

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:822
ANSWERED ON:01.03.2013
FOREIGN EXCHANGE RESERVES
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Will the Minister of FINANCE be pleased to state:

- (a) the area-wise details of funds from the Foreign Exchange Reserves invested by the Reserve Bank of India (RBI) during the last three years;
- (b) whether the utilization / non-utilization of the reserves has any impact on the prevailing inflation in the country; and
- (c) if so, the details thereof and action taken/being taken by the Government in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) In line with the principles of preserving the long-term value of the reserves in terms of purchasing power, minimising risk and volatility in returns, and maintaining liquidity, Reserve Bank of India (RBI) hold foreign currency assets (FCA) in major convertible currency instruments. These include deposits of other country central banks, the Bank for International Settlements (BIS), top-rated foreign commercial banks and in debt instruments of sovereign / sovereign guaranteed and supranational institutions with residual maturity not exceeding 10 years, to provide a strong bias towards capital preservation and liquidity.

The total foreign exchange reserves was US\$ 279.1 billion at end-March 2010, US\$ 304.8 billion at end-March 2011, US\$ 294.4 billion at end-March 2012 and US\$ 295.5 billion at end-January 2013.

(b) & (c) Increase or decrease in foreign exchange reserves is an outcome of intervention in the foreign exchange market guided by India's exchange rate policy. Changes in foreign exchange reserves could impact overall liquidity situation in the economy and thereby have implications on the overall inflation. As and when necessary, the Reserve Bank of India uses the multiple instruments available to sterilize the liquidity impact of foreign exchange market purchases so as to limit its inflationary impact. In the recent years, as there has not been significant accretion to foreign exchange reserves, the liquidity impact has remained contained.