

March 31, 2004

Sources of Accretion to Foreign Exchange Reserves in India: Updated Figures for April-December 2003

Background

The Reserve Bank of India (RBI) had, on January 31, 2003 issued a Press Note on conclusions of a study conducted by its Department of Economic Analysis and Policy (DEAP) on *Sources of Accretion to Foreign Exchange Reserves* during April-November 2002. Subsequent to this, the RBI has been regularly updating and releasing information on 'Sources of Accretion to Foreign Exchange Reserves' through press releases which are available on the RBI website (www.rbi.org.in).

Balance of payments (BoP) data for April-December 2003 are now available. These data have been released on RBI website on March 31, 2004.

Sources of Accretion to Foreign Exchange Reserves in 2003-04 (April-December)

The following table shows the main components of accretion to foreign exchange reserves during April-December, 2003:

Table 1: Sources of Accretion to Foreign Exchange Reserves

(Figures are in billion US \$)

Items		April-December 2003	April-December 2002
I.	Current Account Balance	3.2	2.9
II.	Capital Account (net) (a to e)	17.8	9.7
	a. Foreign Investment	10.1	3.1
	b. Banking Capital	5.6	6.8
	<i>Of which: NRI Deposits</i>	3.5	2.4
	c. Short term credit	2.4	0.4
	d. External Commercial Borrowings	-3.7	-2.0
	e. Other items in capital account	3.4	1.4
III.	Valuation change	5.4	3.7
	Total (I+II+III)	26.4	16.3

Major sources of accretion to foreign exchange reserves during April-December 2003 have been:

- Foreign investment (38.3 per cent); comprising FDI (9.5 per cent) and portfolio investment (28.8 per cent);
- Banking capital, which includes NRI deposits (13.3 per cent) and changes in foreign assets and other liabilities of commercial banks (8.0 per cent);
- Short-term credit (9.1 per cent);

- Other items under capital account which mainly reflect the difference between customs data on imports/exports and banking channel data (US \$ 5.0 billion), external assistance (US \$ -1.8 billion), rupee debt service (US \$ -0.3 billion) and errors and omissions accounted for 12.9 per cent;
- Valuation gain in reserves of US \$ 5.4 billion (20.5 per cent).

It may be noted that significant changes are observed in the pattern of flows during the period April-December 2003 from those during the period April-December 2002:

- The current account surplus increased to US \$ 3.2 billion during April-December 2003 from US \$ 2.9 billion during April-December 2002.
- There has been a significant rise in the net inflows through the capital account heads at US \$ 17.8 billion during April-December 2003 as against US \$ 9.7 billion in April- December 2002.
- There has been significant increase in capital flows from investment by foreign institutional investors (FIIs), short-term credit and non-resident deposits.
- Valuation changes, reflecting the appreciation of the Euro, GBP and Yen against the US dollar, accounted for US \$ 5.4 billion of accretion to total reserves in April-December 2003 as against a valuation gain of US \$ 3.7 billion in April-December 2002. While the Reserve Bank denominates its forex reserves in terms of US dollars, these comprise a basket of major international currencies, particularly US dollar, Euro and Pound Sterling. Accordingly, when non-US dollar currencies appreciate in terms of US dollar, there is accretion to reserves by way of valuation gains. The reverse is the case when these currencies depreciate against the US dollar. During the period under review, Euro, Yen and GBP had appreciated substantially against the US dollar.