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RESERVE BANK OF INDIA

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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	2010-11
			April-September	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.e., 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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