

Reserves

53. Reflecting the developments on current and capital accounts of BOP, the foreign currency assets of RBI rose from US \$17.0 billion at the end of 1995-96 to US \$22.4 billion at the end of 1996-97. The foreign currency assets rose further to reach the peak of US \$26.4 billion at the end of August, 1997. They declined subsequently to US \$24.0 billion by the end of December 1997, but rose again to US \$26.0 billion at the end of March 1998. Total foreign exchange reserves (including gold and SDRs) at the end of March 1998 amounted to US \$29.4 billion, which provides cover for about 7 months of imports.

54. While this level of reserves appears comfortable by traditional yardsticks, it is important to recognise that with an increasingly open economy, on both current and capital accounts, the need for reserves to cushion orderly development of the economy from changes in the external environment rises. Furthermore, the recent crisis in East and Southeast Asia has brought into sharper focus the need to maintain high levels of reserves to counter the increased volatility in short term capital flows. Inflows and outflows need to be carefully monitored and calibrated at all times to forestall the threat of a serious decline in resources.