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The FCNR(B) Confluence: Rupee Resilience Meets Liquidity Abundance

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank.in

Shreyas Bidarkar
shreyas.bidarkar@unionbankofindia.bank.in

Sumit Edke
sumit.edke@unionbankofindia.bank.in

Banking & Economics Research Team

After getting dollar flows, now Rupee liquidity management is key policy challenge for RBI

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- **Grand success of FX swap scheme with receipt of $136bn & counting**

  1) Total flows received is $136bn o/w FCNR is 120bn and rest from ECB/OFCB (with window open till 31st Dec'26)

  2) FX reserves at record highs of US$729.3 billion and help RBI in preventing "self-fulfilling expectations" of continued rupee depreciation from taking hold

- **Now, liquidity management is key topic of discussion**

  1) RBI's objective is to keep the WACR close to the policy repo rate and with core liquidity rising into double digits, this is going to be a key challenge

  2) Till now, as indicated by RBI Governor in August policy, the main reliance is on two way operations (i.e. short term VRRR) for liquidity management though it is unable to keep call rate around repo rate

  3) We expect durable liquidity measures to be announced before the October policy given the sharp +ve surprise on FX flows

  4) We believe that a bouquet of liquidity tools (durable/frictional) will be used and have analysed various liquidity tools on the basis of probability of implementation (pls turn over to next slide)

  - High: SDF, Short/Long term VRRR, I-CRR
  - Medium: OMO Sales, CRR Hike, Fx Sell/Buy swap, Fwd maturity
  - Low: MSS (Market Stabilisation Scheme)

- **Rate hikes back on table aligned with tightening global financial conditions**

  1) Rate hikes are back on the table for H2 FY27, post hawkish August MPC minutes and macro mix of strong growth and rising inflation.

  2) December appears the more likely starting point in our base case, with a shallow cycle comprising two to three 25-bps increases potentially taking the repo rate from 5.25% to 5.75–6.00%.

  3) A September Fed hike could keep the RBI hawkish and raise the risk of an October rate hike following durable liquidity absorption. Oil above US$90/bbl adds to inflation and rupee pressures, while any easing of geopolitical tensions could provide policy breathing space.

Liquidity management tools (a bouquet of measures likely to be deployed by the RBI)

Sr. No.	Instrument	Nature	Policy Implication		Probability of use
			Positives	Negatives	
1	SDF, Overnight VRRR or short tenor VRRR	Tactical	Fast and flexible	Needs constant liquidity management	High
2	Longer-tenor VRRR	Term, self-reversing	Appropriate tool for extending liquidity lockup during persistent surplus periods	Given busy season, banks may be unwilling to partake large amounts under this facility	High
3	Incremental CRR (I-CRR)	Targeted, temporary *(to be introduced retrospectively on deposits received under FCNR(B) scheme)*	Targeted liquidity lock-up suited to a one-off liquidity surge *(last implemented in FY23-24)*	It penliases banks that received relatively more flows under swap scheme with a CRR exemption initially given on same deposits	High
4	FX forward maturities	Targeted, durable	Helps reduce RBI's short term fwd book	Amount capped at $7.3bn over next 2 mths and $32bn over next 1 year	Medium
5	USD/INR Sell-Buy Swaps	Term, self-reversing	Directly sterilises an FX-related liquidity impact	Fwd premia to witness upward pressure (negative for hedging activity) & amount likely to be capped under the tool as banks need to deploy Dollars	Medium
6	OMO Sales	Durable	Appropriate for periods witnessing persistent liquidity surplus	Poses upward pressure on bond yields, yet RBI may consider short term bonds for OMO sales, as a precursor to rate hikes	Medium
7	CRR Hike	Durable	Immediate, durable and also becomes a precursor to rate hikes	Costly for banks as impact on entire deposit base and penalises banks that did not get adequate deposit flow under swap scheme	Medium
8	MSS (Market Stabilisation Scheme)	Durable	Quick absorption of durable liquidity, last used post demonetisation in 2016	Adds to fiscal cost as it is treated as government debt & use of the tool may not be preferred post introduction of SDF	Low

FCNR(B) Drives a Strong Surge in Foreign-Currency Inflows

FX Inflows under RBI Scheme in 2026 (USD Bn.)

