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India's forex store dips faster than peers

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Niti Kiran



Photo: iStock

SYNOPSIS

Decline of forex reserves cannot be solely attributed to a central bank's move to defend the currency

MUMBAI : "You buy an umbrella to use it when it rains," Reserve Bank of India (RBI) governor Shaktikanta Das said earlier this year in connection with using forex reserves to defend the rupee against the dollar. Until the beginning of this year, the country had saved enough for the rainy day, because of strong capital flows in the



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India's forex reserves were \$528.4 billion as of 14 October, the lowest since July 2020, and sharply down from the record \$642.4 billion last year. The rupee has crashed more than 10% against the US dollar this year and slipped below 83 for the first time last week.

 Sharp draw downs

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Sharp draw downs



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The depreciation of the currency may have cost India the most among major EM peers in terms of forex reserves depletion, next only to China, which saw a reduction of \$159 billion in its reserves between 1 April and 30 September. India is followed by Russia, with a decline of nearly \$64 billion in the same period.

The decline of the forex reserves cannot be solely attributed to a central bank's intervention to defend the currency against the dollar.

In percentage terms, Thailand lost 18.3%, India 13.8%, and Russia 10.5%. Ten countries that are part of Mint's monthly Emerging Markets Tracker were part of the analysis.

Japan has also seen its forex reserves decline more than \$150 billion this year and Singapore has seen a decline of more than \$150 billion since February.



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exchange rate (INR) in the past year. This is a pr

1% in the past

Around a third of the depletion this fiscal year came in September itself, when the rupee witnessed the sharpest monthly depreciation of 2.3% in 14 months against the US dollar. Yet, this drawdown doesn't seem to be a matter of much concern at this point, economists said. "There has been a sharp depletion of forex reserves in the last few months, but what is comforting is India's high level of reserves that has enabled it to withstand the sharp depletion without any major panic so far. Another comforting factor is the country's low external debt (20% of gross domestic product) and the short-term debt as a share of total external debt is around 20%," said Rajani Sinha, chief economist, CareEdge. However, the widening of the current account deficit and falling import cover is a matter of concern, she said.



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“Some emerging Asia central banks, mainly in India and China, scaled up the degree of exchange rate inflexibility in response to the US Federal Reserve’s tightening and stronger dollar, which also led to EM currencies outperforming the more flexible advanced economies’ currencies. This has been afforded by a significant rundown in forex reserves,” a Systematix Institutional Equities report in September said. However, this inflexibility could get less sustainable as the forex buffer dwindles further, it said.

ABOUT THE AUTHOR



Niti Kiran

Niti Kiran is a data journalist who really likes data. With over 10 years of experience in corporate and market research, she has an eye for detail. Data research is Niti's forte and constantly fascinates her.

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