

Sources of Accretion to Foreign Exchange Reserves in India: April-September 2006

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).

Balance of payments (BoP) data for the half-year April-September 2006 are now available. These data have been released on RBI website (www.rbi.org.in) on December 29, 2006.

Sources of Accretion to Foreign Exchange Reserves April-September 2006

The following table shows the main components of accretion to foreign exchange reserves during April-September 2006:

Table 1: Sources of Accretion to Foreign Exchange Reserves

(US \$ billion)

Items		April-September 2006	April-September 2005
I.	Current Account Balance	-11.7	-7.2
II.	Capital Account (net) (a to f)	20.3	13.7
	a Foreign Investment	5.8	7.5
	b Banking Capital	3.2	2.8
	<i>Of which: NRI Deposits</i>	2.0	0.2
	c Short term credit	1.9	1.0
	d External Assistance	0.4	0.4
	e External Commercial Borrowings	5.1	2.9
	f Other items in capital account	3.9*	-0.9
III.	Valuation change	5.1	-5.0
	Total (I+II+III)	13.7	1.5

* Mainly includes 'Other Capital' (comprising the leads and lags in export receipts, funds held abroad, India's subscription to international institutions, quota payments to IMF, remittances towards recouping the losses of branches/subsidiaries and residual item of other capital transactions not included elsewhere) of US \$ 3 billion.

Major sources of accretion to foreign exchange reserves during the first half of 2006-07 have been foreign investment, external commercial borrowing (ECB) and banking capital. The accretion to the foreign exchange reserves was of the order of US \$ 8.6 billion on BoP basis (excluding valuation effects) during April-September 2006. Valuation gain, reflecting the appreciation of major currencies against the US dollar, accounted for a rise of US \$ 5.1 billion in total reserves during the first half of 2006-07 as against a valuation loss of US \$ 5.0 billion during corresponding period previous year. Taking into account the valuation gain of US \$ 5.1 billion, foreign exchange reserves recorded an increase of US \$ 13.7 billion during April-September 2006-07 (an increase of US \$ 1.5 billion during April-September 2005-06).

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