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Understanding the Forex Reserve along with the weekly report of RBI



News: The RBI reported on October 1, the fall in the forex reserve. It is basically due to falling in the **foreign currency assets** which is a major

component of the overall **forex reserves**. The report says that the forex reserves slid by 1.169 billion dollars to reach 637.477 billion dollars during the weekend of October 1, 2021.

Understanding the forex reserve: The forex reserve of our country, which is kept with RBI, is comprised of **foreign currencies, gold, special drawing rights(SDR)**, and reserve tranche position kept with IMF. As RBI is responsible to keep the forex reserve, it is called as **custodian of the forex reserve**.

The value of forex reserve can be termed in dollars or rupees. This forex reserve is very important for any country and could be used in buying the items from the international market, which means a kind of essential for the import. That's why it is also termed as Import Cover. In this article, the dollar will be termed as for all foreign currencies.

Dynamic of Forex Reserve: When a dollar comes into a country its forex reserve will increase. Similarly, when a dollar moves out of the country its forex reserve will reduce.

The coming of the dollar and outgoing of the dollar can be understood in three ways. First in the form of debit/loan, second in the form of investment, and third in the form of earnings. All the movements of the dollar whether it is coming in a country or moving out of the country is written in Balance of payment. Thus **Balance of Payment** is a record of all Dollars coming into or moving out of the country. The Balance of Payment comprises two accounts, the **current account and capital account**. The movement of debt/ loan and investment is recorded in capital account whereas all earnings are recorded in the current account.

In all these account, Whether capital account or current account, coming of dollar as well as moving out of the dollar, both will be recorded. It means all entries will be having two ways. For example, if the **Loan/Debt (External Commercial Borrowings/Government Borrowing/Masala Bond)** is taken it will be recorded as incoming of the dollar in the capital account, and forex reserve will increase. If the loan is given or repayment of the loan is done then it will be recorded as outgoing of the dollar in capital account, and forex reserve will decrease.

In the same way, if an **Investment (FDI/FII/FPI/GDR)** is done by foreigners then it will be recorded as an incoming of the dollar in the capital account, and forex will increase. And if the investment is done by residents (citizen/company/bank/government) of the country in any foreign country then it will be recorded as outgoing out the dollar in the capital account.

Similarly, if a country is **exporting or receiving remittances (i.e. earning of the country)**, it will be recorded as incoming of the dollar in the current account. In the same way, if the country is importing or paying remittances (i.e. spending of the country), it will be recorded as outgoing of the dollar.

So we have to understand here that if the dollar is coming in our country, our forex reserve increases. But at the same time, we need to see whether this dollar is a loan, foreign investment or an earning. As discussed above loan and foreign investments will be returned in the capital account and all kinds of earning will be written in the current account. Our current account for long has Experienced deficit. It is basically our capital account that is in surplus and due to which our forex reserve is touching more than 600 billion dollars.

As on October 1, 2021, RBI reported that it has 637.477 Billion dollar Forex reserve. Out of this 637.477 billion dollars forex reserve, the value of foreign currencies are 575.451 Billion dollars, the value of gold is 37.558 Billion dollar,

The value of special drawing rights is 19.240 Billion dollars and the value of reserve position in IMF 5.228 Billion dollars. In this way we can say that the forex reserve comprised of 90.27% Foreign currencies (Dollar Pound Euro Japanese yen and others), 5.89% gold, 3.02% SDR, 0.82% Reserve position kept with IMF.

Understanding Special Drawing Rights(SDR) and Reserve Tranche

Position(RTP): Every member country of the International Monetary Fund (IMF) requires to keep a certain amount of forex reserve with IMF as per their quota. One portion of this forex reserve is called Special Drawing Rights and another comes under the Reserve Tranche position.

IMF makes the general SDR allocation to its members in proportion to their existing quotas and it is termed as Special Drawing Rights (SDR). SDR is an alternate reserve currency floated by the IMF, which the member countries can freely exchange between themselves instead of relying on the currency of any one particular country. SDR is a basket of the U.S. dollar, Japanese yen, euro, pound sterling, and Chinese Renminbi.