Date	17 Jul 2026	31 Jul 2026	13 Aug 2026	21 Aug 2026	31 Aug 2026
FCNR (B)	17.41	36.73	52.30	65.40	**127.23**
OFCB	1.97	2.58	2.81	4.86	**5.26**
ECB	1.34	1.52	1.74	2.59	**3.89**
Total	20.72	40.82	56.85	72.85	**136.38**

Expected Flows under FCNR (B), ECB and OFCBs:

Scheme	Estimated Inflows	Scheme Valid Till
FCNR (B)	$127 Bn.	31st August'2026
ECBs	$10 Bn.	31st December'2026
OFCBs	$10 Bn.	31st December'2026
Combined (base case)	$147 Bn.	-

- RBI concessional swap facility scheme garnered robust dollar inflows, about $136 Bn. have been mobilized through 3 schemes (FCNR-B, OFCBs and ECBs) combined as of 31st August'2026
- FCNR-inflows have touched $127 Bn. till 31st August.
- OFCBs and ECBs inflows are expected to be around $10 Bn. each till 31st December'26.

Source: RBI & UBI research.

RBI's Reserve Build-Up and Evolving Forward Maturity Profile

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अच्छे लोग, अच्छा बैंक
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RBI's Forward Maturity Profile in USD Bn.

Period	Fwd. Maturity profile at the end of (in USD Bn.)		
	Jul-26	Jun-26	May-26
Up to 1 month	-13.16	-8.97	-19.82
1-3 Months	-7.32	-5.73	-8.86
3 months- 1YR	-24.75	-24.42	-21.9
More than 1YR	-91.54	-64.21	-56.07
Total	-136.77	-103.33	-106.65

RBI's FX Reserves, USD Bn

As on date	FX Reserves	Foreign Currency Assets
Change Over 5th June'26	+48	+48
21-08-2026	729	591
05-06-2026	681	543

- RBI would create considerable fwd short liability in more than 1-year segment by the end of Dec'26, as capital flow schemes inflows create forward liabilities for RBI
- Close to $42 Bn. FX liabilities were due in June-August'26 months; fresh FCNR inflows were likely used to mature these
- More than $35 Bn. liabilities have been added in more than 1-YR segment.

Source: RBI & UBI research.

Why FCNR(B) Inflows Remained Strong

+	High Leverage offered by banks this time, as much as 10-19 times by some banks
+	Banks could use overseas dollar bond issuance proceeds for use of leverage in creating fresh FCNR (B) deposits
+	Deposit hedging cost absorbed by RBI
+	RBI temporarily removed the interest-rate ceiling for fresh FCNR(B) deposits with 3–5 year maturities from June 17 to September 30, 2026.
+	Higher FCNR(B) deposit rates relative to overseas borrowing costs made leveraged deposits attractive.

- Attractive deposit returns, leverage and concessional RBI swaps outweighed the narrow India–US rate differential.

Source: RBI & UBI research.

FCNR(B) Cost Remains Comparable to 2013, Despite RBI Bearing the Full Hedge Cost

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Total Economic Cost of FCNR (B) Scheme		
	2026	2013
(A) Deposit rate cost*	6.0-6.5% (3-5 YR deposits)	4% (3YR deposits)
(B) Principal Hedge Cost	3.05-3.25%	6%
w/w		
Cost to RBI (Hedge Cost) (Est.)	3.05-3.25%	2.50%
Cost to Bank	0%	3.50%
(C) Interest hedge cost (Est.)	0.55%	0.50%
Total economic cost (A+B+C)^	**9.60-10.30%**	**10.50%**

*broad range for top 10 Private and Public sector banks
^ Assumes interest payment is hedged

- RBI is bearing full hedging cost of FCNR deposit amount in 2026
- Banks will have to bear interest payment and interest hedge costs in 2026
- Leverage offered by many banks to NRIs through global subsidiaries/branches and returns earned by RBI on deployment of FX-Reserves in interest bearing securities will offset total economic cost to a certain extent

Source: RBI & UBI research.

