FCNR Mobilisation: Strengthening Deposits and Supporting the Rupee

RBI has announced a temporary FCNR(B) deposit window **until September 30, 2026**, allowing banks to mobilise foreign currency deposits with regulatory and hedging-cost benefits. The move is aimed at attracting foreign currency inflows, supporting deposit growth and strengthening India's external position.

The RBI's move comes at a time when FCNR(B) inflows have declined sharply, falling from USD 7.1bn in FY25 to less than USD 1bn in FY26. By absorbing the hedging cost, the RBI lowers the funding cost for banks, enabling them to offer more attractive rates to non-resident depositors and thereby support foreign currency inflows. Additionally, exempting deposits mobilised under the scheme from CRR and SLR requirements provides a further incentive for banks to aggressively raise FCNR(B) deposits. Higher FCNR(B) inflows can help strengthen India's balance of payments position, provide a stable source of foreign currency funding, support foreign exchange reserves and reduce pressure on the current account deficit, thereby contributing to overall currency stability.

FCNR: What's Changed Since 2013?

- Eligible Tenor Expanded: Banks can now mobilise 3–5-year FCNR(B) deposits, compared to 3-year and above deposits under the 2013 scheme.
- Fresh and Renewal Deposits Eligible: Unlike the 2013 scheme, which was restricted to fresh deposits, the current framework includes both fresh and renewed FCNR(B) deposits, potentially boosting reported inflows.
- Zero Hedging Cost for Banks: RBI will absorb the entire hedging cost under the current scheme, compared to a 3.5% swap cost borne by banks in 2013.
- Longer Mobilisation Window: The current scheme is available from 8 June 2026 to 30 September 2026 (~4 months), compared to approximately 3 months under the 2013 programme.

FCNR Deposits in 2013: Mobilisation Led by Large Banks

In the 2013 scheme, HDFC Bank mobilised $3.4bn, followed by SBI and ICICI Bank. Banks with established overseas presence and deep NRI relationships emerged as the primary beneficiaries of the 2013 FCNR drive.

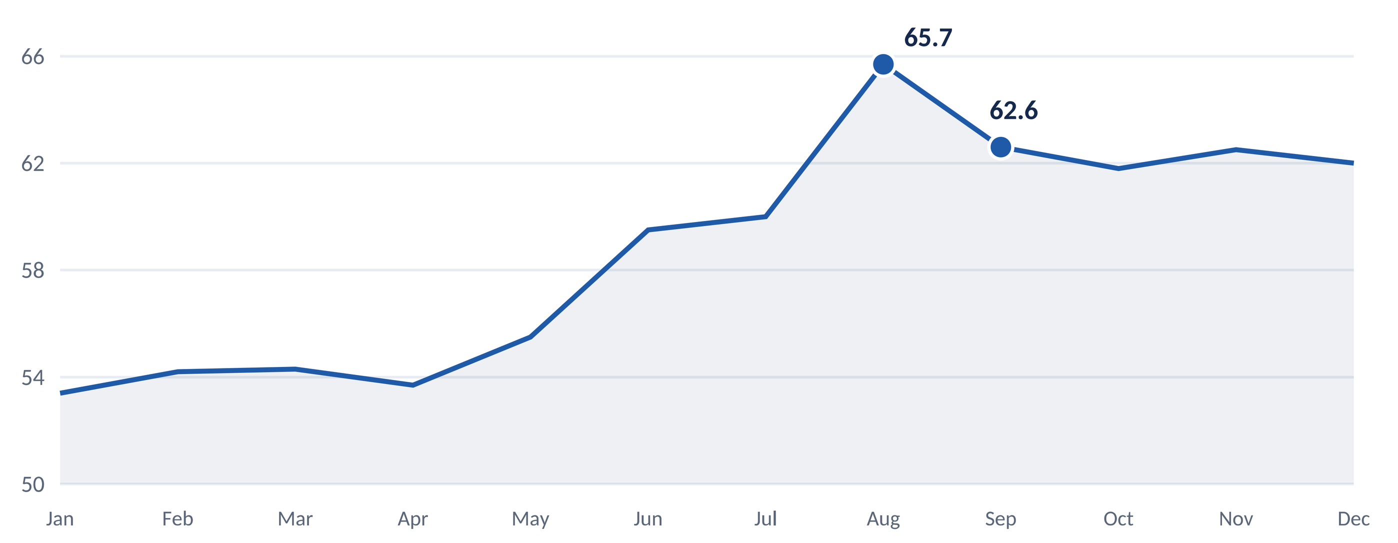
Bank	FCNR Mobilised USD bn	Deposit Growth Jun13-Dec13
HDFC Bank	3.4	15%
SBI	3.1	7%
ICICI Bank	2	9%
Bank of Baroda	1.7	8%
Axis Bank	1.6	10%
Total	26	6%

