

RBI's sale of dollar holdings in 2023 breaks the trend

The cash markets for foreign exchange in 2023 saw an unprecedented event when the RBI decided to sell its stock of dollars after being a buyer since 2020. Earlier sold \$213 billion and bought \$187.05 billion, creating a net difference of \$25.5 billion. The ongoing war between Russia and Ukraine coupled with the rise in bank rates by the US Federal Reserve, caused irregularities in the rupee trade. FPIs worth approximately Rs 37,600 crores and Rs 9,000 crores were withdrawn from the Indian markets after the latter's announcement. The Rupee's downswing against the dollar by one-tenth to 82 (March 2023) earlier from 76 (April 2022) along with escalating current accounts deficits for oil trade had a strain on the efficacy of Rupee transactions.

However, the RBI stood to gain from this transaction. With the higher surplus earned the Union Government also benefitted as they received even better dividends to the tune of Rs 87,400 crores. It is a significant improvement of 188% when compared to 2022's dividend shares of Rs 30,300 crores. In 2022, the pattern was largely different with RBI being a strong purchaser of dollars to a tune of \$17.3 billion in net purchases followed by \$68.3 billion (2021) and \$45.1 billion (2020). These transactions were largely based on the transactions conducted in spot foreign exchange markets (cash markets) and not on the forward markets. The forward market data has continued to be more or less the same at \$24 billion (as of March 2023).

ACRONYMS

RBI – Reserve Bank of India

FPI – Foreign Portfolio Investment

