

RBI to conduct USD-INR swap auction of \$10 bn for 3 years' tenor to inject liquidity

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THE HINDU BUREAU



To meet the durable liquidity needs of the system, the Reserve Bank of India has decided to inject Rupee liquidity for longer duration through long-term USD-INR Buy/Sell swap auction. | Photo Credit: FRANCIS MASCARENHAS

To meet the durable liquidity needs of the system, the Reserve Bank of India (RBI) has decided to inject Rupee liquidity for longer duration through long-term USD-INR Buy/Sell swap auction.

Accordingly, the RBI will conduct a USD-INR Buy/Sell swap auction of \$10 billion for a tenor of three years.

The auction time has been fixed from 10.30 am to 11.30 am on February 28, 2025. The spot date is March 4, 2025 and the far leg date is March 6, 2028.

“The market participants will be required to place their bids in terms of the premium that they are willing to pay to the Reserve Bank for the tenor of the swap, expressed in paisa terms up to two decimal places,” the RBI said in a circular.

“The auction cut-off would be based on the premium. The auction would be a multiple-price based auction, i.e., successful bids will get accepted at their respective quoted premium,” it added.

This will be the second swap auction by the RBI in a month. On January 31, it had infused \$5.1 billion through a six-month swap.

Commenting on the development Dilip Parmar, Research Analyst, HDFC Securities said, “There will be a short-term positive impact on the Rupee. The swap mechanism can help stabilise the currency by providing immediate liquidity support, thereby mitigating the pressure on the rupee during periods of foreign fund outflows.”

“This temporary relief can bolster market confidence and prevent excessive volatility in the exchange rate. Spot USD INR can move towards 86.30,” he said.

According to an RBI circular, Authorised Dealers (ADs) – Category-1 banks will be the eligible entities to participate in the auction.

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Once the auction window is closed, all the bids would be arranged in descending order of the swap premium quoted and the cut-off premium would be arrived at the premium corresponding to the notified U.S. Dollar amount of the auction, the RBI said.

Successful bidders would be those who had placed their bids at or above the cut-off premium. All bids lower than the cut-off premium would be rejected.

Under the swap auction, the minimum bid size would be \$10 million and in multiples of \$1 million thereafter. The eligible participants are allowed to submit multiple bids.

However, the aggregate amount of bids submitted by single eligible entity should not exceed the notified amount of auction.

In the first leg of the transaction, the bank will sell U.S. Dollars to the Reserve Bank at FBIL Reference Rate of the auction date.

The settlement of the first leg of the swap will take place on spot basis from the date of transaction and the Reserve Bank will credit the Rupee funds to the current account of the successful bidder and the bidder needs to deliver U.S. Dollars into the RBI's nostro account.

In the reverse leg of the swap transaction, Rupee funds will have to be returned to the Reserve Bank along with the swap premium to get the U.S. Dollars back, the RBI said.

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