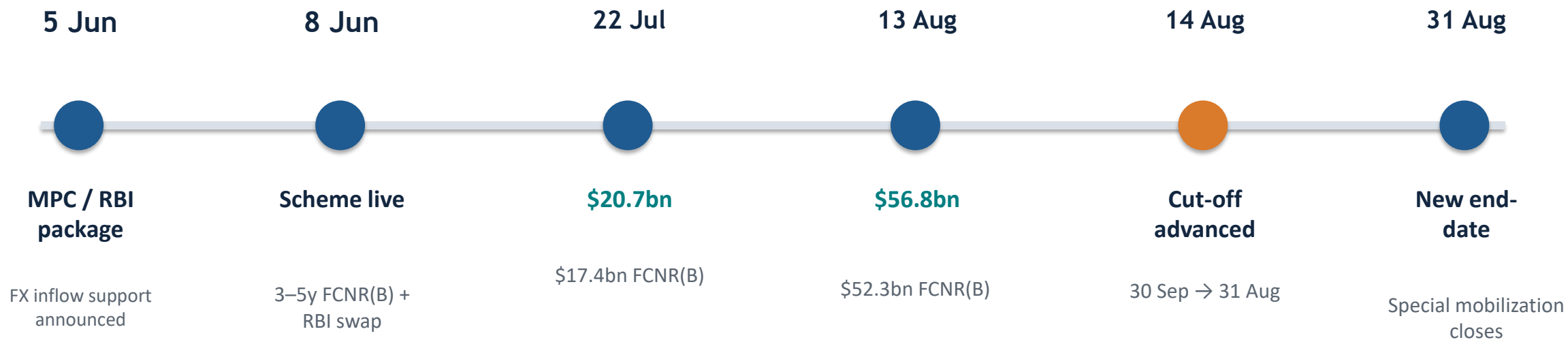


The FCNR (B) scheme developments and implications?

(Performance, Macro & Micro Impact, Banking implications)

Objective : Policy intent evolved from 'attract dollars' to 'stop subsidizing once the target is achieved'.

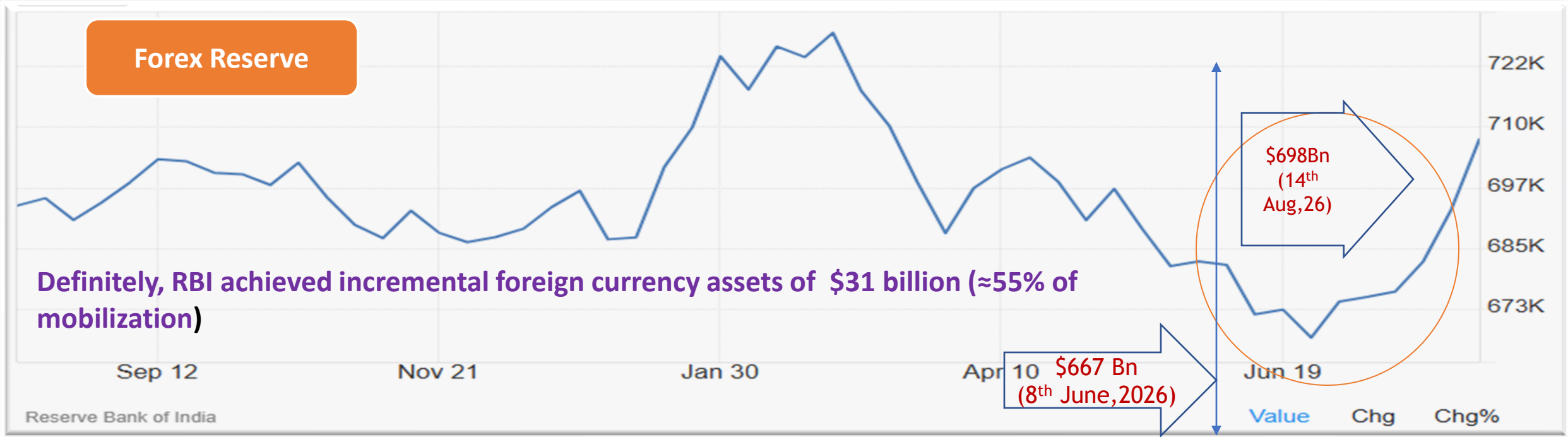


Interpretation

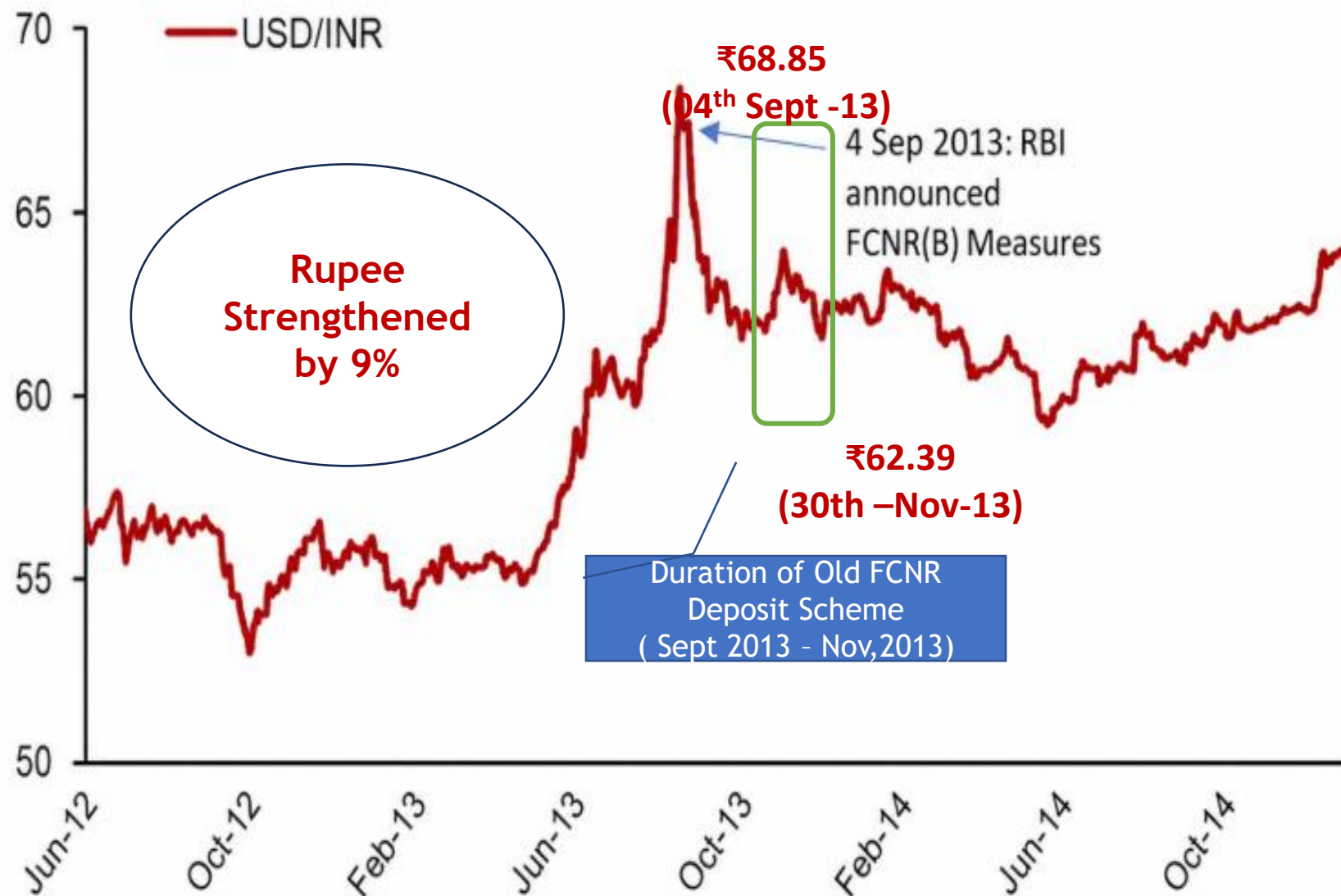
- ❑ The one-month shortening is a signal of policy success.
- ❑ Excess liquidity could create its own problems

