



RBI Becomes Net Seller of USD in FY23

For Prelims: [Reserve Bank of India](#), [Rupee's Depreciation](#).

For Mains: Impact of RBI's dollar sales on the rupee's depreciation, Factors contributing to the depletion of foreign exchange reserves, [Ukraine-Russia conflict](#) impact on India's economy

Why in News?

Recently, the [Reserve Bank of India \(RBI\)](#) witnessed a significant shift in its foreign exchange transactions during the fiscal year 2022-23. After being a **net buyer of the US dollar for three consecutive years, the RBI turned into a net seller**, selling 25.52 billion USD in the spot market.

- The **spot exchange** is where financial instruments, such as commodities, currencies, and securities, are traded for immediate delivery.

Why and How did the RBI Turn into a Net Seller in FY23?

- **Stabilisation of the Rupee:**
 - The RBI maintains that its intervention in the **foreign exchange market is aimed at stabilising the rupee's movement.**
 - The sale or purchase of dollars by the RBI impacts its profit and is reflected in dividend payouts to the government.
 - Without the RBI's dollar sales, experts suggest the **rupee could have weakened further**, potentially reaching 84-85 levels against the dollar.
- **Depletion of Forex Reserves and Valuation Losses:**
 - The country's [foreign exchange reserves](#) decreased from \$606.475 billion to \$578.449 billion during FY23. This was primarily due to **valuation losses resulting from the appreciating US dollar and higher US bond yields.**
- **Selling of Dollar:**
 - The RBI sold significant amounts of dollars in FY23 to counter the **rupee's depreciation** resulting from the [Ukraine-Russia conflict](#) and the [US Federal Reserve's interest rate hikes](#).
 - The [rupee depreciated](#) by approximately **8% during FY23**, with the **RBI's intervention preventing further weakening.**
 - The rupee declined from around 76 levels on April 1, 2022, to nearly 82 as of March 31, 2023.
- **Impact:**
 - The RBI's dollar sales in FY23 resulted in **significant profits**, leading to a **higher dividend payout to the government.**
 - The Central Board of the RBI approved a **188% increase in [surplus transfer to the government](#)** for the accounting year 2022-23.

What is RBI?

- **About:**
 - RBI is the **central bank and regulatory body** of India's banking system established on **April 1, 1935, as a private entity** in accordance with the provisions of the Reserve Bank of India Act, 1934.
 - However, it was nationalized on January 1, 1949, after India's independence.
 - RBI is owned by the **Ministry of Finance**, Government of India, and is governed by a 21-member central board of directors headed by the governor.
 - RBI regulates the [monetary policy](#).
- **Functions of RBI:**
 - Issuing currency.
 - Managing [foreign exchange reserves](#).
 - Conducting [monetary policy](#).
 - [Regulating banks and financial markets](#).
 - Providing banking services to the government and other institutions.
- **RBI's Income:**
 - Interest on holdings of domestic and foreign securities.
 - Fees and commissions from its services.
 - Profits from foreign exchange transactions.
 - Returns from subsidiaries and associates.
- **Expenditure of RBI:**
 - Printing of currency notes.
 - Payment of interest on deposits and borrowings.
 - Salaries and pensions of staff.
 - Operational expenses of offices and branches.
 - Provisions for contingencies and depreciation.

What Other Measures Can Help Curb Depreciation of Rupee?

- **Increase capital flows into the country**, such as promoting [foreign investments](#) and encouraging [Non-resident Indian \(NRI\) deposits](#).
- **Monitor and intervene in the foreign exchange** markets to reduce excessive volatility in the rupee's value.
- Consider utilizing foreign exchange reserves selectively to counter excessive depreciation and maintain stability.
- Foster a **favorable business environment and policies that support economic growth** and exports.
- **Strengthen monetary policy frameworks** to effectively manage [inflation](#) and maintain stability.
- Enhance coordination with other relevant government agencies to implement comprehensive strategies for managing currency depreciation.
- Encourage [trade in rupees](#) and promote **pricing of India's trade transactions in the domestic currency**.
- Continuously monitor and assess the impact of policy measures on the rupee's depreciation and make adjustments as necessary.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q1. If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do (2020)

1. Cut and optimize the Statutory Liquidity Ratio
2. Increase the Marginal Standing Facility Rate
3. Cut the Bank Rate and Repo Rate

Select the correct answer using the code given below:

- (a)** 1 and 2 only
- (b)** 2 only
- (c)** 1 and 3 only
- (d)** 1, 2 and 3

Ans: (b)

Q2. With reference to Indian economy, consider the following: (2015)

1. Bank rate
2. Open market operations
3. Public debt
4. Public revenue

Which of the above is/are component/ components of Monetary Policy?

- (a)** 1 only
- (b)** 2, 3 and 4
- (c)** 1 and 2
- (d)** 1, 3 and 4

Ans: (c)

[Source: IE](#)

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