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# Foreign Exchange Policy in India

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## Description

Foreign Exchange Policy of India and other Emerging Market Economies are in limelight since last few years due to their incredible rise in the current decade. The economist's analysts from the western world, particularly the IMF specialists, have assailed this fixation of amassing of reserves by the EMEs. Experts have brought up that abundance FOREX holds the liabilities as opposed to resources because of different expenses related with them. Besides, the costs, this has led to flow of capital from the developing (EMEs) countries to developed countries as best of these excess reserves end up being capitalized in low yield but high capital and secure US Treasury Bonds. India has come a long way forward from the embarrassment of 1991 to the embarrassment of riches in 2021. This miracle happened because of liberalization and globalization policies which made the FDI and Portfolio Investments attractive. Incentives providing in the direction of exports and remissions from overseas advance boosted the reserves. The managed float of currency policy forced the RBI to accordingly mop up the FOREX after the market to preclude the currency appreciation. Though, the global recession caused due to US sub-prime crisis and the fear of strikes have caused huge outflow of FOREX, the reserves are still hovering around US $250 billion, which is attired by all standards. In this paper, various benefits of capitals are discussed and costs associated with the excess investments have been discussed and notional computations of the costs have been carried out. There are number of principles to test the adequacy of reserves, as recommended by various experts and by multilateral organizations like IMF, BIS etc. All these criteria recommend that the FOREX reserves of India are certainly in surplus. In this paper, an Artificial Neural Network (ANN) model using data-mining technique has been developed using the data, consisting of economic indicators as well as social/political indicators, of more than 100 countries. This model has also indicated the same result. Though, the assets have depleted by around US $50 billion, still the reserves are in excess keeping in view the fact that the Indian economy is severely affected like other economies and even the IMF has set a quite encouraging future and a turnaround is expected in a couple of years. The facts that oil prices have crashed to an incredible level and renewed interests of FII would help India in sustaining a huge reserves. Excess reserves can be effectively and efficiently utilized in infrastructure, using innovative methods like issuing of Dollar Bonds so that money supply is not affected, and also in creating a Sovereign Wealth Fund (SWF), which has become extremely popular among the EMEs. A small amount can also be reserved for the Indian companies who are fronting extreme hardship in recompensing international loans due to liquidity crisis in the market. RBI is also required to be made more independent and professional. It has been observed that RBI is extremely averse to admit the existence of excess reserves without actually carrying out any detailed mathematical study or building statistical model. RBI defence of its extremely precautionary approach is entirely based on intuitive reasoning.

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