Macro Impact of the Ongoing Scheme

Forex Reserve Vs USD/INR During FCNR Deposit Scheme (As on 13.08.2026)



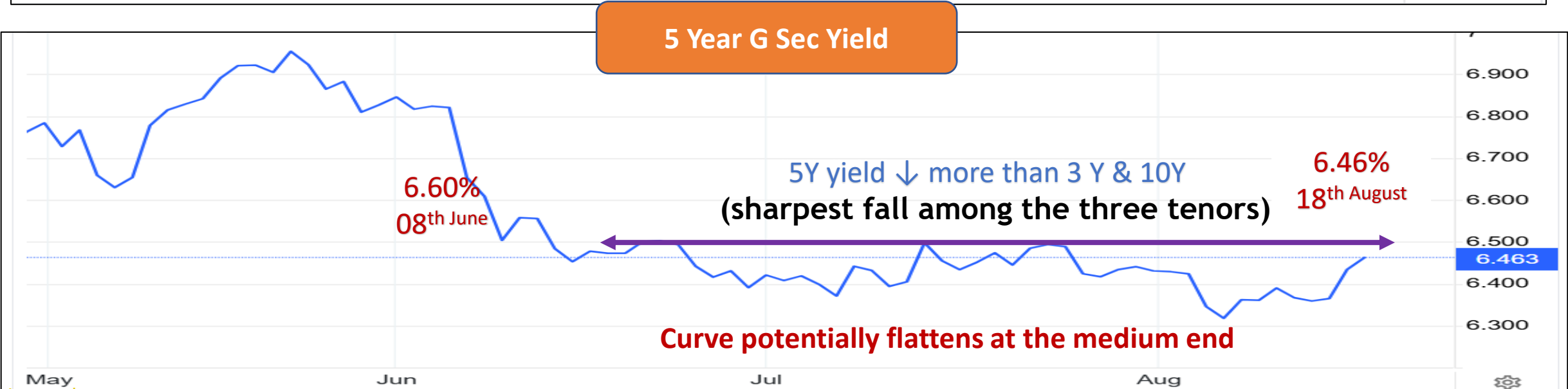
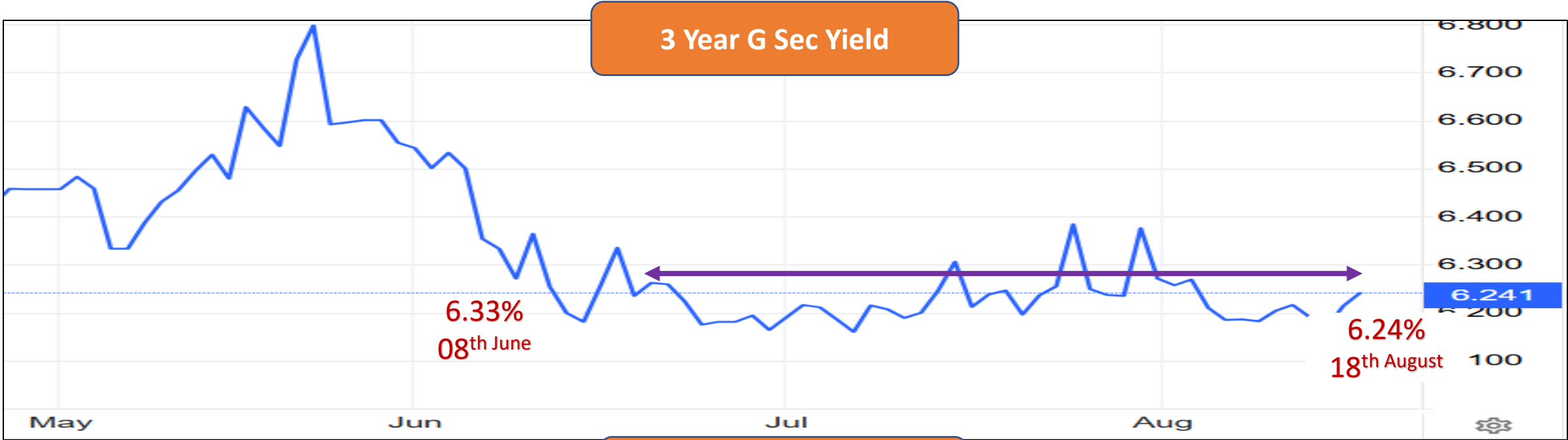
Rupee Became Stronger under Old FCNR Deposit Scheme 2013