The Cost of FX Stability: Estimated FCNR(B) Hedging Costs for RBI and Banks

RBI's FCNR (B) Deposits Hedging Cost (Est.)	
FCNR (B) Inflows	$127 Bn.
Annual hedging cost for RBI	3.05-3.25%
Total Hedging Cost per year	~$3.6 Bn.
Total hedging cost over 5 YR	**~$18 Bn.**
5 YR hedging cost as % of current FX Reserves ($729 Bn.)	2.47%

Assumptions:
1. Full principal hedge for projected inflows at current rate
2. **70% deposits are of 5 YR tenor, while 30% are of 3-4 YR tenor.**

FCNR (B) Interest Hedging Cost for banks (Est.)	
Expected FCNR(B) deposit	$127 Bn.
Annual interest hedging cost (Est)	48-58 bps
Total Hedging Cost per year	~$0.64-0.76 Bn.
Total hedging cost over 5 YR	**~$2.8-3.35 Bn.**

Assumptions:
1. Full interest hedging for projected outflows at current swap rates
2. **70% deposits are of 5 YR tenor, while 30% are of 3-4YR tenor.**
3. **Deposit Rates in the range of 6.00-6.50%**

- *As RBI also has the option to invest these FCNR proceeds in foreign sovereign bonds earning more than hedging cost, there would nonetheless be compressed earnings on the part of FX-Reserves investments which are hedged and invested*
- *Total FCNR (B) inflows are $127 Bn.; RBI would have to bear roughly $3.60 Bn. of hedging cost per year, and total cost of ~$18 Bn. over 5 years-which is roughly 2.47% of current FX Reserves*
- *It is banks discretion to hedge proportion of interest payment cost exposure*
- *Rough estimates suggest banks will have to bear 48-58 bps additional cost for interest hedging per year, over the FCNR rate offered*

Source: RBI & UBI research.

The Cost of FX Stability: Estimated OFCBs and ECBs Hedging Costs

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	OFCBs Hedging Cost (Est.)	
	Estimated OFCB Inflows	**$10 Bn.**
RBI	Annual hedging cost for RBI	1.5%
	Total Hedging Cost per year for RBI	~$0.13 Bn.
	Total hedging cost over 5 YR for RBI	**~$0.66 Bn.**
Banks	Annual hedging cost for Banks	1.55%-1.75%
	Total Hedging Cost per year for Banks	~$0.15 Bn.
	Total hedging cost over 5 YR for Banks	**~$0.75 Bn.**
	Assumptions: 1. 1.5% of hedging cost of principal is borne by RBI, while remaining cost is borne by individual banks **2. 70% OFCBs are of 5 YR tenor, while 30% are of 3-4 YR tenor.**	

	ECBs Hedging Cost (Est.)	
	Estimated ECB Inflows	**$10 Bn.**
RBI	Annual hedging cost for RBI	1.5%
	Total Hedging Cost per year for RBI	~$0.13 Bn.
	Total hedging cost over 5 YR for RBI	**~$0.66 Bn.**
PSUs and Banks	Annual hedging cost for PSUs & Banks	1.55%-1.75%
	Total Hedging Cost per year for PSUs & Banks	~$0.15 Bn.
	Total hedging cost over 5 YR for PSUs & Banks	**~$0.75 Bn.**
	Assumptions: 1. 1.5% of hedging cost of principal is borne by RBI, while remaining cost is borne by individual PSUs/banks **2. 70% ECBs are of 5 YR tenor, while 30% are of 3-4 YR tenor.**	

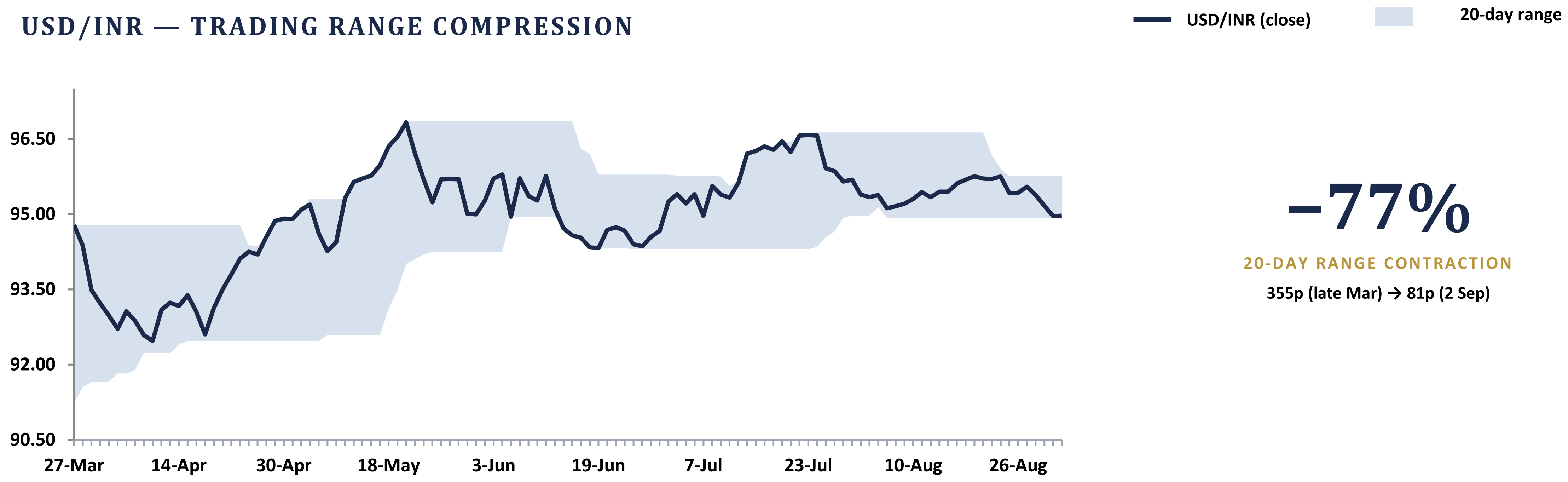
- *RBI will undertake swap of eligible OFCBs and ECBs inflow at a fixed rate of 1.5 per cent per annum compounded semi-annually; unlike in FCNR (B) deposits, where full hedging cost was borne by RBI*
- *It is banks discretion to hedge proportion of interest payment cost exposure on OFCBs; but if hedged completely, for $10 Bn. OFCBs, total interest hedge cost over 5 YR for banks comes at $0.25 Bn.*

