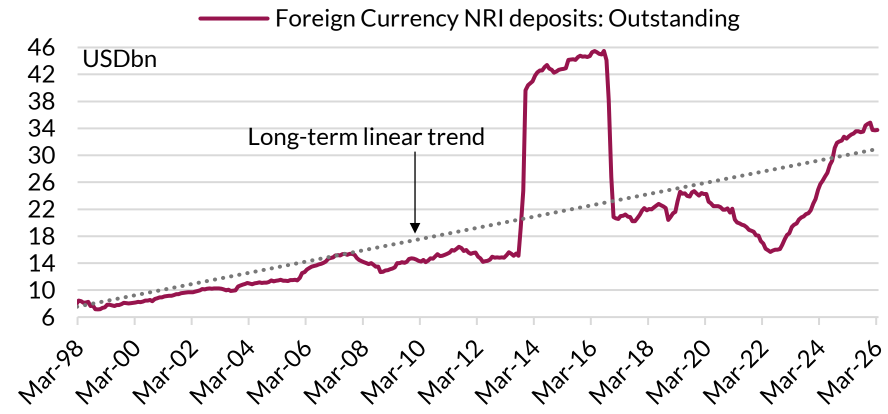
Economic Research | India

New FCNR(B) deposits to exceed $100bn? Whither liquidity?

RBI offering to bear the full hedging cost on eligible FCNR(B) deposits (effectively a subsidy of ~3% p.a., in our view) can drive inflows of US$100bn, in our view. Total inflows could be US$50-190bn, depending on i) base pool (US$5-10bn); and ii) leverage used (9x-19x). The 2013 experience suggests most of this would reverse 3-5 years later, but this is a feature, not a bug: with low external debt liabilities, anxiety in the FX market was due to dollar liquidity (link), not solvency. With oil prices falling, the RBI could face a problem of plenty. We expect it to cut its forward short book (lifting an overhang), and handle the liquidity challenges of the rest via CRR hikes and OMO sales.

15 Jun 2026
Capital Flows
Liquidity

Exhibit 1 –FCNR(B) deposit inflows reverse on maturity: a feature, not a bug



Source: RBI, Axis Bank Research

FCNR(B) window redux: near-term inflows, to largely reverse over 3-5 years

As per the scheme announced on 5-Jun (link), the RBI will bear the full hedging cost on eligible fresh FCNR(B) deposits, estimated at ~3% p.a. In 2013, the concessional cost for swapping FCNR(B) inflows into INR was 3.5% p.a. Even as we assess potential flows, the lesson from 2013 is that capital inflows only last for the period when the RBI gives a concessional rate (Fig 1, reasons explained below). We should therefore expect the inflows over the next 4 months to reverse once it is over (which would be 3-5 years).

Role of leverage in magnifying returns and thus driving higher inflows

Inflows in such a scheme aren't organic i.e., NRIs aren't reallocating more savings to this scheme. Instead, the surge in inflows is driven by the subsidy making it attractive ('near riskless') to use leverage, boosting expected returns (Fig 5). Total inflow depends on two factors: the base pool ($5–10bn) and the leverage used (debt-to-equity ratio of 9x–19x; i.e., LTV of 90% or 95%). While total inflows could range $50-190bn, we expect US$100bn.

Liability transformation or a rise in external debt? Impact on liquidity, yields

India's external debt liabilities are currently low (vs. RoW and its own history, Fig 2-3). This allows raising debt to quench anxiety in the FX market (link): using solvency to address a liquidity issue. The 3-5-year respite on the balance of payments is a feature, not a bug. Given the fall in oil prices, and the likely reversal of speculative outflows, the RBI may end up with a problem of plenty. We expect it to cut its net forward short position of US$50bn over the next 1Y, making it effectively a liability transformation and not an increase in debt. Liquidity from the remaining amount could be absorbed by raising CRR. Additional inflows over the next two years from bond-index-inclusion could be handled via OMO bond sales.

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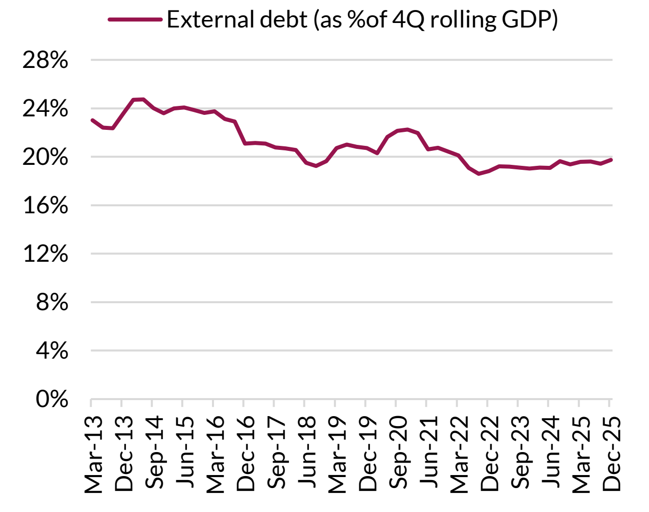
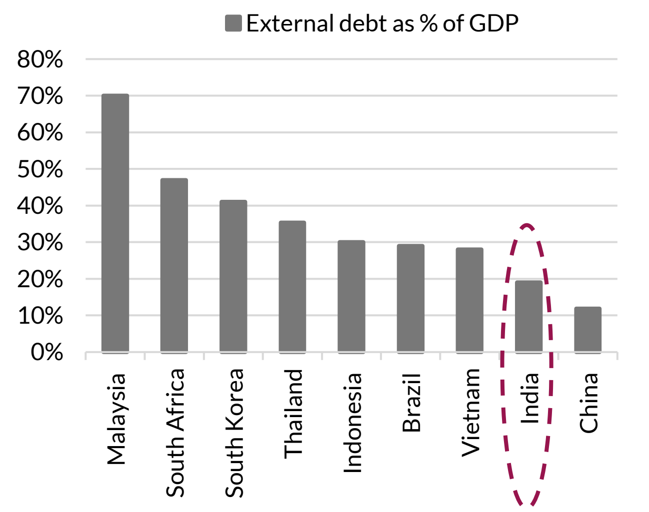
Exhibit 2 – India's low external debt → room to utilize B/S