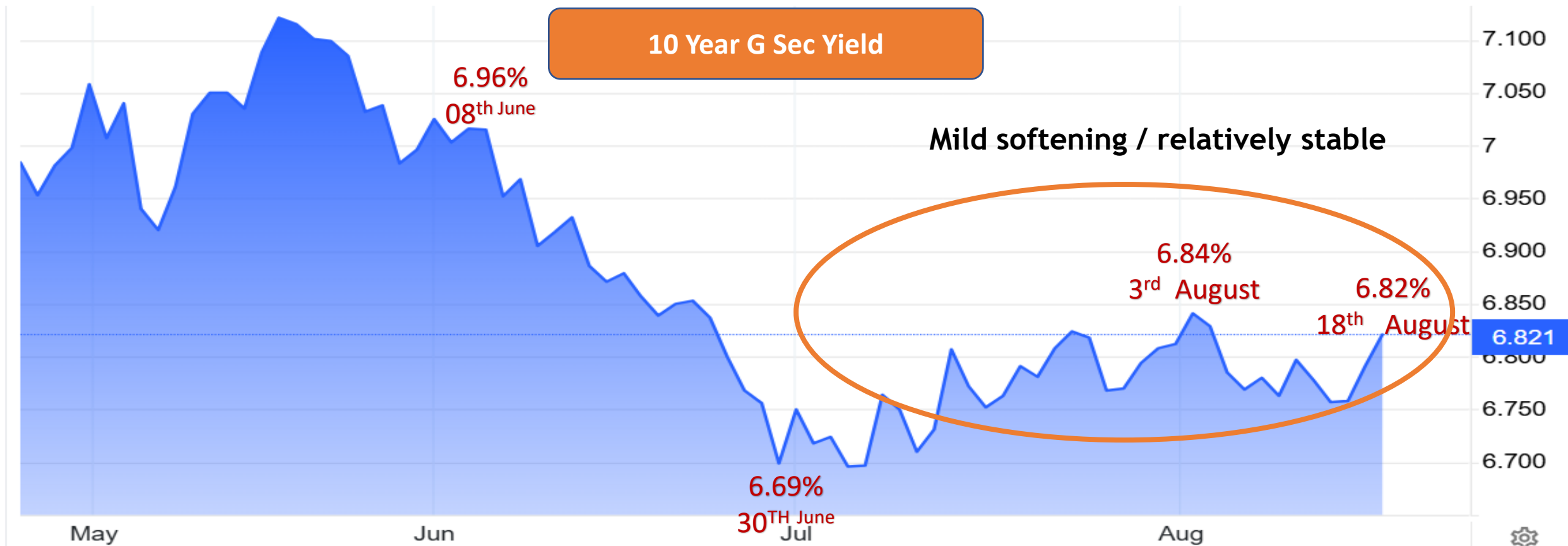
Period	USD INR	% of Appreciation (+) / Depreciation (-)
FCNR(B) Swap in 2013		
31-Aug13	65.70	
23-Oct-13	61.59	6.3%
6-Nov-13	62.40	-1.3%
11-Nov-13	63.24	-1.3%
20-Nov-13	62.58	1.0%
30-Nov-13	62.45	0.2%
30-11-2013 (Cumulative)	62.45	4.9%
28-03-2014 (Cumulative)	59.89	8.8%
FCNR(B) Swap in 2026		
8-Jun-26	95.71	
17-Jul-26	96.28	-0.6%
31-Jul-26	95.39	0.9%
13-Aug-26	95.42	0.0%
17-Aug-26 (Cumulative)	95.60	0.1%

BoP surplus expected at \$60-65bn in FY27 against \$25bn deficit in FY26

Impact on G Sec Yield : 3 Years Vs 5 Years Vs 10 Years (1/2)



Impact on G Sec Yield : 3 Years Vs 5 Years Vs 10 Years (2/2)



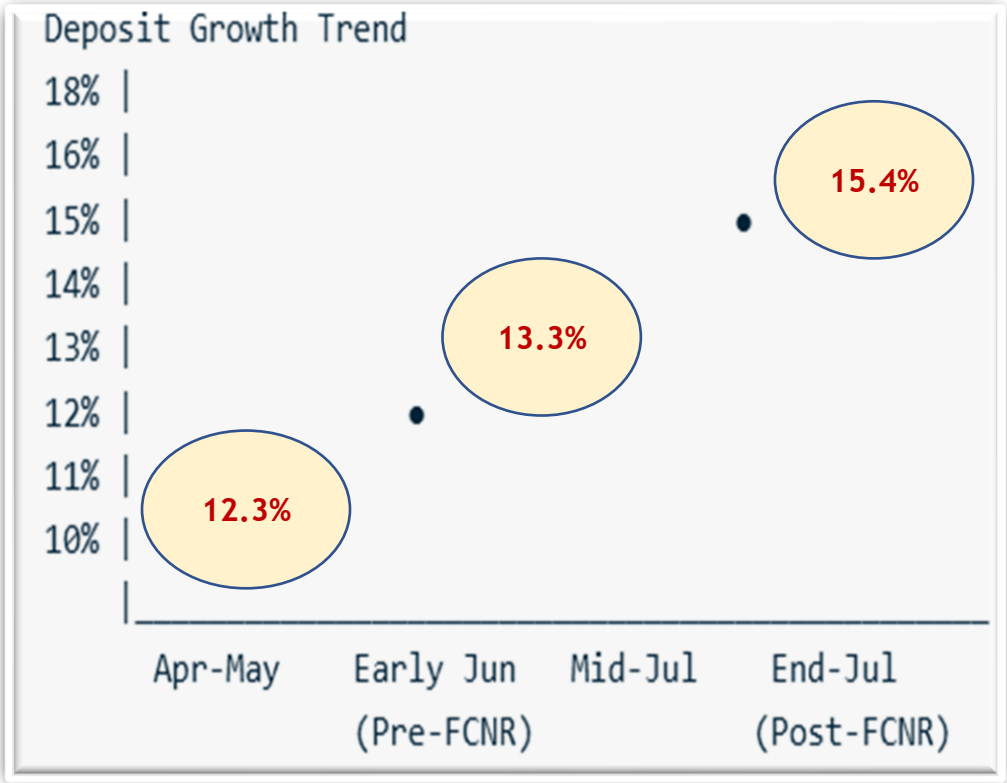
❑ FCNR(B) → 3–5 year funding → preference for 5-year G-Secs

