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Sources of Variation in Foreign Exchange Reserves in India: April-June 2009-10

Earlier today, the Reserve Bank of India released the Balance of Payments (BoP) data for Q1 of 2009-10 (i.e., April-June) on its website (www.rbi.org.in). On the basis of these data, this note on sources of variation in foreign exchange reserves during April-June 2009 has been compiled.

Sources of Variation in Foreign Exchange Reserves: April-June 2009

During April-June 2009, there was an accretion to foreign exchange reserves largely reflecting valuation changes. The sources of variation in the foreign exchange reserves are set out in Table 1.

Table 1: Sources of Variation in Foreign Exchange Reserves			(US \$ million)	
Items			April-June 2008	April-June 2009
I.		Current Account Balance	(-)9,019	(-) 5,808
II.		Capital Account (net) (a to f)	11,253	5,923
	a.	Foreign Investment (i+ii)	4,757	15,101
		(i) Foreign Direct Investment	8,968	6,833
		(ii) Portfolio Investment	(-)4,211	8,268
		Of which:		
		FIIs	(-)5,177	8,227
		ADRs/GDRs	999	43
	b.	External Commercial Borrowings	1,468	(-)356
	c.	Banking Capital	2,696	(-) 3,365
		of which: NRI Deposits	814	1,817
	d.	Short-Term Trade Credit	2,397	(-) 3,085
	e.	External Assistance	351	84
	f.	Other items in capital account*	(-) 531	(-) 1,643
III.		Valuation Change	129	13,042
		Total (I+II+III)	2,364	13,157

Note: (i) *: 'Other items in capital account' apart from 'Errors and Omissions' also include leads and lags in exports, funds held abroad, advances received pending issue of shares under FDI and transactions of capital receipts not included elsewhere.
(ii) Increase in reserves (+) / Decrease in reserves (-).

Table 2: Comparative Position		(US\$ million)	
		April-June 2008	April-June 2009
1.	Change in Foreign Exchange Reserves (Including Valuation Effects)	2,364	13,157
2.	Valuation Effects [Gain (+)/Loss (-)]	129	13,042
3.	Change in Foreign Exchange Reserves on BoP basis (Excluding Valuation Effects)	2,235	115
4.	Percentage of increase/decline in Reserves explained by Valuation Gain/Loss	54.6	99.1

Note: Increase in reserves (+)/Decrease in reserves (-).

The foreign exchange reserves (including the valuation effects) increased by US\$ 13,157 million during April-June 2009 as compared with an increase of US\$ 2,364 million during April-June 2008 (Table 2). On balance of payments basis (*i.e.*, excluding valuation effects), the foreign exchange reserves increased by US\$ 115 million during April-June 2009 as compared with an increase of US\$ 2,235 million during April-June 2008. The valuation gain, reflecting the depreciation of the US dollar against the major currencies, accounted for US\$ 13,042 million during April-June 2009 as compared with a valuation gain of US\$ 129 million during April-June 2008. Accordingly, valuation gain during April-June 2009 accounts for 99.1 per cent of the total increase in foreign exchange reserves. Inflows under FDI, portfolio investments and NRI deposits were the major sources contributing to the increase in foreign exchange reserves, which was mostly offset by current account deficit and outflows under other items of the capital account during April-June 2009.

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Ajit Prasad
Manager