For example, as of August 23, 2021, the total SDR holdings of India stand at SDR 13.66 billion (equivalent to around USD 19.41 billion at the latest exchange rate. Here you can see 13.6 billion SDR is equal to 19.41 billion USD as per the exchange rate then. Hence one SDR equals 1.42 USD then. Also, we can calculate the value of SDR in terms of rupees. The value of SDR would be changing with the change in the market value of USD or Rupees.

Presently, as of October 1, the SDR of India is equivalent to 19.240 Billion USD as discussed above. This is one portion of India's quota. Second portion of India quota in terms Reserve tranche position RTP. The RTP is basically an emergency account that IMF members can access at any time without agreeing to conditions or paying a service fee. In other words, a portion of a

member country's quota can be withdrawn free of charge at its own discretion. It means India at present can withdraw 19.40 billion USD without interest in case of an emergency.

Md Layeeque Azam, Economics Faculty

The Taiwan Strait- A likely arena for clash of arms [GS II, International Relations]

CONTEXT:

If the rising confrontation between U.S.A. and China erupts into a clash of arms, the likely arena may well be **the Taiwan Strait**.

HISTORY/BACKGROUND:

- Issue of Taiwan is still unresolved. In the 1945-49 civil war, the CCP forces under Mao Zedong defeated the Kuomintang (KMT) forces led by Chiang Kai-shek .
- Chiang retreated to Taiwan and set up a govt. that claimed authority over the whole of China and decided to recover mainland China.
- The CCP committed to reclaim Taiwan to achieve the final reunification of China but failed, because during the Korean War of 1950-53, It became a military ally of the United States. China, though

declares its commitment to pursue peaceful unification but reserves the right to use force also.

The PRC has promised a high degree of independence to Taiwan under the **“one country two systems” formula** first applied to Hong Kong after its reversion to Chinese sovereignty in 1997.

One country Two systems Formula :

To Hong Kong- It may retain its free market system with political and judicial Institutions and Processes, for a period of 50 years.

To Taiwan, it was promised that it could also retain its armed forces during the transition period, alongwith same scheme of Hong-Kong.

Economic links between China and Taiwan:

Since 1978, China has been rising economically and commercially (in power) globally. Taiwan business entities have invested heavily in mainland China and the two economies have become increasingly integrated while Chinese investments in Taiwan are very low in comparison i.e. barely U.S. \$2.4 billion, if Hong Kong is not considered.

- Taiwanese capital investment in China (b/w 1991 and 2020) → U.S. \$188.5 billion
- Bilateral trade in 2019 → U.S. \$150 billion

China hopes that the considerable economic benefits that Taiwan business and industry enjoy through a developing relationship with China would weaken opposition to its unification plan.

If Taiwan is seen drifting towards an independent status, China is capable of causing economic pain on Taiwan through repressive policies.

IN THE POLITICS OF TAIWAN:

Taiwan has two major political parties:

1. The **KMT**, who came to Taiwan along with Chiang Kai-shek in 1949, remains committed to one-China policy and **does not support Taiwanese independence**.
2. The Democratic Progressive Party (**DPP**), representative of the indigenous population of Taiwan, **favours independence**.

However, faced with Chinese aggression and lack of international support, the demand for independence has been muted.

STANCE OF MAINLAND CHINA AGAINST TAIWAN:

China feels comfortable with the KMT and is aggressive towards the DPP.

Ever since the DPP won the presidential elections in 2016 (under **Tsai Ing-wen**), China has taken back to a series of actions like economic

pressures and military threats, which re-escalated since the re-election of Tsai Ing-wen in the 2020 elections.

CHINESE ACTIONS AND THEIR RESULTS:

The increasing military threats against Taiwan, through daily violations of its air defence identification zone (ADIZ) and aggressive naval plans in the Taiwan Strait, are obstructive in nature.

