# Forex reserves soar $103 billion in April-December 2020

## What is the issue?

- India's foreign exchange reserves have risen by over $103 billion as of 25 December 2020 which is set to surpass the all-time-high increase of $110.5 billion recorded in 2007-08 by end of the fiscal.
- Though the reserve positions are comparable, the context between the official reserve accretion then and now is different.

## Why is it totally different now from 2007-08?

- In 2007-08, the economy was booming, registering a GDP growth of 9.3% on top of 9.6% and 9.5% in the preceding 2 years.
- The Centre's fiscal deficit, too, was a mere 2.5% of GDP.
- India could, then, easily withstand the shock from the global economic crisis that followed one year later.
- In contrast, the economy has now contracted by 14.9% year-on-year in April-September 2020-21.
- The RBI expects growth for the whole fiscal to be -7.5% (on top of a dismal 3.9% for 2019-20). Nor are government finances in great shape.
- The most optimistic projection of the Centre's fiscal deficit for 2020-21 stands at 6.5%-7% of GDP (as against the budgeted 3.5%).

## How about the contributing factors?

- In 2007-08, the $110.5-billion reserve build-up amounted to 7.4% of India's then much-smaller GDP.
- Importantly, it was powered largely by foreign investment, external commercial borrowings and other capital inflows totalling $107.9 billion.
- These inflows were more a result of 'pull' factors, having to do with global investors wanting to partake of the India growth story.
- In contrast, the forex reserve accumulation in 2020-21 has been driven mainly by current account balance (exports-imports gap) turning positive at $34.7 billion during April-September 2020.
- This surplus has, in turn, been due to imports in April-September 2020

falling by a massive $95.6 billion over April-September 2019.

- This is further reflective of low import demand in a shrinking economy.
- The current account surplus has also been supplemented by some foreign capital inflows.
- For instance, Reliance Industries alone attracted global investments aggregating to about $27 billion in its Jio Platforms between April 22 and November 9 in 2020.
- Foreign portfolio investors, too, have pumped $28.65 billion into Indian equity and debt markets so far this fiscal.
- But total foreign capital inflows, net of debt repayments and other outflows, have been only $16.5 billion, as per RBI data for April-September 2020.
- Moreover, unlike in 2007-08, the capital flows coming in now seem to be more courtesy ‘push’ than ‘pull’ factors.
- With 10-year US treasury yields currently at 0.91%, investors are being pushed to seek returns in emerging market economies offering relatively higher returns.
- Some of that dollar liquidity has been flowing into India, especially since November.
- In all, it makes for an extraordinary situation of record forex reserves build-up when the economy is experiencing negative growth for the first time in 41 years.

**Source: The Indian Express**