❑ FCNR(B) inflows have created a structural demand/liquidity cushion for G-Secs, particularly in the 3–5 year segment, but inflation/oil risks might compromise durability of the fall

❑ Recently 30 yr G-Sec auctioned in US at 5.22% and 10 Yr at 4.68%, both record highs

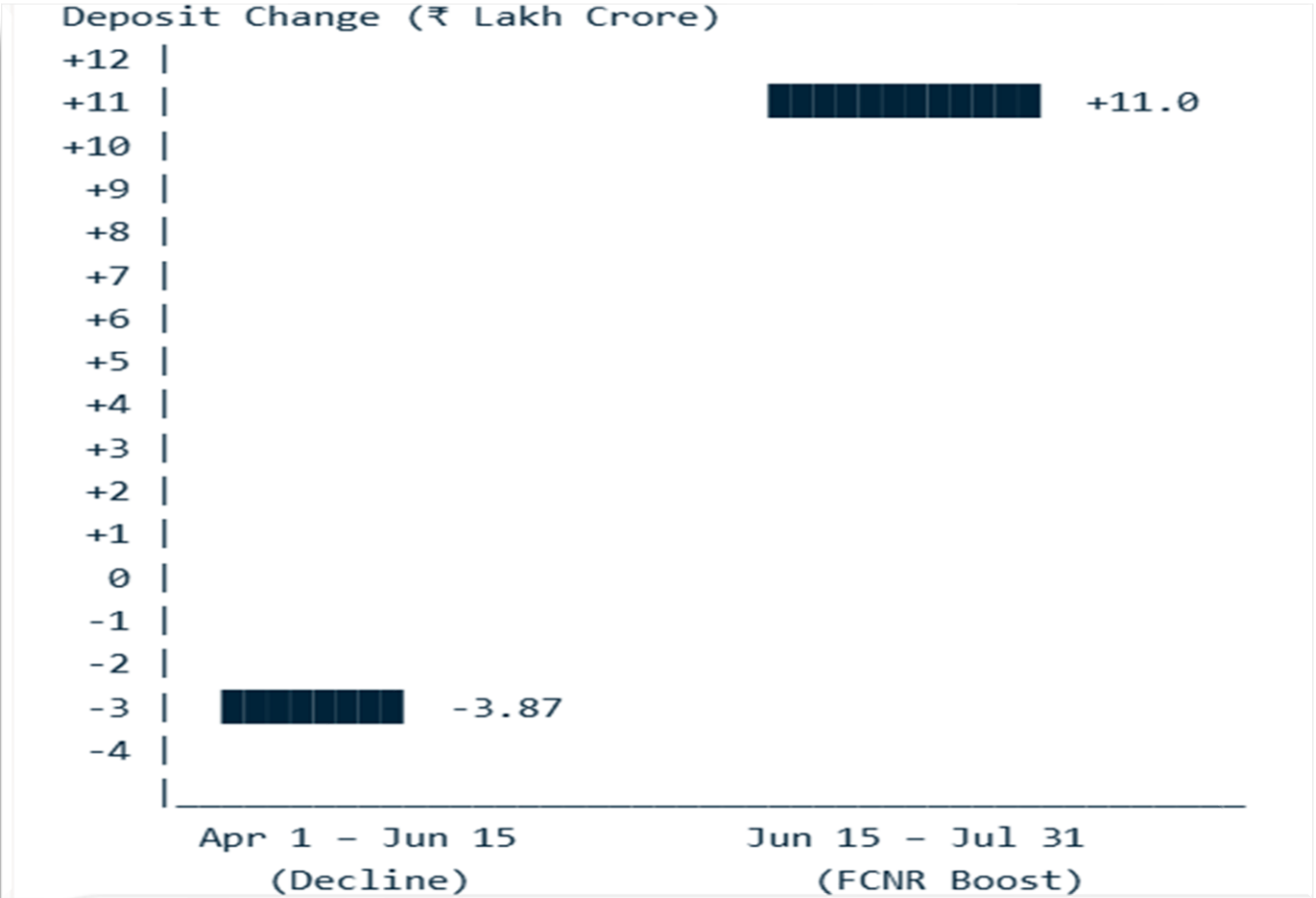
Internal

Micro Impact of FCNR Deposit Scheme (2026) till August 2016



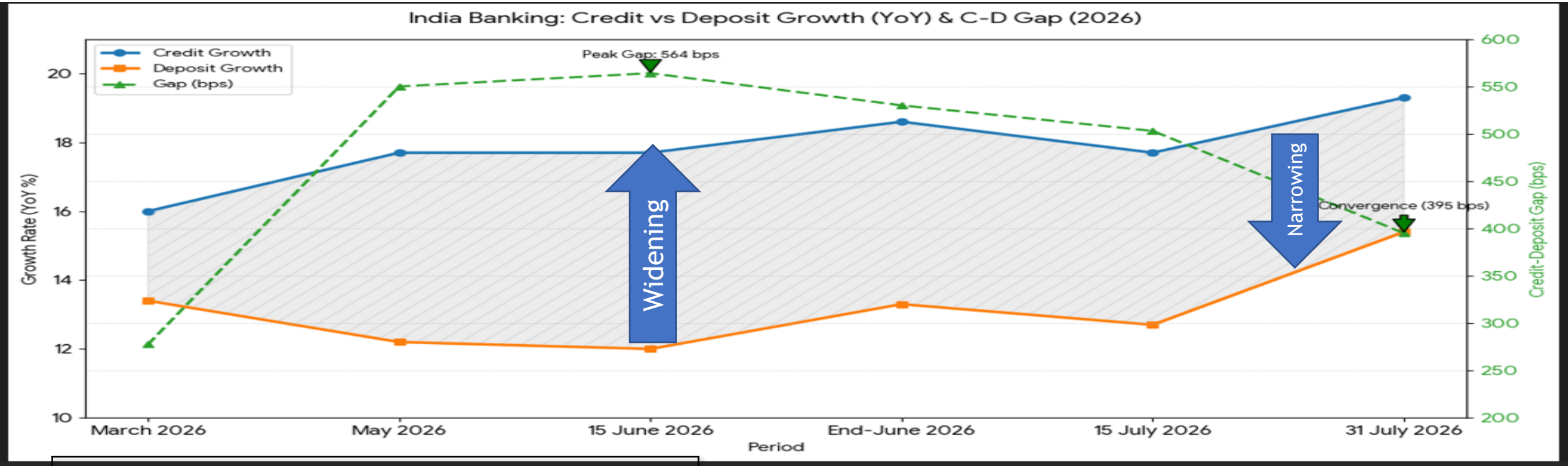
Interpretation

Deposit growth jumped from 12.7% to 15.4% (highest since Dec 2016) after FCNR inflows accelerated.