With such Chinese actions, chances of peaceful unification have reduced. Sentiment in favour of Taiwanese independence have increased.

INDIA's STANCE: In pursuance of its Indo-Pacific strategy, India needs to be watchful of the China-U.S. equations in the region.

The U.S. stance:

The U.S. recognised the PRC as the legal government of China in 1979.

While the U.S. does not support a declaration of independence by Taiwan, it has gradually reversed the policy of avoiding official-level engagements with the Taiwan government.

In a recent incident, a U.S. nuclear-powered submarine ran into an "unidentified object" in the South China Sea. China has objected to these U.S. actions clearly.

In the latest telephone talk between President Joe Biden and Mr. Xi, Mr. Biden confirmed Mr. Xi that the U.S. will abide by the “Taiwan agreement”, i.e. the U.S. would not reverse its one China policy.

IS CHINA’S NEXT STEP TO INVADE TAIWAN MILITARILY ?

In March this year, the U.S. Pacific Commander, Philip Davidson, alerted that China could invade Taiwan within the next six years as part of its strategy to displace U.S. power in Asia.

While other analysts gives different opinions like-

- Cross-strait operations will be extremely complex
- Pacifying a hostile population may prove to be long drawn out and costly exercise.
- China may await a further decline of U.S. power and its will to intervene in the Taiwanese defence.

Deterrence against China :

- The recent crystallisation of the Quad (India a part of it)
- The announcement of the AUKUS alliance, with Australia promoted to a power with nuclear-powered submarines, may act as a check against Chinese moves on Taiwan.

TO CONCLUDE: For different reasons, Taiwan is emerging as a potential trigger point for a clash of arms between the U.S. and China. In pursuing its Indo-Pacific strategy, India has to keep these possible scenarios in mind.

Swarn Singh

Durga Puja Pandal : Reflection of Indian Art (GS Paper 1 : Art and Culture)



Context : During Durgainstalled . We can easily observe the reflection of various types of arts and culture. We observe Pandal themes that range from Burj Khalifa to Bollywood and Kolkata in the 70s.

When we observe regarding talent and ideas among our artist mainly sculpting artist, we see this talent is in abundance in the artist of Kolkata

Significance of Durga Puja in West Bengal

- Durga Puja is the only festival of Kolkata among the most celebrated festivals in Kolkata . Various types of the pandals during these festivals are installed everywhere in Kolkata . These Pandals are generally theme based pandals . These Themes depict the various aspects of human life. These themes are drawn by various artists not only of India but also of abroad also.
- Durga Puja is one of the biggest cultural event of India

Various Themes

- During last year when we were facing the problem of the coronavirus pandemic, many artists showed this theme of coronavirus in their sculpture and in Pandals . Besides , the theme related to migrant workers was another theme which had attracted every artist. The migrant mother theme which was fashioned by Barisha club in reflected the pathetic condition of the migrant workers
- For more than one year we have been facing the problem of coronavirus but still people could not be stopped by such a pandemic.

People had shown their creativity and talent . This year various contemporary issues are also reflected in the themes of Durga Puja Pandal