Source: RBI & UBI research.

USD/INR — Trend Exhaustion, Now a Tight Consolidation

- USD/INR's rolling 20-day trading range has compressed from ~355 paise in March to ~81 paise now consistent with RBI's rangebound stance and supportive of a tight-stop tactical trade.
- Global yield rising scenario and higher oil prices also put DXY upside risk, and USD/INR pair is equally likely to receive upside pressure, although comfortable FX position and any ease in gulf war to aid Rupee

USD/INR — TRADING RANGE COMPRESSION



–77%

20-DAY RANGE CONTRACTION

355p (late Mar) → 81p (2 Sep)

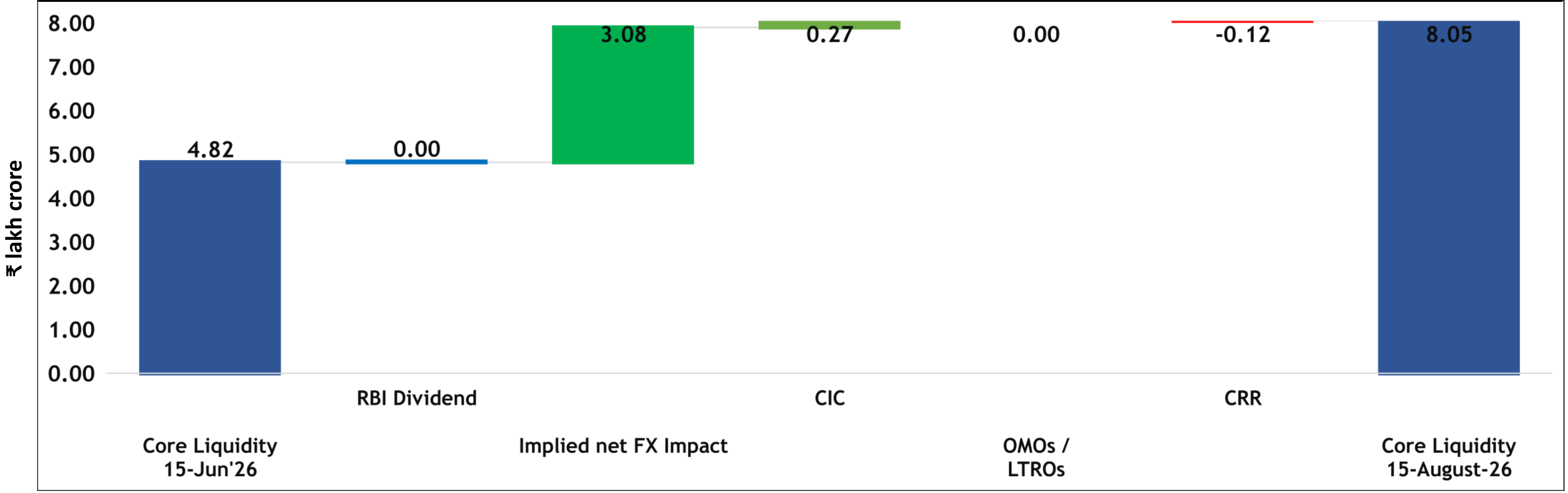
MAR	APR	MAY	JUN	JUL	AUG
355p	244p	261p	149p	197p	84p

Source: UBI research.

