

Sources of Accretion to Foreign Exchange Reserves in India: April-March 2007-08

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-March 2007-08 are now available. These data have been released on RBI website (www.rbi.org.in) on June 30, 2008. On the basis of these data, sources of accretion to foreign exchange reserves have been compiled.

Sources of Accretion to Foreign Exchange Reserves: April-March 2007-08

The main components of accretion to foreign exchange reserves during April-March 2007-08 are set out in the Table.

Table: Sources of Accretion to Foreign Exchange Reserves

Items		(US \$ billion)	
		April-March 2007-08	April-March 2006-07
I.	Current Account Balance	-17.4	-9.8
II.	Capital Account (net) (a to f)	109.6	46.4
	a. Foreign Investment (i+ii)	44.8	15.6
	(i) Foreign Direct Investment	15.5	8.5
	(ii) Portfolio Investment	29.3	7.1
	b. Banking Capital	11.8	1.9
	of which: NRI Deposits	0.2	4.3
	c. Short-Term Credit	17.7	6.6
	d. External Assistance	2.1	1.8
	e. External Commercial Borrowings	22.2	16.2
	f. Other items in capital account	11.0	4.3
III.	Valuation change	18.3	11.0
	Total (I+II+III)	110.5	47.6

*: 'Other Capital' apart from Errors and Omissions' also comprise leads and lags in export, 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), realization of guarantee, etc.

Major sources of accretion to foreign exchange reserves during the April-March 2007-08 have been Foreign Direct Investment, Portfolio Investment, External Commercial Borrowings (ECBs), Banking Capital and Short-Term Credit. The accretion to the foreign exchange reserves was US \$ 92.2 billion on a BoP basis (excluding valuation effects) during April-March 2007-08. Valuation gain, reflecting the appreciation of major currencies against the US dollar, accounted for US \$ 18.3 billion in total reserves during April-March 2007-08 as against a valuation gain of US \$ 11.0 billion during the corresponding period of previous year. The foreign exchange reserves have increased by an amount of US \$ 110.5 billion during April-March 2007-08 including the valuation effects as compared with an increase of US \$ 47.6 billion during April-March 2006-07.

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