



प्रेस प्रकाशनी PRESS RELEASE



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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June 30, 2009

Sources of Variation in Foreign Exchange Reserves in India: 2008-09

Earlier today, the Reserve Bank of India released the Balance of Payments (BoP) data for 2008-09 on its website (www.rbi.org.in). On the basis of these data, sources of variation in foreign exchange reserves during 2008-09 have been compiled.

Sources of Variation in Foreign Exchange Reserves: 2008-09

During 2008-09, there was a decline in foreign exchange reserves. The variation in the main components of foreign exchange reserves during 2008-09 are set out in Table 1.

Table 1: Sources of Variation in Foreign Exchange Reserves			(US \$ million)	
Items			2007-08	2008-09
I.		Current Account Balance	(-) 17,034	(-) 29,817
II.		Capital Account (net) (a to f)	109,198	9,737
	a.	Foreign Investment (i+ii)	44,957	3,462
		(i) Foreign Direct Investment	15,401	17,496
		(ii) Portfolio Investment	29,556	(-) 14,034
		Of which:		
		FII's	20,327	(-) 15,017
		ADRs/GDRs	8,769	1,162
	b.	External Commercial Borrowings	22,633	8,158
	c.	Banking Capital	11,757	(-) 3,397
		of which: NRI Deposits	179	4,290
	d.	Short-Term Trade Credit	17,183	(-) 5,795
	e.	External Assistance	2,114	2,638
	f.	Other items in capital account*	10,554	4,671
III.		Valuation Change	18,380	(-) 37,658
		Total (I+II+III)	110,544	(-) 57,738

Note:

- (i) *: 'Other items in capital account' apart from 'Errors and Omissions' also include leads and lags in exports, funds held abroad, advances received pending issue of shares under FDI and transactions of capital receipts not included elsewhere.
- (ii) Increase in reserves (+) / Decrease in reserves (-).

Table 2: Comparative Position		(US\$ million)	
		2007-08	2008-09
1.	Change in Foreign Exchange Reserves (Including Valuation Effects)	110,544	(-) 57,738
2.	Valuation Effects [Gain (+)/Loss (-)]	18,380	(-) 37,658
3.	Change in Foreign Exchange Reserves on BoP basis (Excluding Valuation Effects)	92,164	(-) 20,080
4.	Percentage of increase/decline in Reserves explained by Valuation Gain/Loss	16.6	65.2

Note: Increase in reserves (+)/Decrease in reserves (-).

The foreign exchange reserves (including the valuation effects) declined by US\$ 57,738 million during 2008-09 as against an increase of US\$ 110,544 million during 2007-08 (Table 2). On balance of payments basis (*i.e.*, excluding valuation effects), the foreign exchange reserves declined by US\$ 20,080 million during 2008-09 as against an increase of US\$ 92,164 million during 2007-08. The valuation loss, reflecting the depreciation of major currencies against the US dollar, accounted for US\$ 37,658 million during 2008-09 as against a valuation gain of US\$ 18,380 million during 2007-08. Accordingly, valuation loss during 2008-09 accounts for 65.2 per cent of the total decline in foreign exchange reserves. Apart from the current account deficit, outflows under portfolio investments, banking capital and short-term trade credits were the other major sources contributing to decline in foreign exchange reserves during 2008-09.

Press Release: 2008-2009/2118

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