

India's Forex Reserves

India's forex reserves rose from US\$ 255 billion in April 2009 to US\$ 279.1 billion in April 2010. The increase in the forex reserves in contrast to the decline witnessed last year may be primarily attributed to the resurgence in capital inflows & depreciation of the US dollar.

Forex reserve assets consist of those foreign assets, which are readily available to and controlled by a country's monetary authorities. The monetary authority utilizes the reserve for direct financing of international payments, imbalances and for intervention in foreign exchange markets for management of exchange rate, etc.

The table below provides details of the composition of India's forex reserves as on 2nd April 2010.

India's Forex Reserves (as on 02.04.2010)	
	US\$ mn
Total Reserves	279,096
(a) Foreign Currency Assets (Includes the effect of appreciation/ depreciation of non-US currencies)	254,730
(b) Gold	17,986
(c) Special Drawing Rights (SDR) (An artificial currency unit based upon several national currencies, which serves as the official monetary unit of International Monetary Fund (IMF))	5,001
(d) Reserve Position in the IMF (A member has a reserve tranche position in the IMF to the extent that its quota exceeds the IMF's holdings of its currency, excluding credits extended to it by the IMF.)	1,379

Sources of changes in Forex Reserves

Reserve accumulation/depletion occurs when the Central Bank intervenes in the foreign currency market and purchases/sells dollars or other foreign currencies. The availability of dollars/other currencies in the forex market is affected by:

- a. Changes in capital account
- b. Changes in current account

In addition to this, changes in valuation of reserves due to changes in exchange rates also affect the value of reserves.

Past Trends

India's foreign exchange reserves steadily increased from US\$ 5.8 billion (end-March 1991) to US\$ 309.2 billion by end-March 2008. This was mainly on account of net capital inflows in the form of FII, FDI, NRI Deposits & ECBs exceeding the current account deficits.

Present Scenario

With the onset of the financial crisis, trade flows started contracting, only showing positive growth since 2009 (for export) & December 2009 (for imports). During the period April-December 2009, India's current account deficit increased to

Sources of Accretion in Forex Reserves		
	April- December 2008	April- December 2009
Items	(US\$ mn)	
Current A/c Balance	-27,516	-30,330
Net Capital A/c, of which	7,136	41,630
Foreign Investment	2,975	40,134
FDI	14,313	16,534
of which FII	-11,338	23,600
Banking Capital	14	2,988
of which NRI Deposits	2,114	3,474
External Assistance	1,860	1,212
External Commercial Borrowing	6,944	2,290
Other items	-5,342	-7659
Valuation Change	-33,375	20,185
Total	-53,755	31,485

Source: RBI

US\$ 30,330 mn from US\$ 27, 516 mn recorded during the same period last year, reflecting the relatively larger decline in imports than exports.

The revival in capital flows witnessed during the first quarter of 2009-10 gathered momentum during the second and third quarters. During April-December 2009, capital account surplus surged to US\$ 41,630 mn from a meager US\$ 7,136 mn recorded during April-December 2008(owing to the massive capital outflow in the wake of the financial crisis)

On balance of payments basis (i.e., excluding valuation effects), the foreign exchange reserves increased by US\$ 11,300 mn during April-December 2009 as against a decline of US\$ 20,380 mn during April-December 2008.

Considering the valuation changes, valuation gains, reflecting the depreciation of the US dollar against the major currencies, accounted for US\$ 20,185 mn during April-December 2009 as compared with a valuation loss of US\$ 33,375 mn during April-December 2008. Accordingly, valuation gains during April-December 2009 accounted for 64.1 per cent of the total increase in foreign exchange reserves.

In November 2009, the Reserve Bank concluded the purchase of 200 metric tonnes of gold from the International Monetary Fund (IMF), under the IMF's limited gold sales programme. The purchase was an official sector transaction and was executed over a two week period during October 19-30, 2009 at market-based prices. As a result of this purchase, the Reserve Bank's gold holdings have increased from 357.75 tonnes to 557.75 tonnes. The foreign exchange reserves, however, remain unaffected by the gold transaction, since the gold purchase reflects only a substitution of foreign currency assets.

Week that was

- ***For the week ending 27th March 2010, WPI based food inflation rose to 17.7% as compared to levels in the previous week. During February 2010 inflation stood at 9.89%.***
- ***International crude oil price (WTI) rose to US\$84.9 /bbl on 9th April 2010 from US\$82.4/bbl on 29th March and Indian Crude Basket price rose to US\$83.7 /bbl on 9th April 2010 from US\$ 78.5/bbl on 29th March 2010.***

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