

**Sources of Accretion to Foreign Exchange Reserves in India:
Updated Figures for 2002-03 (April-March)**

July 1, 2003

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. Subsequently, on April 7, 2003, the Reserve Bank updated the data through its Press Note on *Sources of Accretion to Foreign Exchange Reserves* during April-December 2002. The Press Notes of January 31, 2003 and April 7, 2003 are available on the RBI website (www.rbi.org.in).

The actual balance of payments data for the fourth quarter (January-March 2003) and for the full fiscal year 2002-03 (April-March) are now available. This Press Note is an update on the sources of accretion to foreign exchange reserves for the full fiscal year 2002-03 for which balance of payments data are now available. These data were released on the RBI website on June 30, 2003.

Sources of Accretion to Foreign Exchange Reserves in 2002-03 (April-March)

The following table shows the main components of additions to foreign exchange reserves during April-December 2002 (revised taking into account latest available data), January-March 2003 (provisional) and for the year 2002-03 (provisional) as a whole.

Table: Sources of Accretion to Foreign Exchange Reserves

(Figures are in thousand million US \$)

Items		April-December 2002	January- March 2003	2002-03 (April-March)
I.	Current Account Balance	3.0*	0.7*	3.7*
II.	Capital Account (net) (a to e)	9.7	3.6	13.3
	a. Foreign Investment	3.1*	1.5*	4.6*
	b. Banking Capital of which:	6.8	1.4	8.2
	<i>NRI Deposits</i>	2.4	0.4	2.8
	c. Short term credit	0.4	0.6	1.0
	d. External Commercial Borrowings	-2.0	0.3	-1.7
	e. Other items in capital account	1.4	-0.2	1.2
III.	Valuation change	3.2	0.6	3.8
	Total (I+II+III)	15.9	4.9	20.8

* Includes data on reinvested earnings, which were estimated. For the methodology, please see RBI press notes on revised data on *Foreign Direct Investment*, and *Balance of Payments: Fourth Quarter (January-March 2003) and Financial Year 2002-03 (April-March)* released on June 30, 2003. The data for April-December 2002 and January-March 2003 in respect of reinvested earnings have been proportionately distributed.

Major sources of accretion to foreign exchange reserves during April-March 2002-03 have been:

- Surplus in current account of US \$ 3.7billion, which accounts for a little over 17.8 per cent of total accretions in foreign exchange reserves during the year.
- Foreign investment (22.1 per cent);
- Banking capital, excluding Non-resident Indian (NRI) deposits which includes mainly the changes in foreign assets and liabilities of commercial banks (26.0 per cent) and NRI deposits (13.4 per cent);
- Other items under capital account which mainly reflect the difference between custom data on imports/exports and banking channel data (US \$ 3.2 billion), external assistance (- US \$ 2.5 billion), rupee debt service (- US \$ 0.5 billion) and errors and omissions (US \$ 0.6 billion) at US \$ 1.2 billion accounted for 5.8 per cent; and
- Valuation gain in reserves of US \$ 3.8 billion (18.3 per cent).

It may be noted that no significant changes are observed in the pattern of flows during the fiscal 2002-03 as a whole (April-March) from those during the period April-December 2002.

The following conclusions emerge:

- Valuation changes, reflecting the appreciation of the Euro, GBP and Yen against the dollar, account for US \$ 3.8 billion of accretion to total reserves during fiscal year 2002-03 as against a valuation gain of US \$ 3.2 billion in April-December 2002. While the Reserve Bank denominates its forex reserves in terms of US dollars, these comprise a basket of major international currencies, particularly US dollar, Euro and Pound Sterling. Accordingly, when non-US \$ currencies appreciate in terms of US \$, there is accretion to reserves by way of valuation gains. The reverse is the case when these currencies depreciate against the US \$. During the period under review, Euro and GBP had appreciated substantially against the US \$. (This is excluding the appreciation of value of gold which is not considered for compilation of balance of payments).
- There has been a net increase of US \$ 2.8 billion in NRI deposits as compared with US \$ 2.4 billion during April-December 2002. It may be mentioned that in the previous year (*i.e.*, 2001-02) also the main addition to NRI deposits was of the same order. Thus, there is no evidence of greater “arbitrage” having contributed to higher accretion to reserves in the fiscal year 2002-03.
- Overall, a substantial portion of the fresh accretion has been by way of current account surplus, currency valuation gains and other non-debt creating flows. Since the debt creating flows are relatively low, the cost of additional reserves is not likely to be very significant. It may 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.

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