

PRESS RELEASE

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Sources of Accretion to Foreign Exchange Reserves in India: April-September 2007

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-September of 2007 are now available. These data have been released on RBI website (www.rbi.org.in) on December 31, 2007. On the basis of these data, sources of accretion to foreign exchange reserves have been compiled.

Sources of Accretion to Foreign Exchange Reserves: April-September 2007

The main components of accretion to foreign exchange reserves during April-September 2007 are set out in the Table.

Table: Sources of Accretion to Foreign Exchange Reserves

(US \$ billion)

Items		April-September 2007	April-September 2006
I.	Current Account Balance	-10.7	-10.3
II.	Capital Account (net) (a to f)	51.1	18.9
	a. Foreign Investment	22.2	6.1
	b. External Assistance	0.7	0.4
	c. External Commercial Borrowings	10.6	5.7
	d. Short-Term Trade Credit	5.7	3.9
	e. Banking Capital	5.3	3.3
	Of which: NRI Deposits	-0.1	2.2
	f. Other Items in Capital Account*	6.6	-0.5
III.	Valuation change	8.2	5.1
	Total (I+II+III)	48.6	13.7

* Other items in capital account, apart from 'Errors and Omissions', also comprise leads and lags in exports, funds held abroad, advances received pending issue of shares under FDI and transactions of capital receipts not included elsewhere. The transactions of these capital receipts mainly constitute cross border transactions relating to financial derivatives and hedging (margin payments and settlement), migrant transfers and other capital transfers (transfers of capital assets by the Indian migrants abroad, investment grants, payments of compensation), realisation of guarantees, etc.

Major sources of accretion to foreign exchange reserves during April- September 2007 have been foreign investment, external commercial borrowings (ECBs) and short-term credit. The accretion to the foreign exchange reserves was US \$ 40.4 billion on a BoP basis (excluding valuation effects) during April-September 2007. Valuation gain, reflecting the appreciation of major currencies against the US dollar, accounted for US \$ 8.2 billion in total reserves during April-September of 2007 as against a valuation gain of US \$ 5.1 billion during the corresponding period of previous year. The foreign exchange reserves have increased by an amount of US \$ 48.6 billion during April-September 2007 including the valuation effects against an increase of US \$ 13.7 billion during April-September 2006.

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