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September 30, 2008

Sources of Accretion to Foreign Exchange Reserves in India: April-June 2008

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 2008-09 (i.e. April-June 2008) are now available. These data have been released on RBI website (www.rbi.org.in) on September 30, 2008. 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 2008

The main components of accretion to foreign exchange reserves during Q1 of 2008-09 are set out in the Table.

Table: Sources of Accretion to Foreign Exchange Reserves

Items		April-June 2008	April-June 2007
(US \$ billion)			
I.	Current Account Balance	-10.7	-6.3
II.	Capital Account (net) (a to f)	12.9	17.5
	a. Foreign Investment (i+ii)	5.9	10.1
	(i) Foreign Direct Investment	10.1	2.6
	(ii) Portfolio Investment	-4.2	7.5
	b. Banking Capital	2.7	-0.9
	of which: NRI Deposits	0.8	-0.4
	c. Short-Term Credit	2.2	1.8
	d. External Assistance	0.3	0.2
	e. External Commercial Borrowings	1.6	7.0
	f. Other items in capital account	0.2	-0.7
III.	Valuation change	0.2	3.0
	Total (I+II+III)	2.4	14.2
<p>*: Items under 'Other Capital' apart from Errors and Omissions' also include leads and lags in export, funds held abroad, advances received pending issue of shares under FDI and transactions of capital receipts not included elsewhere.</p>			

Major sources of accretion to foreign exchange reserves during the Q1 of 2008-09 have been Foreign Direct Investment, Banking Capital, Short-Term Credit and External Commercial Borrowings (ECBs). The accretion to the foreign exchange reserves was US \$ 2.2 billion on a BoP basis (excluding valuation effects) during Q1 of 2008-09. Valuation gain, reflecting the appreciation of major currencies against the US dollar, accounted for US \$ 0.2 billion in total reserves during Q1 of 2008-09 as against a valuation gain of US \$ 3.0 billion during the corresponding period of previous year. The foreign exchange reserves have increased by an amount of US \$ 2.4 billion during Q1 of 2008-09 including the valuation effects as compared with an increase of US \$ 14.2 billion during Q1 of 2007-08.

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Chief General Manager

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