

**RESERVE BANK OF INDIA**

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**Sources of Accretion to Foreign Exchange Reserves in India:  
2004-05 (April-June)**

**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. Subsequent to this, the RBI has been regularly updating and releasing information on 'Sources of Accretion to Foreign Exchange Reserves' through press releases which are available on the RBI website ([www.rbi.org.in](http://www.rbi.org.in)).

Balance of payments (BoP) data for the quarter April-June 2004-05 are now available. These data have been released on RBI website on September 30, 2004.

**Sources of Accretion to Foreign Exchange Reserves in 2004-05 (April-June)**

The following table shows the main components of accretion to foreign exchange reserves during April-June 2004-05:

**Table 1: Sources of Accretion to Foreign Exchange Reserves**

(US \$ billion)

Items	2004-05	2003-04
<b>I. Current Account Balance</b>	<b>1.9</b>	<b>-0.6</b>
<b>II. Capital Account (net) (a to f)</b>	<b>5.6</b>	<b>6.1</b>
a. Foreign Investment	1.3	2.1
b. Banking Capital	1.1	1.9
<i>Of which: NRI Deposits</i>	<i>-0.8</i>	<i>1.8</i>
c. Short term credit	1.6	0.9
d. External Assistance	0.1	-0.3
e. External Commercial Borrowings	1.2	0.4
f. Other items in capital account	0.3	1.1
<b>III. Valuation change</b>	<b>-1.0</b>	<b>1.6</b>
<b>Total (I+II+III)</b>	<b>6.5</b>	<b>7.1</b>

Major sources of accretion to foreign exchange reserves during April-June, 2004-05 have been:

- The current account surplus amounting to US \$ 1.9 billion during April-June 2004 as compared with a deficit of US \$ 0.6 billion during April-June 2003.
- Foreign investment (20.0 per cent); comprising FDI (18.5 per cent) and portfolio investment (1.5 per cent);
- Banking capital, (which includes NRI deposits) at 16.9 per cent;
- Short-term credit (24.6 per cent);

- Other items under capital account which mainly reflect the difference between customs data on imports/exports and banking channel data (US \$ 2.4 billion), external assistance (US \$ 72 million), rupee debt service (US \$ -277 million) and other transactions, accounted for 4.6 per cent;
- Valuation loss in reserves of US \$ 1.0 billion (15.4 per cent).

Valuation changes, reflecting the depreciation of the Euro, GBP and Yen against the US dollar, accounted for a decline of US \$ 1.0 billion in the total reserves during April-June 2004-05 as against a valuation gain of US \$ 1.6 billion in the corresponding period of 2003-04. 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 vis-à-vis the US dollar, there is an accretion to reserves by way of valuation gains. The reverse is the case when these currencies depreciate against the US dollar.

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