

Up for a 3rd week: Fx reserves rise \$2.9 bn

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Mumbai, 2 December

The Reserve Bank of India's (RBI's) foreign exchange reserves rose by \$2.9 billion to \$550.14 billion in the week ended November 25, the latest central bank data showed.

The data marks the third consecutive week in which the RBI's reserves have increased.

The rise in reserves last week was on account of an increase in the RBI's foreign currency assets, which jumped \$3 billion to \$487.29 billion, the data showed.

In the week ended November 25, the rupee was flat against the US dollar. The Indian currency has, however, appreciated sharply in the previous month, adding on 1.7 per cent.

The gains in the rupee were driven by anticipation of the Federal Reserve slowing down the pace of rate hikes after data showed a larger-than-expected decline in US inflation.

The US dollar index weakened around 5 per cent the previous month. With the strength in the US dollar now having subsided, many economists believe the RBI's reserves could see revaluation gains in coming months, along with greater returns on its foreign reserves holdings due to higher global interest rates.

A large chunk of the RBI's reserves is in the form of US government bonds.

The RBI's reserves were around \$631 billion in late February when the Ukraine war broke out. The conflict, followed by the US Fed's tightening cycle, propelled global funds towards the dollar, exerting pressure on emerging market currencies such as the rupee. Consequently, the RBI sold dollars from its reserves in order to prevent excessive volatility in the exchange rate.

Bank credit grows 17.2% for fortnight

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Bank credit grew by 17.2 per cent year-on-year (YoY) to ₹129.48 trillion as on November 18, reflecting firm demand for loans, the latest Reserve Bank of India (RBI) data showed.

The credit growth was slightly higher than 17 per cent as on November 4.

Deposit growth increased by 9.6 per cent YoY to ₹172.95 trillion as on November 18, a significant rise from 8.2 per cent a fortnight ago, the RBI data showed.

The wide gap between deposits and credit has exerted pressure on banks to mobilise funds to finance the aggressive loan growth.

Over the past few months, banks have raised deposit rates in order to garner fresh funds, and have resumed large-scale issuances of bonds over the last couple of weeks in order to raise capital.

Credit growth has, however, moderated from around 18 per cent in early October.

Analysts cited strong overseas investment and a likely rise in the pace of government spending as key reasons behind the improvement in deposit growth in the fortnight that ended November 18.

"The key reason for this deposit growth is basically improvement in the balance of payments account. The foreign portfolio investment flows that we have seen in the month of November have improved significantly compared to the previous month," Soumyajit Niyogi, director of core analytical group, India Ratings & Research, said.

FOREX RESERVES

