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संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई 400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S. Marg, Mumbai 400001  
फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 2270 3279

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### Sources of Variation in Foreign Exchange Reserves in India: April-December 2009-10

Earlier today, the Reserve Bank of India released the Balance of Payments (BoP) data for Q3 of 2009-10 (October-December 2009) on its website ([www.rbi.org.in](http://www.rbi.org.in)). On the basis of these data along with the revised data for earlier quarters, this note on sources of variation in foreign exchange reserves during April-December 2009 has been compiled.

#### Sources of Variation in Foreign Exchange Reserves: April-December 2009

During April-December 2009, there was an accretion to foreign exchange reserves mainly on account of valuation gains. Also, inflows under foreign investments, Non-Resident Indian deposits and short-term trade credits have contributed significantly to the increase in foreign exchange reserves during April-December 2009. The sources of variation in the foreign exchange reserves are set out in Table 1.

Table 1: Sources of Variation in Foreign Exchange Reserves				
(US \$ million)				
Items		April-December 2008	April-December 2009	
I.	Current Account Balance	-27,516	-30,330	
II.	Capital Account (net) (a to f)	7,136	41,630	
	a. Foreign Investment (i+ii)	2,975	40,134	
	(i) Foreign Direct Investment	14,313	16,534	
	(ii) Portfolio Investment	-11,338	23,600	
	Of which:			
	FIIIs	-12,408	20,519	
	ADRs/GDRs	1,135	3,152	
	b. External Commercial Borrowings	6,944	2,290	
	c. Banking Capital	14	2,988	
	of which: NRI Deposits	2,114	3,474	
	d. Short-Term Trade Credit	685	2,665	
	e. External Assistance	1,860	1,212	
	f. Other items in capital account*	-5,342	-7,659	
III.	Valuation Change	-33,375	20,185	
	<b>Total (I+II+III)</b>	<b>-53,755</b>	<b>31,485</b>	

Note: (i) \*: 'Other items in capital account' apart from 'Errors and Omissions' also include SDR allocations, 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 (-).

The foreign exchange reserves (including the valuation effects) increased by US\$ 31,485 million during April-December 2009 as against a decline of US\$ 53,755 million during April-December 2008 (Table 2).

<b>Table 2: Comparative Position</b>		<b>(US\$ million)</b>	
		<b>April-December 2008</b>	<b>April-December 2009</b>
1.	Change in Foreign Exchange Reserves (Including Valuation Effects)	-53,755	31,485
2.	Valuation Effects [Gain (+)/Loss (-)]	-33,375	20,185
3.	Change in Foreign Exchange Reserves on BoP basis (Excluding Valuation Effects)	-20,380	11,300
4.	Percentage of increase/decline in Reserves explained by Valuation Gain/Loss	62.1	64.1

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

On balance of payments basis (*i.e.*, excluding valuation effects), the foreign exchange reserves increased by US\$ 11,300 million during April-December 2009 as against a decline of US\$ 20,380 million during April-December 2008. The valuation gains, reflecting the depreciation of the US dollar against the major currencies, accounted for US\$ 20,185 million during April-December 2009 as compared with a valuation loss of US\$ 33,375 million during April-December 2008. Accordingly, valuation gains during April-December 2009 accounted for 64.1 per cent of the total increase in foreign exchange reserves.