Deposits fell by ₹3.87 lakh crore in the first 2.5 months of FY27, then rose by ₹11 lakh crore in the next 6 weeks. Without the scheme deposit growth would have normalized at 12%

Credit vs Deposit Growth Comparison As on Since March,2026



Data Statistics				
Period	Credit Growth	Deposit Growth	C-D Gap	CD Ratio
Mar-26	16.0%	13.4%	260 bps	82%
May-26	17.65%	12.21%	544 bps	82.8%
15-Jun-26	17.65%	12.0%	564 bps	83.4% ●
30-Jun-26	18.6%	13.3%	530 bps	82.9%
15-Jul-26	17.7%	12.7%	500 bps	82.68%
31-Jul-26	19.3%	15.4%	390 bps	82%

- ### Interpretation
- ❑ Earlier Gap (May 2026): Credit growth was more than 550 bps higher than deposit growth.
 - ❑ After FCNR: Gap narrowed significantly.

Interest Benefit of FCNR Deposit

Sr. No	Metric	Value
A	FCNR(B) mobilized (USD)	USD 52.3 billion
B	FCNR(B) mobilized (INR) (A*\$95)	Rs 4.96 lakh crore
C	Effective cost - FCNR(B)	6.25%
D	Effective cost - Domestic FD (equivalent)	6.63%
E	Cost advantage of FCNR(B) (E = D-C)	38.3 bps
F	Annual savings (banking system) (F= B*E)	Rs 19,025 crore
G	Annual savings (% of mobilisation)	0.38%

Calculation Sheet (For Reference)

USD amount: 52.3 billions		
USD/INR rate: 95.0		
INR amo	52.3 billion×1000×95=4,968,500 crore	
Cost Benefit Analysis : Domestic Term Deposit Vs FCNR		
	Domestic FD:	FCNR(B):
A	Deployable Fractions	100%-3% (CRR)-18% (SLR)=79.0%
B	Lendable Amounts	4,968,500 crore×100%=4,968,500 crore
C	Annual Costs	4,968,500/0.79=6,289,241 crore
	Annual interest paid:	6,289,241×6.50%=408,801 crore
	RBI subsidy:	6,289,241×18%=1,132,063 crore
	Net hedging cost:	1,132,063×7.0%=79,244 crore
	Net annual cost	408,801-79,244=329,556 crore
D	Annual Savings to Banks	4,968,500×6.25%=310,531 crore
	Net cost (Domestic)-Net cost (FCNR)	329,556-310,531=19,025 crore
E	Effective Cost(in %)	329,556/4968500=6.63%
		310,531/4968500=6.25%

Why RBI Curtailed (Shortened) the FCNR Scheme Early ?

- ❑ Inflows already exceeded expectations (\$52.3 bn by 13 Aug vs original \$35-50 bn target)
- ❑ Desire to limit the build-up of future foreign-currency repayment liabilities (deposits mature in 3-5 years)
- ❑ Rising carrying cost of providing the free/concessional hedge
- ❑ Risk of excess rupee liquidity → potential inflation



RBI's Cost –Economics of the FCNR Deposit Scheme (2026) : Tentative Calculation (1/2)

RBI offered banks a par swap (sell dollars now, buy back later at the same rate). This eliminated the normal market hedging cost (forward premium of ~2.5–3.5% p.a.) for banks. RBI absorbed this cost itself.

A. On \$52.3 billion already mobilized(As on 13.08.2026)

- ❑ At 2.5% p.a.: Annual cost = $52.3 \times 0.025 = \$1.3075 \text{ bn}$ 5-year total = $1.3075 \times 5 = \approx \6.5 billion
- ❑ At 3.5% p.a.: Annual cost = $52.3 \times 0.035 = \$1.8305 \text{ bn}$ 5-year total = $1.8305 \times 5 = \approx \9.1 billion

B. If total reaches \$70 billion by 31.08.2026

- ❑ At 2.5% p.a.: Annual cost = $70 \times 0.025 = \$1.75 \text{ bn}$ 5-year total = $\$8.75 \text{ billion}$
- ❑ At 3.5% p.a.: Annual cost = $70 \times 0.035 = \$2.45 \text{ bn}$ 5-year total = $\approx \$12.25 \text{ billion}$

Disclaimer : Actual realized cost will also depend on the exact tenor mix (3 vs 5 years), the path of the rupee, and returns earned on the dollars held by RBI.

Every 1 percentage point of annual hedge cost on \$70 bn = \$700 million per year (or \$3.5 billion over 5 years).

Amount	Hedge Rate	5-Year Cost
\$52.3 bn	2.5–3.5%	\$6.5–9.1 bn
\$70 bn	2.5–3.5%	\$8.75–12.25 bn

Note : These are economic costs (forgone premium + currency risk), not immediate cash outflows. They crystallize over the 3-5 year life of the swaps and can be partially offset by returns on the dollars held by RBI and any rupee depreciation benefit on foreign assets.

Liquidity Injection & Inflation Risk of FCNR Deposit 2026 : An Estimation

Liquidity Injection Estimated

Sr.No	Parameter	Value	Calculation
A.	FCNR(B) inflows (as of 13 Aug)	\$52.3 billion	Actual
B.	Expected final FCNR(B)	\$65–70 billion	Market estimates
C.	Exchange rate (approx.)	₹95–96 / \$	Prevailing rate
D.	Rupee liquidity injected (B*C)	₹5.0 – 6.7 lakh crore	$\$52-70 \text{ bn} \times \text{₹}95-96$
E.	Upper-end estimate (including OFCB/ECB)	₹8–9 lakh crore	SBI Research

Interpretation

This represents roughly 2-3.5% of the total banking system deposit base (= ₹260-270 lakh crore).

