

India sees \$12.4b forex spike in a week

Country's forex reserves hit record \$729.3 billion on strong dollar inflows

NEW DELHI

India's foreign exchange reserves surged to a record high of \$729.3 billion in the week ended August 21, providing the Reserve Bank of India (RBI) with greater firepower to manage pressure on the rupee amid elevated oil prices and global economic uncertainties.

According to data released by the RBI on Friday, the country's forex reserves increased by \$12.4 billion during the week, surpassing the previous record of \$728.5 billion registered in February.

The sharp rise in reserves has been supported by strong foreign currency inflows following measures introduced by the central bank in June to attract overseas capital. These included a special deposit programme aimed at overseas Indians and other non-resident customers.

\$72.8 billion in inflows

The measures have attracted around \$72.8 billion in inflows through August 21, helping strengthen India's external position and reducing the risk of a third consecutive year of a deficit in the country's broadest measure of capital flows.

The increase in reserves also gives the RBI greater room to intervene in the foreign exchange market and support the rupee if necessary. The Indian currency has recovered around

Under the special diaspora deposit programme, the RBI is bearing the hedging costs incurred by banks.

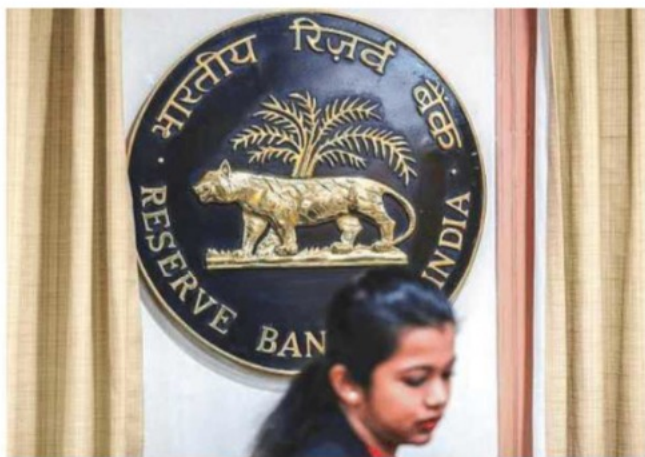
1.7 per cent from its record low reached in May, but remains under pressure, particularly because of higher crude oil prices and the country's heavy dependence on imported fuel.

However, the strategy of attracting overseas deposits comes at a significant cost for the central bank. Under the special diaspora deposit programme, the RBI is bearing the hedging costs incurred by banks, allowing lenders to offer more attractive interest rates to overseas customers.

The cost of raising these funds has become particularly high as US interest rates remain significantly above the levels seen in 2013, when the RBI last turned to overseas residents to shore up foreign exchange reserves. Analysts have pointed out that the RBI generally invests the dollars raised through such programmes in relatively low-yielding assets. The return on these assets can be considerably lower than the cost of raising the funds, creating what has been described as a "carry cost" for the country.

The annual cost of this arrangement could be around \$5.7 billion, according to estimates cited in the analysis.

— IANS



■ The sharp rise in reserves has been supported by strong foreign currency inflows following measures introduced by the RBI in June to attract overseas capital.