RBI FX Inflow Measures and Liquidity Implications

FX Flows Drive ₹3.23 Lakh Crore Increase in Core Liquidity

Drivers of Core Liquidity (from 15th June to 15th August'26)



- Core liquidity increased from ₹4.82 lakh crore in mid-June to ₹8.05 lakh crore by mid-August, driven almost entirely by the ₹3.08 lakh crore implied net FX impact. Currency circulation added ₹0.27 lakh crore, while CRR absorbed ₹0.12 lakh crore. This indicates that the liquidity expansion was predominantly FX-led.
- Around US$32bn of the estimated US$57bn RBI-facilitated foreign-currency inflows translated into core liquidity between 15 June and 15 August 2026. The gap likely reflects differences in conversion timing, forward maturities and RBI FX operations.

Source: RBI, CEIC, UBI research

FX Measures Could Lift Core Liquidity to ₹14.17 Lakh Crore by Mid-September

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Illustrative scenario based on assumed eligible foreign-currency inflows: ₹ lakh crore

Period	Core Liquidity – From Date	Net FX Impact	CIC Impact	CRR Impact	Core Liquidity – To Date
15-June-26 to 31-July-26 (Actual)	4.82	1.81	0.41	-0.25	6.79
15-June-26 to 15-Aug-26 (Actual)	4.82	3.09	0.27	-0.12	8.05
15-June-26 to 11-Sept-26*	4.82	9.27	0.35	-0.27	14.17

*Illustrative Scenario

Key assumptions

- Eligible foreign-currency inflows generate a cumulative net FX liquidity injection of ₹9.27 lakh crore by 11 September.
- The revised ₹9.27 lakh crore net FX impact appears to assume a ₹0.96 lakh crore liquidity drag from RBI's forward book
- CIC contributes ₹0.35 lakh crore cumulatively: ₹0.27 lakh crore actual through 15 August plus approximately ₹0.08 lakh crore projected using the historical seasonal pattern.
- CRR movements absorb approximately ₹0.27 lakh crore of liquidity.

➢ Between 15 June and 11 September 2026*, net FX inflows (+₹10.23 lakh crore) and CIC movements (+₹0.35 lakh crore) could add liquidity, partly offset by the CRR drag (−₹0.27 lakh crore), lifting core liquidity from ₹4.82 lakh crore to ₹15.13 lakh crore.

➢ RBI's absorption strategy would aim to align the weighted average call rate with the policy repo rate, while allowing H2 credit demand to draw down part of the surplus naturally.

Source: RBI, FBIL and CEIC; UBI research.

Temporary and Durable Tools Could be used to absorb the excess liquidity

H2 is a long credit season use reversible tools first and preserve flexibility as loan demand strengthens.

Starting core liquidity		Net FX impact		CIC impact		CRR impact		Core liquidity · 11 Sep 2026
₹4.82	+	+₹9.27	+	+₹0.35	+	–₹0.27	=	₹14.17 lakh crore

Gross absorption of the full surplus

TEMPORARY / REVERSIBLE · 50%

₹7.09 lakh crore

Short-tenor VRRR

Front-load in staggered auctions; funds return on maturity as H2 credit demand builds.

First line of defence

LONGER-DURATION MIX · 50%

₹7.09 lakh crore

	Lakh crore
Incremental CRR (0.5-1% of NDTL)	₹1.25-2
OMO bond sales	₹1-2
FX swaps	₹1-2
Long-tenor VRRR	₹2-3

- RBI could absorb the ₹14.17 lakh crore surplus through a 50:50 mix of short-tenor VRRR and longer-duration tools, scaling durable measures only after accounting for the natural liquidity drawdown from H2 credit growth.

Source: RBI, CEIC; UBI research.

Thank You !

RESEARCH TEAM

- KANIKA PASRICHA
- RAJESH RANJAN
- NIDHI ARORA
- AMIT SRIVASTAVA
- CHETAN SARAOGI
- JOVANA LUKE GEORGE
- ROHIT YARMAL
- SAREPALLI JAYALAXMI
- SUMIT EDKE
- SHREYAS BIDARKAR