Liquidity Translation into Inflation Risk

Scenario	Liquidity Left Unabsorbed	Potential CPI Impact	Likelihood
Base Case (RBI manages well)	Most of it absorbed	0 – 20 bps	High
Moderate Case	Partial absorption	20 – 40 bps	Medium
High Risk Case (poor absorption + strong demand)	Large surplus persists	40 – 70 bps	Low

Reasoning

- ❑ A sustained 1% increase in broad money (M3) is typically associated with 0.2-0.4% higher inflation over 12-18 months in India (when the economy is near full capacity).
- ❑ ₹6-7 lakh crore of durable liquidity is roughly equivalent to 2-2.5% of M3.

Source : https://rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=21069

Internal

The immediate FX benefit is largely front-loaded; the market reaction can still be mixed.

INR — NEAR TERM

Positive from cumulative inflows, but marginally less supportive after 31 Aug. Market may interpret closure as 'target achieved'.

INR to stabilize at 96.5-97 in near term

BOND MARKET

If FCNR proceeds are converted into rupees, liquidity effects can support short-end conditions; sterilization can offset this.

Rising advanced economy yields a challenge

BANKING STOCKS

Deposit franchise gains are positive; however, lower future subsidy reduces incremental FCNR B after the window closes.

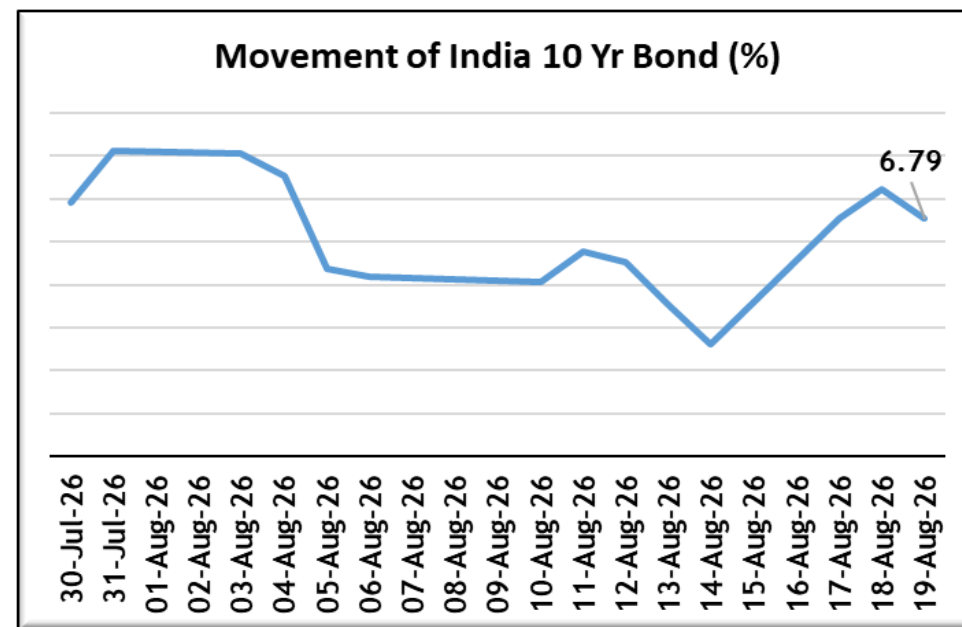
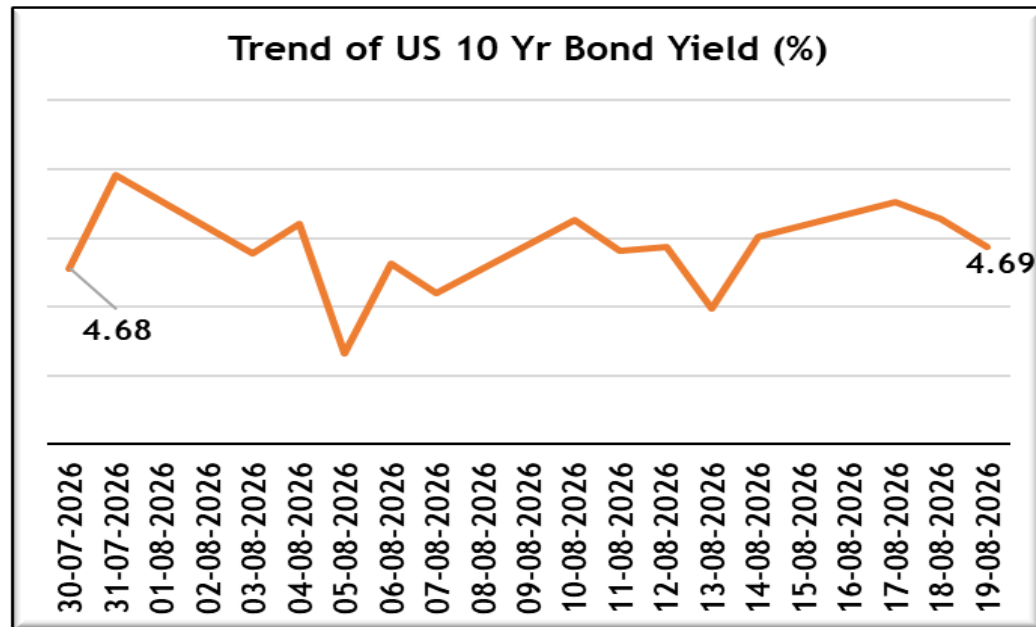
KEY MARKET SIGNAL

RBI is shifting from aggressive attraction of dollars to managing the stock already mobilised. This suggests confidence in external liquidity, not a retreat from FX management.

