

PRESS RELEASE**RESERVE BANK OF INDIA**www.rbi.org.inwww.rbi.org.in/hindie-mail: helpprd@rbi.org.in

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**Sources of Accretion to Foreign Exchange
 Reserves in India: April-June 2007**

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 Q1 of 2007-08 (i.e. April-June 2007) are now available. These data have been released on RBI website (www.rbi.org.in) on September 28, 2007. On the basis of these data, sources of accretion to foreign exchange reserves have been compiled.

Sources of Accretion to Foreign Exchange Reserves: April-June 2007

The main components of accretion to foreign exchange reserves during Q1 of 2007-08 are set out in the Table.

Table: Sources of Accretion to Foreign Exchange Reserves

(US \$ billion)

Items		April-June 2007	April-June 2006
I.	Current Account Balance	-4.7	-4.6
II.	Capital Account (net) (a to f)	15.9	11.0
	a. Foreign Investment	7.9	0.9
	b. Banking Capital	-2.1	5.0
	<i>of which: NRI Deposits</i>	<i>-0.4</i>	<i>1.2</i>
	c. Short-term credit	1.0	0.4
	d. External Assistance	0.3	0.0
	e. External Commercial Borrowings	7.0	4.0
	f. Other items in capital account*	1.8	0.7
III.	Valuation change	3.0	4.9
	Total (I+II+III)	14.2	11.3

'Other Capital' apart from Errors and Omissions' also includes 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. The other capital transaction not included elsewhere mainly include suppliers' credit up to 180 days, flows arising from cross-border financial derivative and commodity hedging transactions, migrant transfers (i.e., cover the movement of personal effects and financial assets arising from the change in residence status), and sale of intangible assets such as patents, copyrights, trademarks, etc.

Major sources of accretion to foreign exchange reserves during the Q1 of 2007-08 have been foreign investment, External Commercial Borrowings (ECBs) and short-term credit. The accretion to the foreign exchange reserves was US \$ 11.2 billion on a BoP basis (excluding valuation effects) during April-June 2007. Valuation gain, reflecting the appreciation of major currencies against the US dollar, accounted for an increase of US \$ 3.0 billion in total reserves during the Q1 of 2007-08 as against a valuation gain of US \$ 4.9 billion during the corresponding period of previous year. The foreign exchange reserves increased by an amount of US \$ 14.2 billion during April-June 2007 including the valuation effects against an increase of US \$ 11.3 billion during April-June 2006.

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