

Sources of Accretion to Foreign Exchange Reserves in India: updated figures for April-December 2002

April 7, 2003

Background

The Reserve Bank of India had, on January 31, 2003, issued a Press Note disseminating the highlights of a study conducted by the Department of Economic Analysis and Policy on the sources of accretion to foreign exchange reserves during April-November 2002. This Press Note was issued on the basis of estimated data. The full study and the Press Note are available on the RBI website (www.rbi.org.in). This press note updates this information up to December 2002.

The actual balance of payment data for the third quarter (October-December 2002) and April-December 2002 are now available. These data were published on the RBI website on March 31, 2003.

Sources of Accretion to Reserves (April-December 2002)

On the basis of the latest available data, the sources of accretion of foreign exchange reserves for April-December 2002 are presented in the Table below. For comparability, data for the period April-December 2001 are also presented in the Table.

(Figures are in thousand million US \$)

Items		April- November 2002	April- December 2002	April- December 2001
I.	Current Account Balance	2.5	2.8	-0.7
II.	Capital Account (net)	8.0	9.9	6.3
	Foreign Investment	1.9	2.3	3.5
	Banking Capital, <i>of which:</i>	4.0	6.7	4.1
	<i>NRI Deposits</i>	2.1	2.3	2.3
	Short term credit	0.5	0.4	-0.8
	Other capital	3.8	2.2	0.4
	External Commercial Borrowings	-1.8	-1.7	-0.9
III.	Valuation change	2.1	3.2	0.1
	Total	12.6	15.9	5.7

Major sources of accretion of foreign exchange reserves during April-December 2002 have been:

- ? Surplus in current account (17.6 per cent)
- ? Foreign investment contributed (14.5 per cent)
- ? Banking capital, excluding NRI deposits, accounted for 27.7 per cent and NRI deposits accounted for 14.5 per cent.
- ? Other capital (residual), which predominantly comprises leads and lags in export receipts accounting for 13.8 per cent.

- ? Valuation changes in reserves (20.1 per cent).

No significant changes are observed in the pattern of flows during April-December 2002. Thus, the trends observed during April-November 2002 hold good for April-December 2002. Thus, as pointed out in the earlier Press Note containing data for April-November 2002, for the first three quarters of the year also, the following conclusions emerge:

- ? Valuation changes reflecting the appreciation of the Euro, GBP and Yen against the dollar account for about US \$ 3.2 billion of accretion to total reserves during April-December 2002.
- ? There has been a net increase of about US \$ 2.3 billion in NRI deposits. This is the same as during the corresponding period of last year. Thus, there is no evidence of “arbitrage” having contributed to higher accretion of reserves in the current year.
- ? A substantial portion of the fresh accretion has been by way of current account surplus, non-debt creating flows, and currency valuation. Since the debt creating flows are relatively low, the cost of additional reserves is not likely to be very significant. It may also be noted that almost the entire addition to reserves, in the last few years, has been made without increasing the overall level of external debt.

The Reserve Bank of India will issue a further press note on the sources of accretion to foreign exchange reserves for the year as a whole, i.e., for the period April-March 2003 in June 2003 when the actual data for the full financial year will be available.

Alpana Killawala
General Manager

Press Release : 2002-03/1043