WATCH AFTER 31 AUG

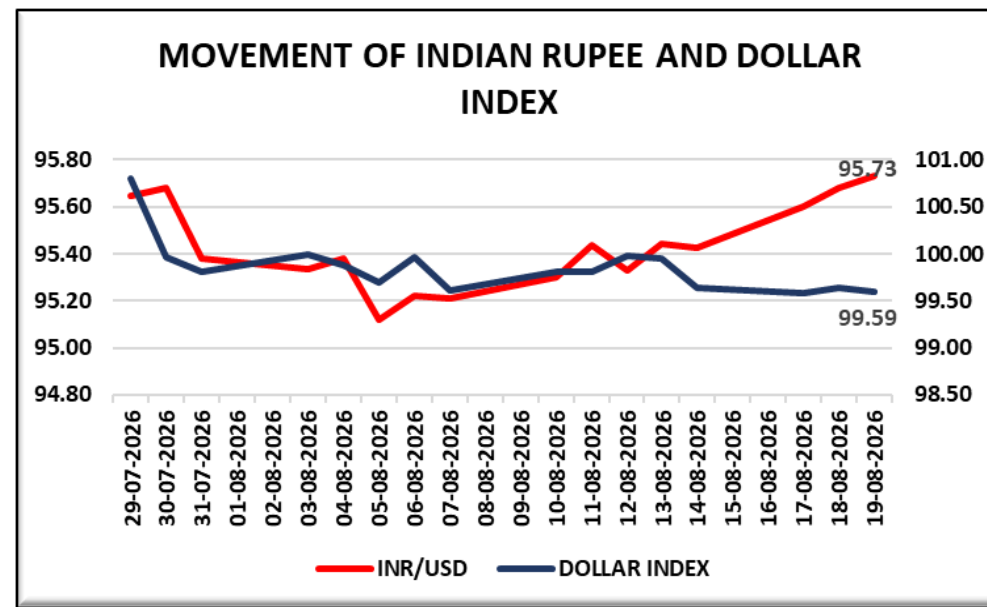
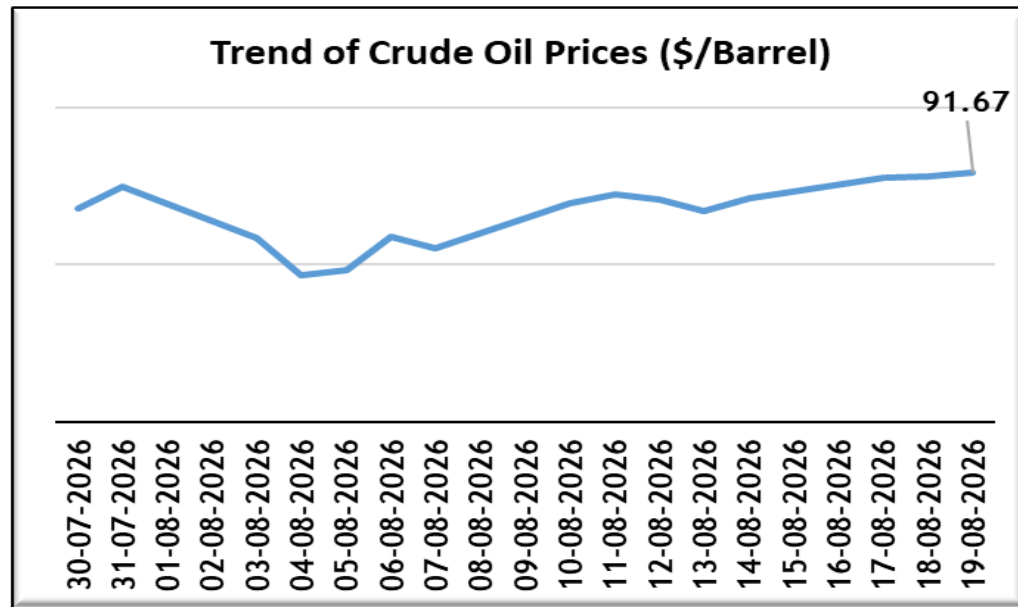
- INR forward premia
- RBI spot intervention
- FX reserves
- FCNR rate differentials
- NRI deposit run-rate
- Oil / geopolitical shock
- FPI flows

❑ **Last day (18th August):** Indian government bonds yield rose as high oil prices and the premature conclusion of a deposit scheme weighed on investor sentiment. Following the central bank's policy announcement, the benchmark bond yield rose sharply.

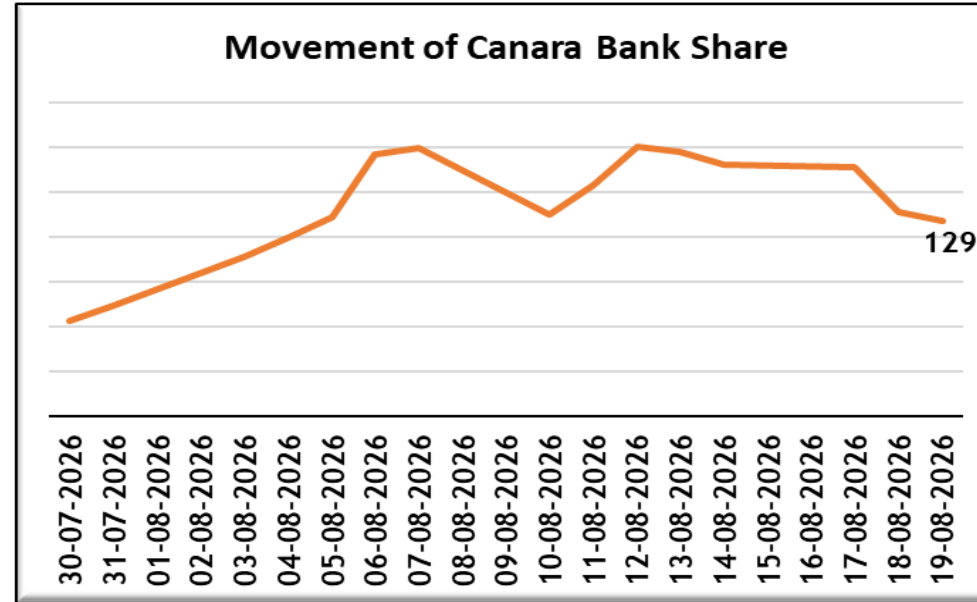
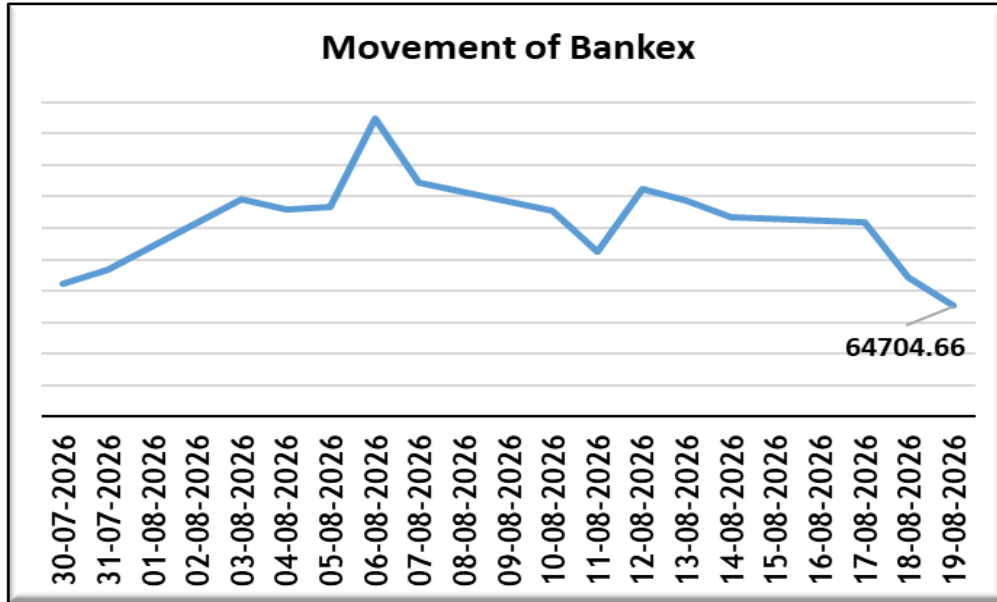


