

Sources of Accretion to Foreign Exchange Reserves in India: Updated Figures for April-June 2003

September 30, 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 and July 1, 2003, the Reserve Bank updated the data through its Press Note on *Sources of Accretion to Foreign Exchange Reserves* for April-December 2002 and fiscal year 2002-03, respectively. The Press Notes of January 31, 2003 April 7, 2003 and July 1, 2003 are available on the RBI website (www.rbi.org.in).

The actual balance of payments data for the quarter April-June 2003 are now available. These data were released on the RBI website on September 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-June 2003.

Table 1: Sources of Accretion to Foreign Exchange Reserves

(Figures are in thousand million US \$)

Items	April-June 2003	April-June 2002
I. Current Account Balance	-1.2	0.4
II. Capital Account (net) (a to e)	6.4	1.3
a. Foreign Investment	2.8	1.1
b. Banking Capital	1.9	0.7
<i>Of which: NRI Deposits</i>	<i>1.7</i>	<i>0.9</i>
c. Short term credit	0.9	0.2
d. External Commercial Borrowings	0.6	-0.7
e. Other items in capital account	0.2	*
III. Valuation change	1.5	2.0
Total (I+II+III)	6.7	3.7

*- Negligible.

Major sources of accretion to foreign exchange reserves during April-June 2003 have been:

- Foreign investment (41.8 per cent); comprising FDI (11.9 per cent) and portfolio investment (29.9 per cent);
- Banking capital, which includes NRI deposits (25.4 per cent) and changes in foreign assets and other liabilities of commercial banks (3.0 per cent);
- Short-term credit (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 \$ 0.8 billion), funds held abroad

(- US \$ 0.3 billion), external assistance (- US \$ 0.3 billion), rupee debt service (- US \$ 0.3 billion) and errors and omissions (US \$ 0.3 billion) accounted for 3.0 per cent; and

- Valuation gain in reserves of US \$ 1.5 billion (22.4 per cent).

It may be noted that significant changes are observed in the pattern of flows during the quarter April-June 2003 from those during the period April-June 2002:

- There has been a shift in the current account balance. The current account, which has been showing a surplus position since the third quarter of fiscal 2001-02 has turned into a deficit during April-June 2003. The extent of deficit during April-June 2003 was US \$ 1.2 billion as against a surplus of US \$ 0.4 billion during April-June 2002.
- There has been a significant rise in the net inflows through the capital account heads at US \$ 6.4 billion as against US \$ 1.3 billion in April-June 2002.
- There has been increase in capital flows from investment in debt securities, external commercial borrowings, short-term credit and non-resident deposits.
- Valuation changes, reflecting the appreciation of the Euro, GBP and Yen against the US dollar, accounted for US \$ 1.5 billion of accretion to total reserves in April-June 2003 as against a valuation gain of US \$ 2.0 billion in April-June 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 dollar currencies appreciate in terms of US dollar, there is accretion to reserves by way of valuation gains. The reverse is the case when these currencies depreciate against the US dollar. During the period under review, Euro and GBP had appreciated substantially against the US dollar. (This is excluding the appreciation of value of gold, which is not considered for compilation of balance of payments).

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