

Foreign exchange reserves

6.70 The continuance of the robust net capital inflows not only helped finance the rising current account deficits seamlessly, but also resulted in further accretion to foreign exchange reserves. During 2005-06, accretion of such reserves through the BoP was US\$15.1 billion. With the US dollar appreciating vis-à-vis other major currencies, there was a valuation loss of US\$5.0 billion on the existing stock of foreign exchange reserves (Table 6.13). Thus, during 2005-06, foreign exchange reserves rose by US\$10.1 billion from US\$141.5 billion at end-March 2005 to US\$151.6 billion at end-March 2006. In the first half of 2006-07, accretion of reserves through the BoP was US\$8.6 billion. With other major currencies appreciating vis-à-vis the US dollar, there was a valuation gain of US\$5.1 billion on the existing stock of foreign exchange

reserves. Thus, during April-September 2006, foreign exchange reserves rose by US\$13.7 billion from US\$151.6 billion at end-March 2006 to US\$165.3 billion at end-September 2006.

6.71 Balance of payments data is available only up to September 2006. With active purchase of foreign exchange by RBI of US\$9.8 billion in the first nine months of 2006-07, the stock of foreign exchange reserves reached US\$180.0 billion on February 2, 2007. The sustained appreciation of other major currencies vis-à-vis the US dollar in the current year suggests that cumulative accretion to reserves of US\$28.4 billion up to February 2, 2007 includes a large element of valuation gain. Foreign exchange reserves on February 2, 2007 provided an import cover of about 11 months.

Table 6.13 : Sources of accretion to foreign exchange reserves

(US\$ billion)

Items	2004-05	2005-06	April-September	
			2005-06	2006-07
I. Current account balance	-5.4	-10.6	-7.2	-11.7
II. Capital account (net) a to f	31.6	25.7	13.7	20.3
a. External assistance	1.9	1.4	0.4	0.4
b. External commercial borrowings	5.0	1.6	2.9	5.1
c. Foreign investment	12.2	18.2	7.5	5.8
d. Short-term credit	3.8	1.7	1.0	1.9
e. Banking capital	3.9	1.4	2.8	3.2
Of which : NRI deposits	-1.0	2.8	0.2	2.0
f. Other items in capital account	4.8	1.4	-0.9	3.9
III. Valuation change	2.4	-5.0	-5.0	5.1
TOTAL (I+II+III)	28.6	10.1	1.5	13.7

Source : Reserve Bank of India, Mumbai.