❑ Today 10 yr benchmark bond yield is trading at 6.79%.

- ❑ **Last day (18th August) :** The Indian rupee depreciated against the dollar as Contributing factors included high oil prices and climbing global bond yields, which put additional stress on the currency.
- ❑ Today rupee is trading at **95.73\$**.

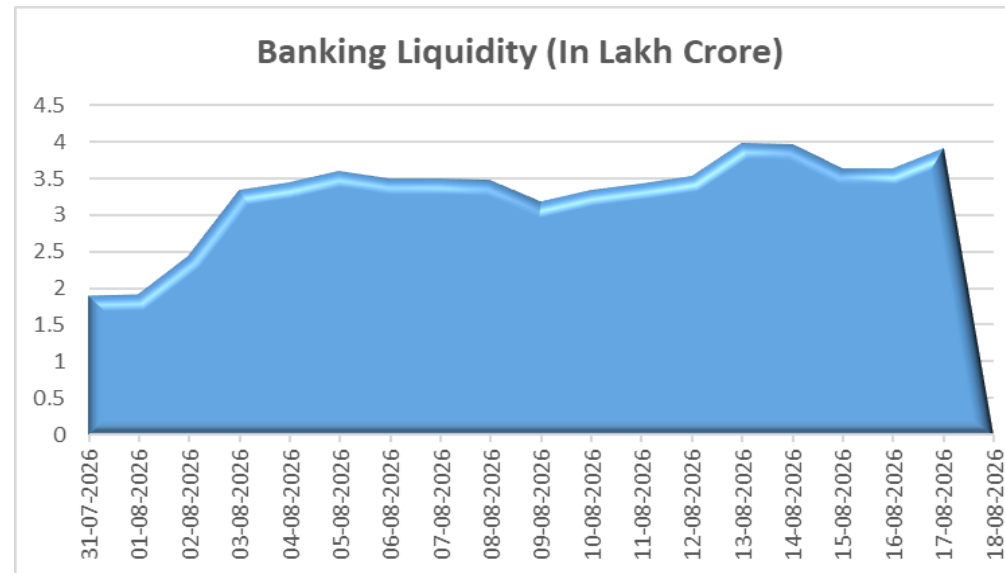
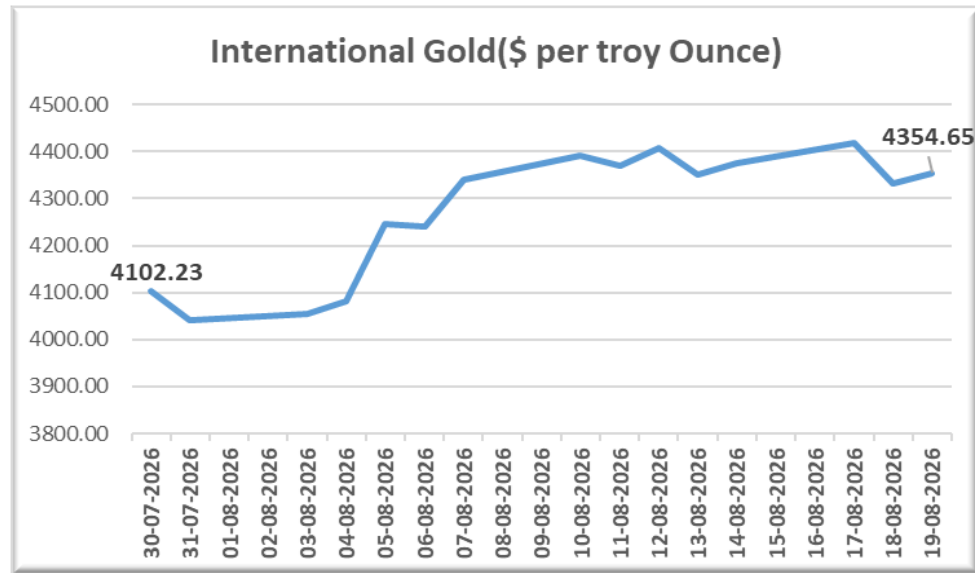


- ❑ Today Crude Oil prices is trading at **\$91.67/Barrel**



- ❑ **Last day (18th August):** Indian equities market closed negative as investors remained cautious following the expiry of the US-Iran ceasefire arrangement and rising concerns over a potential disruption to energy supplies. IT and realty stocks faced pressure, while investors tracked sectoral rotation and stock-specific action through the session.
- ❑ Bankex closed at 64,884 Canara Bank closed at 129.10.
- ❑ Today Bankex is trading at 64,705 and Canara Bank share is trading at 128.74.

- ❑ Last day (18th August): Gold Prices drop on Tuesday as higher treasury yields and rising oil prices continued to pressure bullion while investors awaited the Federal reserve's July meeting minutes for clues on the interest rate outlook.
- ❑ Today Gold per Troy Ounce (USD)- 4354.65
- ❑ Today Silver per Troy Ounce (USD)- 62.95



- ❑ Banking Liquidity (18th August) - **3.91 Lakh Crore**
- ❑ Foreign Exchange Reserves (as on 7th August) - **\$707.00 Bn.**

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