

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

STARRED QUESTION NO:521  
ANSWERED ON:19.05.2006  
SHARE OF VOLATILE CAPITAL IN TOTAL CAPITAL INFLOW  
Acharia Shri Basudeb

**Will the Minister of FINANCE be pleased to state:**

- (a) the share of volatile capital, as defined by the RBI, in total foreign capital inflow into India for 2003-04, 2004-05 and 2005-06;
- (b) the impact of these inflows on the asset position of the RBI as well as its profit; and
- (c) the cost incurred by the Government of India in order to sterilise foreign capital inflows through several steps including issuance of Market Stabilisation Bonds?

**Answer**

FINANCE MINISTER (SHRI P. CHIDAMBARAM)

(a), (b) & (c): A statement is placed on the Table of the House.

Statement referred to in reply to parts (a) to (c) of the Lok Sabha Starred Question No. 521 regarding 'Share of Volatile Capital in Total Capital Inflow' for answer on 19-05-2006.

(a) Defining volatile foreign capital inflows as portfolio investment and short term trade credit, the share of such inflows in total foreign capital inflows (net) into India was 76.3 per cent, 40.9 per cent, and 67.0 per cent, during 2003-04, 2004-05, and 2005-06 (April-December), respectively.

(b) Net foreign inflows augment foreign currency assets of the RBI. The RBI's financial accounts, available till June 30, 2005, indicate that foreign currency assets increased from Rs 3,65,001 crore at the end of June 30, 2003, to Rs 5,24,865 crore at the end of June 30, 2004, and further to Rs 5,75,864 crore at the end of June 30, 2005. The RBI's earnings from deployment of foreign currency assets and gold increased from Rs 9,104 crore in 2003-04 to Rs 16,979 crore in 2004-05. Net disposable income of the RBI in both 2003-04 and 2004-05 was Rs 5,404 crore, of which Rs 5,400 crore was transferred to the Government in each of the two years.

(c) The Market Stabilisation Scheme (MSS) and the Liquidity Adjustment Facility (LAF) are two important instruments for sterilization used by the RBI. The MSS became operational from April 2004. During 2004-05 and 2005-06, the discount/interest payments in respect of Treasury Bills/dated securities under the MSS were Rs 2040.65 crore and Rs 3421.50 crore, respectively. Such payments in respect of the LAF during 2003-04, 2004-05, and 2005-06, were Rs 1549.77 crore, Rs 1660.61 crore, and Rs 744.68 crore respectively. While the interest payments on MSS are directly borne by the Government of India, such payments on account of LAF affect the Government only indirectly through lower net disposable income of the RBI and hence lower transfers.