



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi
Website : www.rbi.org.in
ई-मेल email: helpdoc@rbi.org.in

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संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई 400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S. Marg, Mumbai 400001
फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 2270 3279

Sources of Variation in Foreign Exchange Reserves in India during April-September 2010

Earlier today, the Reserve Bank of India released the Balance of Payments (BoP) data for the second quarter (July-September) of 2010 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 2010 has been compiled.

Sources of Variation in Foreign Exchange Reserves: April-September 2010

During April-September 2010, there was an accretion to the foreign exchange reserves in BoP terms (i.e. excluding valuation effects). 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 \$ billion)

| Items | | 2009-10 April-September | 2010-11 April-September |
|-------|---------------------------------------|----------------------------|----------------------------|
| I. | Current Account Balance | -13.3 | -27.9 |
| II. | Capital Account (net) (a to f) | 22.8 | 34.9 |
| | a. Foreign Investment (i+ii) | 30.3 | 29.1 |
| | (i) Foreign Direct Investment | 12.3 | 5.3 |
| | (ii) Portfolio Investment | 17.9 | 23.8 |
| | Of which: | | |
| | FIIIs | 15.3 | 22.3 |
| | ADRs/GDRs | 2.7 | 1.6 |
| | b. External Commercial Borrowings | 0.7 | 6.0 |
| | c. Banking Capital | 1.0 | 0.8 |
| | of which: NRI Deposits | 2.9 | 2.2 |
| | d. Short-Term Trade Credit | -0.05 | 6.7 |
| | e. External Assistance | 1.0 | 3.0 |
| | f. Other Items in Capital Account* | -10.2 | -10.7 |
| III. | Valuation Change | 19.8 | 6.8 |
| | Total (I+II+III) @ | 29.3 | 13.8 |

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 (-).
@: Difference, if any, is due to rounding off.

On a balance of payments basis (*i.e.*, excluding valuation effects), the foreign exchange reserves increased by US\$ 7.0 billion during April-September 2010 as against an increase of US\$ 9.5 billion during April-September 2009. The foreign exchange reserves (including the valuation effects) increased by US\$ 13.8 billion during April-September 2010 as compared with an increase of US\$ 29.3 billion during April-September 2009 (Table 2).

| Table 2: Comparative Position | | | |
|---|---|---|---|
| | | (US\$ billion) | |
| Items | | 2009-10 April- September | 2010-11 April- September |
| 1. | Change in Foreign Exchange Reserves (Including Valuation Effects) | 29.3 | 13.8 |
| 2. | Valuation Effects (Gain (+)/Loss (-)) | 19.8 | 6.8 |
| 3. | Change in Foreign Exchange Reserves on BoP basis (<i>i.e.</i> , Excluding Valuation Effects) | 9.5 | 7.0 |
| 4. | Percentage of increase/decline in Reserves explained by Valuation Gain/Loss | 67.7 | 49.3 |
| Note: Increase in reserves (+)/Decrease in reserves (-). | | | |

The valuation gains, reflecting the depreciation of the US dollar against major currencies, accounted for US\$ 6.8 billion during April-September 2010 as compared with valuation gains of US\$ 19.8 billion during April-September 2009. Accordingly, valuation gains accounted for 49.3 per cent of the total increase in foreign exchange reserves during April-September 2010.

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Alpana Killawala
Chief General Manager