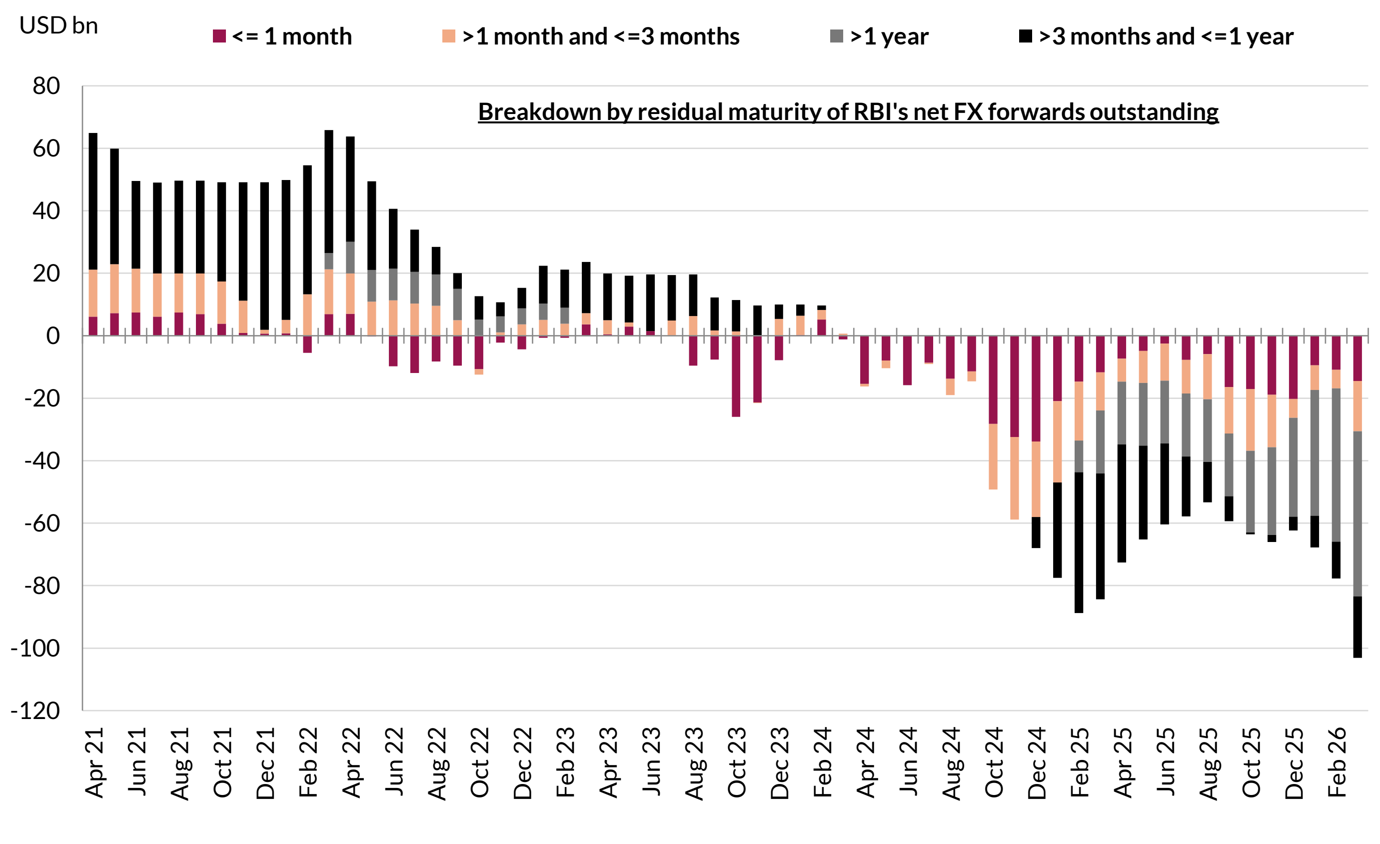
Source: MoSPI, Axis Bank Research

Exhibit 3 –Among major EM nations, IN has low external debt



Source: MoSPI, Axis Bank Research

Exhibit 4 – The RBI ideally must first utilize the FCNR(B) deposits to extinguish net forward shorts (liability transformation) especially those maturing within next 1 year



Source: RBI, Axis Bank Research

Exhibit 5 – Return analysis (leverage assumed at 19x): returns can range from 15% to 23% based on tenure (3Y vs. 5Y)

Stage	Details	Amount (USD)
Initial Investment	Base investment	10,00,000
	Loan processing fees (incl. taxes)	70,000
	Total Outflow	10,70,000
Loan against deposit	Loan support (95% of total FCNR Deposit)	1,90,00,000
	Total FCNR deposit created	2,00,00,000
Earnings over **3Y**	Deposit rate (p.a., compound interest)	6.00%
	Loan cost (p.a., simple interest)	5.75%
	Maturity Value of FCNR deposit	2,38,20,320
At maturity	Loan repayment (principal + interest)	2,22,77,500
	Net proceeds after loan closure	15,42,820
Returns summary	Total yields (over 3 years)	4,72,820
	Annual yield	1,57,607
	Net annualised yield	14.7%

Source: Axis Bank Research

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