- In Behala's Barisha Club, Durga Puja assumed a political stance. The idol was sculpted to look like a migrant mother. The theme for this year is '*Bhaager Maa*' (division of mother), and it specifically details the life of a family inside a detention camp. It has smartly played around the subject of the National Register of Citizens and the plight of people who find themselves as refugees.
- Another important and contemporary theme was related to the protest of farmers . This theme had shown its solidarity with farmers. In this theme , the incident of **Lakhimpur Khiri** is also reflected in which many farmers were killed by the son of BJP home minister for state.
- A puja pandal in Kolkata has been crafted to mimic the harrowing episode.
- There are many puja pandal which depict the science of 70s' Bollywood. In hand-painted advertisements we see the image of old Bollywood heroes, scenes etc,
- The theme has been aptly named '*Phiria daou tulir tan*', meaning, 'give us back the brush stroke' — a form of art which has been lost in the digital age.
- Apart from this, the Sreebhumi Sporting Club Dubai's Burj Khalifa has also been depicted . The club has designed a 145-foot pandal which has been modelled to look like the iconic Dubai tower.
- The Hatibagan Sarbojanin Club has also installed a pandal based on the theme '*Pichutan*', which means a longing for something that you cannot go back to. Simply put, it recreates the Kolkata of the 70s.
- In the Bandhu Mahal Club in Baguiati, one idol has been installed with eyes of gold and another idol has been draped in a saree that has gold embroidery on it.
- The puja pandal Nabin Pallyhas been designed as the Pandal reflecting its tribute to those who died during the second wave of the Covid infection. Photos of the deceased, hanging urns and a Mahishasura with folded hands give a haunting reminder that the pandemic is the bigger evil to fight.

Dr. Anshul Bajpai

Artist Babu : A foreign recognised Indian Artist (Art and Culture)

Context :

He had closely bound his inner self and the forest. His art is too much mesmerizing art which had evolved since his childhood where he was surrounded with nature and forest.

About Babu KG

- He is kerala based artist
- He had seen nature since he took birth. He had observed the natural beauty of the kerala which he depicted in his canvas
- He has lived in great penury throughout his school life. Through his picture he , in fact depicted all his old memories of his childhood
- Since he had belonged with tribal life so in his artwork , we see the theme related to tribal life
- He had closely bound his inner self and the forest. His art is too much mesmerizing art which had evolved since his childhood where he was surrounded with nature and forest.

- Since he was also a therapist in his painting we see the themes related to dwellers (adivasis)
- At an ongoing exhibition at Alappuzha. The series of his work is also being exhibited
- His other work is also in progress where he will show his mural painting of 40 x 15-foot at Mandalay Hall in Jew Town in Kochi.
- Most of the works are of six four to seven feet
- He generally used a large canvas where he could paint everything . In fact , entire world is included in his work
- For the Artist work international recognition is also a great feeling for all the artists . it is honour for this artist also that he was given opportunity to show his talent at Sweden
- Internationally Babu had also participated at the 2014 Busan–Art–Fair, South Korea,
- He had also visited China for his art work.
- He also visited America in 2015, where he showed his talent in an exhibition In this exhibition he presented his a work of a mother and child at Pittsburgh
- In his famous picture, a couple is sitting in moonlight ('Nilavu') between blue foliage and a pond with fish and frog exchanging paper boats. 'Harmony' celebrates the myriad colours of the forest and its people.
- Depiction of an evergreen tropical rainforest and its inhabitants through using various Indian colours. This picture is being appreciated in Sweden
- In the painting of a couple , Their eyes speak volumes of this reciprocal link between the human and nature which he had observed in the urban dwellers. This
- Babu's canvas is wide
- In his work, the narrative seems obvious but is enriched with deeper interpretations.
- His forests are populated with indigenous dwellers who coexist with elephants, deer, frogs, butterflies, birds, dragonfly, tigers... together, they roam in the grass around the trees, bushes and shrubs.
- In his picture Dewdrops shimmer on leaves are very much influenceable . These drops look like quiet pearls and in moon lights,

these drops create an amazon beauty and glow. His world is far away from the materialism of daily existence.

- He generally used green as a predominant colour. Among his colours blue also plays an important role. The colour of the sky and background shade is shown by blue colour only and for the water of river and the mountains, blue colour is the dominant colour
- In his painting the bright hues and fulsome images are subtly layered and combine a subliminal mysticism with the real.
- unique perception of the oneness of self and the universe underscores a refined culture of universal love and harmony

About the Show

- The show is organised in Sweden and conceptualised by artist and curator Dorina Mocan
- Since the Indian artist has had a big impact on the Swedish public, Therefore Indian Artists have been invited . She was introduced to Babu's art through his student, London-based Nisha Dilip.

Dr. Anshul Bajpai