CENTRUM WEALTH

FCNR(B) Helped Stabilize the Rupee Amid 2013 Volatility

The Indian rupee came under pressure during 2013 as global uncertainty (Taper Tantrum) and capital outflows weighed on investor sentiment. To support the currency and strengthen foreign exchange reserves, the RBI introduced the FCNR(B) scheme, encouraging banks to mobilise foreign currency deposits from NRIs. The announcement marked an important turning point for the currency, with USD/INR declining from 65.7 in August to 62.6 in September and remaining broadly stable thereafter for a medium-term before the redemptions began in 2017. The scheme ultimately mobilised ~USD 26bn of FCNR(B) deposits

FCNR(B) Marked Turning Point for USD/INR



Long- Term USD/INR Trend (CY 10 - CY25

Attractive for NRIs, Though Less Compelling Than 2013

Illustrative Example	Unit	2013	2026
Own capital	USD	1,00,000	1,00,000
FCNR(B) deposit rate	%	5.0%	6.5%
Offshore loan cost	%	2.0%	5.3%
Loan-to-value	%	87.5%	87.5%
Deposit tenor	Years	3	3
Gross FCNR(B) deposit	USD	8,00,000	8,00,000
Offshore loan amount	USD	7,00,000	7,00,000
Gross leverage	x	8.0x	8.0x
Annual deposit interest	USD	40,000	52,000
Annual loan interest	USD	14,000	37,100
Annual net carry	USD	26,000	14,900
Return on own capital	%	26%	15%

Our view

We believe that FCNR scheme has the potential to mobilise $40–50 billion of deposits if marketed aggressively. The key difference lies in the economics for NRIs. In 2013, investors could earn exceptionally attractive leveraged returns (Illustration above) as offshore borrowing costs were extremely low. As a result, the arbitrage opportunity available to NRIs today is materially less attractive than it was in 2013. Banks have started responding aggressively to the FCNR opportunity by sharply increasing deposit rates. According to a Bloomberg report, YES Bank has raised FCNR(B) rates by up to 335 bps and is now offering 7.0% on three-year deposits, 7.05% on four-year deposits and 7.10% on five-year deposits. HDFC Bank has increased FCNR(B) deposit rates to 6.0% for tenures of three years and above, while Karur Vysya Bank has raised its 3–5-year USD FCNR(B) deposit rate to 7.0% from 2.63%. With most banks yet to revise their FCNR rates, deposit mobilisation efforts are likely to gather momentum in the next few days. Given the wide variation in rates being offered, the attractiveness of the scheme and the potential leveraged returns for NRIs will also depend on the choice of bank. Mid-sized banks are likely to be more aggressive in mobilising FCNR(B) deposits, offering rates closer to the ceiling (~7.1%), whereas larger banks may offer relatively lower rates of around 6.0%–6.25%. We believe that banks with strong overseas reach and well-established NRI franchises are likely to be the biggest beneficiaries of the FCNR(B) scheme. We expect SBI, Bank of Baroda, HDFC Bank, ICICI Bank and Axis Bank, along with select mid-sized banks such as Federal Bank, RBL Bank and South Indian Bank, to witness stronger deposit accretion during 1HFY27 along with better NIMs and lower cost of funds.