



**RESERVE BANK OF INDIA**

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

**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](http://www.rbi.org.in)).

Balance of payments (BoP) data for the period April-December 2004-05 are now available. These data have been released on RBI website on March 31, 2005.

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

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

**Table 1: Sources of Accretion to Foreign Exchange Reserves**

(US \$ billion)

Items		April-December 2004-05	April-December 2003-04
<b>I.</b>	<b>Current Account Balance</b>	<b>-7.4</b>	<b>4.8</b>
<b>II.</b>	<b>Capital Account (net) (a to f)</b>	<b>20.8</b>	<b>16.5</b>
	a. Foreign Investment	7.3	10.1
	b. Banking Capital	1.7	5.9
	<i>Of which: NRI Deposits</i>	-1.3	3.7
	c. Short term credit	2.7	2.4
	d. External Assistance	0.7	-1.8
	e. External Commercial Borrowings	4.1	-3.4
	f. Other items in capital account	4.3	3.4
<b>III.</b>	<b>Valuation change</b>	<b>4.8</b>	<b>5.8</b>
	<b>Total (I+II+III)</b>	<b>18.2</b>	<b>27.1</b>

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

- Foreign investment (40.1 per cent);
- External commercial borrowings (22.5 per cent) and external assistance (3.8 per cent);
- Short-term credit (14.8 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 23.6 per cent;
- These accretions to the reserves were partly counterbalanced by a current account deficit of US \$ 7.4 billion and net outflows under NRI deposits at US \$ 1.3 billion.

Valuation gain, reflecting the appreciation of the GBP and the Euro against the US dollar, accounted for an increase of US \$ 4.8 billion in the total reserves during April-December 2004-05 as against a valuation gain of US \$ 5.8 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 appreciate *vis-à-vis* the US dollar, there is an addition to reserves by way of valuation gain. The reverse is the case when these currencies depreciate against the US dollar.

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