Foreign exchange reserves

6.79 Foreign exchange reserves are an important component of the balance of payments and an essential element in the analysis of an economy's external position. The level of India's foreign exchange reserves comprising foreign currency assets (FCA), gold, SDRs and reserve tranche position (RTP) in the IMF, which had touched a low of US$ 5.8 billion at end-March 1991, peaked at US$ 314.6 billion at end-May 2008. The reserves declined thereafter to US$ 247.7 billion at the end of November 2008 and were at US$ 252.0 billion at the end of March 2009. Fallout of the global crisis and strengthening of the US dollar vis-à-vis other international currencies has been responsible for the decline. The component-wise details of foreign exchange reserves from 1950-51 to 2008-09 (March 2009) in rupees and US dollar are at the Appendix 6.1(A) and 6.1(B).

6.80 A major fallout of the global financial crisis has been the reversal of portfolio flows (net outflow of US$ 11.3 billion during April-December 2008). Together with the widening trade deficit, such outflows have upset the supply-demand balance in the domestic foreign exchange market, leading to decline in the rupee exchange rate vis-à-vis US dollar. The value of rupee declined from Rs 40.0 in April 2008 to Rs 48.66 in October 2008. The currency came under sharp pressure after the collapse of the Lehman Brothers in September 2008. The Reserve Bank, therefore, intervened to augment supply in the domestic foreign exchange market aimed at reducing undue volatility. The rupee thereafter attained a measure of stability. The exchange rate was Rs. 51.2 per US dollar in March 2009, reflecting 21.9 per cent depreciation during the fiscal 2008-09. The Foreign Currency Assets (FCAs) are held in diverse currencies like US dollar, Euro, pound sterling, Australian dollar, etc. An appreciation in the value of US dollar against major international currencies translates into lower US dollar equivalent for assets held in other currencies. Thus, during fiscal 2008-09, out of the decline of US$ 57.8 billion in FCA (from US$ 299.2 billion on 31.3.2008 to US$ 241.4 billion on 31.3.2009), the fall of US$ 39.7 billion (69 per cent) was due to valuation change and only US$ 17.9 billion (31 per cent) was on account of net sale of dollars by the RBI. The US dollar has appreciated by 38.8 per cent against pound sterling, 19.3 per cent against Euro and 32.6 per cent against Australian dollar between March 2008 and March 2009. The constituent-wise sources of accretion to foreign exchange reserves during 2006-07, 2007-08 and 2008-09 (April-December) are indicated in Table 6.17.

Table 6.17 : Sources of accretion to foreign exchange reserves (US$ billion)

Sl.No.	Items	2006-07	2007-08	April-December 2007-08	April-December 2008-09
I	Current account balance	-9.6	-17.0	-15.5	-36.5
II	Capital account (net) (A to F)	46.2	109.2	82.7	16.1
A	External assistance	1.8	2.1	1.3	1.9
B	External commercial borrowing	16.1	22.6	17.4	7.1
C	Foreign investment	14.8	44.9	40.2	4.0
D	Short-term credit	6.6	17.2	10.7	0.5
E	Banking capital	1.9	11.8	5.9	-0.1
	Of which: NRI deposits	*4.3*	*0.2*	*-0.9*	*2.1*
F	Other items in capital account	4.2	9.5	7.1	2.7
III	Valuation change	10.9	18.4	8.9	-33.4
	Total (I+II+III)	**47.5**	**110.6**	**76.1**	**-53.8**

Source : RBI

Table 6.18 : International comparison of foreign exchange reserves (US $ billions) and ratio of reserves to imports of goods & services

Country/ Country Group	2001	2005	2006	2007	2008
Russia	33.1	176.5	296.2	466.7	421.3
	(44.6)	(107.4)	(141.7)	(165.1)	(114.4)
China	216.3	822.5	1069.5	1531.3	2134.5
	(79.7)	(115.5)	(125.4)	(148.0)	(163.6)
India	46.4	132.5	171.3	267.6	271.7
	(65.0)	(72.8)	(75.5)	(95.1)	(79.3)
Brazil	35.6	53.3	85.2	179.5	192.9
	(49.0)	(54.4)	(70.7)	(113.8)	(87.6)
Mexico	44.8	74.1	76.3	87.1	94.6
	(24.2)	(30.5)	(27.4)	(28.5)	(28.3)
Country Group					
Developing Asia Excluding China &	116.9	200.5	248.4	329.2	339.4
India	(37.9)	(38.6)	(42.4)	(49.9)	(42.9)
Middle	157.9	351.6	477.2	670.4	823.1
East	(78.7)	(91.7)	(101.6)	(114.7)	(106.7)

Source : World Economic Outlook Database, April 2009

Note : Reserves are based on offical holding of gold valued at SDR 35 an ounce. This convention results in a marked underestimation of reserves for countries that has substantial gold holdings

India's FOREX reserves was US$ 256.0 billion (end of December 2008) and US$ 252.0 billion at the end of March 2009

Figures in parentheses indicate ratio of reserves to imports of goods and services

6.81 In line with the principles of preserving the long-term value of reserves in terms of purchasing power and minimizing risk and volatility in returns, the foreign currency assets are invested by RBI in multi-currency, multi-asset portfolio as per the existing norms broadly in line with the best international practices. Total foreign exchange reserves stood at US$ 252.0 billion at end-March 2009. The ratio of foreign exchange reserves to total external debt at end-December 2008 was 110.9 per cent, while the ratio of short-term external debt to total foreign exchange reserves was 18.5 per cent.

6.82 The rate of return, net of depreciation, on foreign currency assets and gold deployed by the Reserve Bank increased marginally to 4.8 per cent in 2007-08 from 4.6 per cent in 2006-07.

6.83 A comparative picture of foreign exchange reserves and the import cover as measured by the ratio of foreign exchange reserves to import of goods and services for select country groups and countries' including India is presented in Table 6.18. Among the country groups, "Developing Asia" and "Middle East" accumulated reserves during the period 2001-08, leading to a steady improvement in the ratio of reserves to import of goods and services for these country groups till 2007, before falling marginally in 2008.