 25 per cent; to obviate the difficulties arising out of a tightening in the money and foreign exchange markets,the public sector oil marketing companies were facilitated through special market operations for oil bonds in June −July 2008;relaxed the restrictions on offshore derivative instruments; and decided to increase the Foreign Institutional Investors (FIIs) investment limit in corporate bonds from $3 billion to US$ 6 billion.