

FCNR(B) Deposits - India's Strategic Tool for Forex Stability Amid Global Uncertainty

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FCNR(B) Deposits Latest News

- The Reserve Bank of India (RBI) has revived the Foreign Currency Non-Resident (Bank) [FCNR(B)] **concessional swap** window until September 30, 2026 to attract foreign currency deposits from the Indian diaspora.
- The move aims to **strengthen** India's foreign exchange **reserves**, stabilise the rupee amid volatile global financial conditions, and cushion the economy against external shocks.

FCNR(B) Deposits

- FCNR(B) deposits, introduced in **1993**, are foreign currency term deposits maintained by Non-Resident Indians (NRIs), Persons of Indian Origin (PIOs), and Overseas Citizens of India (OCIs) with Indian banks.
- Deposits are maintained in designated foreign currencies such as – US Dollar (USD), Pound Sterling (GBP), Euro (EUR), Japanese Yen (JPY), Australian Dollar (AUD), and Canadian Dollar (CAD).

- Both principal and interest remain denominated in foreign currency, insulating depositors from rupee depreciation risk.

Reasons Behind the RBI Reviving the FCNR(B) Swap Window

- The revival comes amid –
 - Rising geopolitical tensions.
 - Volatile global capital flows.
 - Persistent inflation and uncertain global interest-rate cycles.
 - Depreciation of the rupee (around **12% year-on-year** against the US Dollar as of July 22, 2026).
 - Declining Foreign Direct Investment (FDI).
 - Large Foreign Portfolio Investor (FPI) outflows, with withdrawals of **₹2.87 lakh crore** (January–early June 2026), exceeding the entire FY2025 outflows.
- The objective is to build forex reserves, **reduce** external **vulnerabilities**, stabilise the exchange rate, and enhance confidence in India’s macroeconomic fundamentals.

Key Features of the 2026 FCNR(B) Scheme

- **Concessional swap facility:**
 - RBI offers banks a concessional foreign exchange swap facility for FCNR(B) deposits with 3–5 year maturities.
 - Banks benefit from significantly lower hedging costs, approximately 3% below prevailing FX swap rates.
- **Higher interest rates:**
 - Banks can offer **attractive returns**, for example, large banks around 6%, and smaller/private banks up to 7.1%.
 - These rates exceed returns on relatively risk-free US Treasury securities (4–4.4%), making FCNR(B) deposits more attractive.
- **Targeted mobilisation:** RBI aims to mobilise USD 50–70 billion.
- **Strong initial response:**
 - Total foreign currency mobilisation has reached USD 20.72 billion.
 - USD 17.4 billion (84%) has come through FCNR(B) deposits alone, making it the dominant source of inflows.

Importance of the FCNR(B) Deposits

- Compared to volatile portfolio investments, FCNR(B) deposits –
 - Provide relatively **stable** medium-term foreign currency resources.
 - Strengthen India’s external financing position.
 - Help **defend the rupee** during periods of market stress.
 - Improve forex reserve adequacy.
 - Reduce dependence on volatile short-term capital flows.

- Reuters also reported that the RBI has used part of these inflows to unwind a portion of its large forex forward book, improving **reserve management**.

Historical Evolution of India's Forex Mobilisation

- India has previously relied on diaspora resources during external stress.
- **For example,**
 - **1998:** RIBs (Resurgent India Bonds) instrument raises forex after Pokhran-II sanctions.
 - **2000:** India Millennium Deposits (IMDs) strengthens reserves following sanctions and the dot-com slowdown.
 - **2013:** FCNR(B) Special Scheme counters the “Taper Tantrum”; and mobilised nearly USD 34 billion.
 - **2026:** FCNR(B) revival to build precautionary buffers against geopolitical and financial uncertainty.
- Unlike earlier episodes, the current initiative is **preventive** rather than crisis-driven. **For example,** India's external position is considerably stronger than during previous crises –
 - Forex reserves exceed USD 650 billion.
 - No Balance of Payments (BoP) crisis.
 - Investment-grade macroeconomic fundamentals.
 - Strong external sector resilience.
- Therefore, the current mobilisation seeks to create **additional buffers** rather than address an immediate liquidity crisis.

Challenges and Risks

- **Rising external liabilities:** Higher FCNR(B) mobilisation increases India's external debt obligations, requiring prudent management.
- **Dependence on remittances:**
 - Nearly 50% of India's inward remittances originate from West Asia.
 - Persistent regional instability, labour nationalisation policies, slowing recruitment of expatriates, and oil-price volatility could moderate remittance growth.
- **Global competition:** Banks in the UAE and other Gulf countries are offering attractive US Dollar deposit rates, making it harder for Indian banks to compete for NRI deposits.
- **Elevated global interest rates:**
 - If US interest rates remain high, investors may prefer – US Treasury securities, global money market funds, and dollar-denominated bonds.
 - This could reduce the relative attractiveness of FCNR(B) deposits.
- **Banking constraints:** Many small and mid-sized Indian banks lack overseas branches or a presence in **GIFT City**, compelling them to collaborate with larger banks to extend FCNR(B) benefits to NRI customers.

Conclusion

- The FCNR(B) scheme demonstrates India's ability to leverage its large global diaspora as a strategic source of foreign currency.

- While it strengthens forex reserves and enhances exchange-rate stability, sustained success will depend on **maintaining competitive returns**, managing external liabilities prudently, and navigating global geopolitical and financial uncertainties.
- The initiative reflects a shift from crisis management to precautionary macroeconomic resilience-building.

Source: TH

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