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

Earlier today, the Reserve Bank of India released the Balance of Payments (BoP) data for Q2 of 2009-10 (July-September 2009) on its website (www.rbi.org.in). On the basis of these data along with the revised data for earlier quarters, this note on sources of variation in foreign exchange reserves during April-September 2009 has been compiled.

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

During April-September 2009, there was an accretion to foreign exchange reserves mainly on account of valuation changes. Also, inflows under foreign investments and Non-Resident Indian deposits and SDR allocations by the IMF have contributed to the increase in foreign exchange reserves during April-September 2009. 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-September 2008	April-September 2009	
I.	Current Account Balance	(-)15,849	(-) 18,618	
II.	Capital Account (net) (a to f)	13,350	28,151	
	a. Foreign Investment (i+ii)	8,349	32,088	
	(i) Foreign Direct Investment	13,867	14,142	
	(ii) Portfolio Investment	(-)5,518	17,946	
	Of which:			
	FII's	(-)6,614	15,265	
	ADRs/GDRs	1,135	2,707	
	b. External Commercial Borrowings	3,166	745	
	c. Banking Capital	4,971	1,057	
	of which: NRI Deposits	1,072	2,864	
	d. Short-Term Trade Credit	4,906	(-) 618	
	e. External Assistance	869	571	
	f. Other items in capital account*	(-) 8,911	(-) 5,692	
III.	Valuation Change	(-) 20,888	19,760	
	Total (I+II+III)	(-) 23,387	29,293	

Note: (i) *: 'Other items in capital account' apart from 'Errors and Omissions' also include SDR allocations, 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 (-).

The foreign exchange reserves (including the valuation effects) increased by US\$ 29,293 million during April-September 2009 as against a decline of US\$ 23,387 million during April-September 2008 (Table 2).

Table 2: Comparative Position			
		(US\$ million)	
		April-September 2008	April-September 2009
1.	Change in Foreign Exchange Reserves (Including Valuation Effects)	(-) 23,387	29,293
2.	Valuation Effects [Gain (+)/Loss (-)]	(-) 20,888	19,760
3.	Change in Foreign Exchange Reserves on BoP basis (Excluding Valuation Effects)	(-) 2,499	9,533
4.	Percentage of increase/decline in Reserves explained by Valuation Gain/Loss	89.3	67.5

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

On balance of payments basis (*i.e.*, excluding valuation effects), the foreign exchange reserves increased by US\$ 9,533 million during April-September 2009 as against a decline of US\$ 2,499 million during April-September 2008. The valuation gain, reflecting the depreciation of the US dollar against the major currencies, accounted for US\$ 19,760 million during April-September 2009 as compared with a valuation loss of US\$ 20,888 million during April-September 2008. Accordingly, valuation gain during April-September 2009 accounts for 67.5 per cent of the total increase in foreign exchange reserves.

The IMF made additional allocations of SDRs to India in two tranches *viz.*, general allocation of SDR 3,082 million (equivalent to US\$ 4,821 million) on August 28, 2009 and a special allocation of SDR 214.6 million (equivalent to US\$ 340 million) on September 9, 2009. This has raised the India's foreign exchange reserves by US\$ 5,161 million during the quarter.