



# The Race to Capture Foreign Currency Via Fcnr(B) Deposits

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**Abstract** The global macroeconomic landscape of mid-2026, characterised by elevated oil prices and shifting capital flows, has placed significant pressure on emerging market currencies, including the Indian Rupee. In response, the Reserve Bank of India (RBI) reintroduced a strategic swap window for Foreign Currency Non-Resident (Bank) [FCNR(B)] deposits, effectively absorbing the hedging costs for banks. This policy intervention has triggered an aggressive race among Indian commercial banks to capture foreign currency inflows from Non-Resident Indians (NRIs). By offering unprecedented interest rates in the range of 6.00% to 7.10% for three to five-year tenors, banks are leveraging regulatory exemptions on reserve requirements to bolster their foreign exchange liquidity. This article provides a comprehensive analysis of the mechanics behind the 2026 FCNR(B) swap window, compares it with the historical precedent of the 2013 taper tantrum, and evaluates the implications for bank net interest margins and broader macroeconomic stability. The findings suggest that while the scheme is poised to attract substantial dollar inflows, its ultimate success hinges on the delicate balance between competitive pricing and the prevailing high-yield environment in advanced economies.

**Keywords:** FCNR(B) Deposits, Reserve Bank of India, Foreign Exchange, Currency Swap, Banking Competition, Macroeconomics.



## INTRODUCTION

The stability of the Indian Rupee has historically been a focal point for monetary policymakers, particularly during periods of external economic shocks. In June 2026, the global economy faced a renewed wave of volatility driven by an unexpected surge in oil prices and sustained high interest rates in the United States [1]. These factors precipitated capital outflows from emerging markets, exerting downward pressure on the Rupee. To counteract this trend and fortify the nation's foreign exchange reserves, the Reserve Bank of India (RBI) deployed a proven, albeit aggressive, monetary tool: the Foreign Currency Non-Resident (Bank) or FCNR(B) swap window [2].

FCNR(B) deposits are term deposits maintained by Non-Resident Indians (NRIs) and Overseas Citizens of India (OCIs) in freely convertible foreign currencies. The primary allure of these accounts is the elimination of exchange rate risk for the depositor, as both the principal and the accrued interest are repatriable in the currency of the deposit. However, for the banks mobilising these funds, the cost of hedging against currency fluctuations has traditionally compressed the interest rates they could offer, keeping them relatively subdued at around 3.00% to 4.00% [3]. The RBI's intervention in June 2026 fundamentally altered this dynamic, sparking a fierce competition among banks to attract foreign capital.

## THE MECHANICS OF THE 2026 SWAP WINDOW

The regulatory framework introduced by the RBI on June 8, 2026, was designed to systematically dismantle the barriers to foreign currency mobilisation. The central bank announced a special swap facility for fresh and renewed FCNR(B) deposits with maturities ranging from three to five years, valid for deposits mobilised until September 30, 2026 [2].

**Absorption of Hedging Costs** Under normal circumstances, banks raising dollar deposits incur significant hedging costs when converting and deploying these funds domestically. The 2026 swap window allows authorised dealer banks to sell the mobilised US Dollars to the RBI in exchange for Rupees at a predetermined concessional rate, with an agreement to reverse the transaction at maturity. By

effectively absorbing the hedging cost—estimated to be upwards of 3.00%—the RBI has provided banks with the financial latitude to offer substantially higher interest rates to depositors [3].

**Regulatory Exemptions** To further sweeten the proposition, the RBI exempted the eligible FCNR(B) deposits from the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements [2]. The CRR mandates banks to hold a specific percentage of their deposits in liquid cash with the RBI, while the SLR requires investments in safe, liquid assets like government securities. Exempting these deposits from reserve requirements directly enhances the lendable resources of the banks, thereby improving the overall economics of the FCNR(B) mobilisation.

## THE COMPETITIVE LANDSCAPE AMONG BANKS

The immediate aftermath of the RBI's announcement witnessed a rapid and aggressive repricing of FCNR(B) deposits across the Indian banking sector. Lenders moved swiftly to capitalise on the regulatory arbitrage, resulting in a "race" to capture NRI dollars.

