



PRESS RELATIONS DIVISION, Central Office, Post Box 406, Mumbai 400001
Phone: 2266 0502 Fax: 2266 0358, 2270 3279

RESERVE BANK OF INDIA

www.rbi.org.in
www.rbi.org.in/hindi
e-mail: help@rbi.org.in

December 31, 2004

Sources of Accretion to Foreign Exchange Reserves in India: 2004-05 (April-September)

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 the period April-September 2004-05 are now available. These data have been released on RBI website on December 31, 2004.

Sources of Accretion to Foreign Exchange Reserves in 2004-05 (April-September)

The following table shows the main components of accretion to foreign exchange reserves during April-September 2004-05:

Table 1: Sources of Accretion to Foreign Exchange Reserves

(US \$ billion)

Items		April-September 2004-05	April-September 2003-04
I.	Current Account Balance	-3.3	2.2
II.	Capital Account (net) (a to f)	10.1	11.9
	a. Foreign Investment	2.6	5.1
	b. Banking Capital	0.3	2.2
	<i>Of which: NRI Deposits</i>	-1.3	2.2
	c. Short term credit	2.0	2.0
	d. External Assistance	0.4	-0.2
	e. External Commercial Borrowings	2.1	0.2
	f. Other items in capital account	2.7	2.6
III.	Valuation change	-0.2	2.1
	Total (I+II+III)	6.6	16.2

Major sources of accretion to foreign exchange reserves during April-September, 2004-05 have been:

- Foreign investment (39.4 per cent);
- External commercial borrowings (31.8 per cent) and external assistance (6.1 per cent);
- Short-term credit (30.3 per cent);
- Other items under capital account which mainly reflect the difference between customs data on imports/exports and banking channel data, rupee debt service and other transactions, accounted for 40.9 per cent;
- These accretions to the reserves were partly counterbalanced by a current account deficit of US \$ 3.3 billion, net outflows under NRI deposits at US \$ 1.3 billion and valuation loss of US \$ 0.2 billion.

Valuation loss, reflecting the depreciation of the GBP and Yen against the US dollar, accounted for a decline of US \$ 0.2 billion in the total reserves during April-September 2004-05 as against a valuation gain of US \$ 2.1 billion in the corresponding period of 2003-04. While the Reserve Bank denominates its forex reserves in terms of US dollars, these comprise a basket of major international currencies. Accordingly, when non-US dollar currencies depreciate *vis-à-vis* the US dollar, there is erosion to reserves by way of valuation loss. The reverse is the case when these currencies appreciate against the US dollar.

Alpana Killawala
Chief General Manager

Press Release : 2004-2005/689