**Interest Rate Revisions** Prior to the RBI's intervention, FCNR(B) rates for US Dollar deposits were languishing. Following the policy shift, major public and private sector banks announced dramatic rate hikes. State Bank of India (SBI), the country's largest lender, revised its rates for three to four-year deposits to 5.25% and 5.50%, depending on the deposit size, up from a mere 3.35%. For five-year tenors, SBI pushed rates to an impressive 6.00% [4].

Private sector peers were equally aggressive. HDFC Bank raised its rates to approximately 6.00% for similar tenors, while ICICI Bank introduced highly competitive rates peaking at 7.10% for specific three to four-year maturity brackets [5]. This aggressive pricing strategy underscores the banks' intent to leverage the RBI's liberalised framework to secure stable, medium-term foreign currency funding.



Bank Name	Pre-June 2026 Rate (Approx.)	Post-June 2026 Rate (3-5 Year Tenor)
State Bank of India (SBI)	3.35%	5.25% - 6.00%
HDFC Bank	3.00% - 3.50%	Up to 6.00%
ICICI Bank	3.00% - 3.50%	Up to 7.10%

Table 1: Comparative Analysis of FCNR(B) US Dollar Deposit Rates (June 2026)

## HISTORICAL CONTEXT: 2013 VERSUS 2026

The deployment of the FCNR(B) swap window is not without precedent. In 2013, during the infamous "taper tantrum" triggered by the US Federal Reserve's signal to scale back quantitative easing, the Rupee faced severe depreciation. The RBI, under then-Governor Raghuram Rajan, introduced a similar swap facility offering a concessional rate of 3.50% [6]. The scheme was a resounding success, mobilising approximately \$34 billion within months and successfully stabilising the currency.

However, the macroeconomic environment of 2026 presents distinct challenges compared to 2013.

**The Interest Rate Differential** In 2013, US interest rates were near zero, providing Indian banks with a massive comparative advantage in attracting dollar deposits. In contrast, the US Treasury yields in mid-2026 hovered around 4.50% [3]. This high-yield environment in advanced economies narrows the return differential available to NRIs. Consequently, Indian banks are compelled to offer rates upwards of 6.00% to make the FCNR(B) deposits an attractive alternative to risk-free US assets.

Despite this narrower spread, market analysts and economists remain optimistic. Projections from institutions like IDFC FIRST Bank and SBI estimate that the 2026 scheme could attract between \$40 billion and \$60 billion in inflows by the September deadline, driven by the sheer scale of the regulatory incentives [3] [4].

## IMPLICATIONS FOR THE BANKING SECTOR

The race to capture foreign currency via FCNR(B) deposits carries profound implications for the operational and financial metrics of Indian banks.

**Net Interest Margins and Liquidity** The absorption of hedging costs by the RBI ensures that the higher interest rates offered to depositors do not severely erode the banks' Net Interest Margins (NIMs). Furthermore, the CRR and SLR exemptions provide banks with unencumbered liquidity that can be deployed toward high-yielding domestic credit opportunities. This influx of medium-term funding (locked in for a minimum of one year) enhances the structural liquidity profile of the banks, providing a stable buffer against short-term domestic liquidity crunches.

**Strengthening NRI Relationships** Beyond the immediate financial metrics, the aggressive marketing of FCNR(B) deposits serves as a strategic tool for banks to deepen their engagement with the affluent NRI diaspora. By offering highly remunerative, tax-free, and currency-risk-free investment avenues, banks can cross-sell broader wealth management and remittance services, thereby enhancing long-term customer lifetime value.

## CONCLUSION

The RBI's strategic revival of the FCNR(B) swap window in June 2026 represents a masterclass in targeted monetary intervention. By aligning the incentives of commercial banks with the broader macroeconomic objective of currency stabilisation, the central bank has effectively catalysed a massive influx of foreign capital. The ensuing race among banks to capture these deposits highlights the agility of the Indian banking sector in responding to regulatory arbitrage.

While the high global interest rate environment poses a stiffer challenge than the 2013 precedent, the combination of fully absorbed hedging costs and reserve requirement exemptions provides banks with the necessary ammunition to compete globally. As the September 2026 deadline approaches, the success of this initiative will not only be measured by the quantum of dollars mobilised but also by its enduring impact on the stability of the Indian Rupee and the resilience of the domestic banking ecosystem.



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