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RUPEE NEEDS UNAMBIGUOUS SUPPORT TO HOLD THE FORTE AS THE SHOCK TAKES NEW DIMENSION

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Unprecedented times call for unequivocal, unprecedented and unambiguous supports. With parallels rife between 2013 and present in terms of supporting the rupee, it is pertinent to understand the differences between the two periods, one checkmated with umpteen doubts on the fiscal health of the sovereign, **the other being the current period when higher, benign growth is largely domestically driven and macros remain hygienic though rupee is still depreciating.**

In 2013, exchange rate was uber volatile, and RBI announced a slew of measures to restore stability in foreign exchange market, notably the FCNR(B) window. **However, the present scenario is different from earlier periods of crisis. So, by looking at the present parameters, any overseas channeled debt mop-up does not look desirable at present in particular given the decoupling of yields in DMs from the benchmark funding rates which can significantly distort the borrowing costs or desired yield on such funds sought by the NRIs/ ex-pat community. Plus, the cost of hedging such exposures can be huge.**

What are the measures that can be taken under the current circumstances?

Firstly, we have adequate fx reserves of more than 10 months of imports. **Short term debt to reserves is also less than 20% (of fx reserves). Meanwhile, volatile capital flows is at 64.5% (of fx reserves). These numbers by any stress of imagination are significantly comfortable. The $700 bn plus external reserve, we believe, is sufficiently strong to deter speculative moves by intervening in the foreign exchange market to prop up the rupee. There is no reason to suggest that we should use fx reserves for rainy days only as being mentioned hitherto and we believe there is still time to intervene in the market to prop up the rupee if it is so desirable.**

Secondly, **OMCs need to be offered a special window** by the regulator that separates their daily demand (around $250-300 mn) from the market chores (annualized $75-$80 bn demand could be taken out) . This should allow better visibility on genuine fx demand and supply dynamics and in measuring the efficacy of various counter measures initiated by the regulator to curb unwarranted volatility.

Thirdly, the attempt to rationalize the open position for banks by the RBI though useful is likely to have created a significant divergence of the Onshore and Offshore markets. Indian banks (both PSBs and PVBs) are generally long onshore and short offshore, while foreign banks exhibit a contra trend. As banks attempt to unwind their positions, liquidity shortages are likely to emerge, creating a vicious cycle where offshore premiums could witness sharp rise. Thus, **the NDF premia for 1 year has shot today to 4.19% (from 3.43% yesterday) while 1 month premia spiked from 0.33% to 0.67%, and the NDF /Offshore rates were quoting at Rs 98.41 today, we believe the $100 mn limit should be imposed on the trading book only** and not on whole bank book level as it creates operational challenges. **This is also important as many FPIs and some FDI players would be taking out their funds in present situation (reallocation / profit booking) and would be placing genuine demands on banks to fulfil on order matching basis.**

Fourthly, given much of the pressure on the rupee can have a two-way pass through the debt markets, **the regulator needs to concomitantly explore the probability of conducting Operation Twist that pushes up the short-term yield while sobering the yield on long term papers ensuring various reference rates remain within the prescribed bands, aligned with policy rate in calibrated manners. We also believe liquidity could be simultaneously modulated to ensure rupee also gets support.**

Interestingly, the Indian Rupee depreciated by 6.4% between 2nd Apr'25 to 27th Feb'26 (period 1 /the war started on 28th Feb). At the same time the dollar index also depreciated by 6% during the same period. This was the time when most currencies were appreciating against the dollar but not the rupee **and thus perhaps the argument of using rupee as a shock absorber may have been overblown**. **The rupee depreciation post 27th Feb (period 2) is in fact in line with other currencies, and in fact better than currencies which appreciated significantly in period 1 indicating that in an uncertain world pushing the limits on rupee depreciation as a shock absorber does not hold beyond an inflection point.**

MEASURES TAKEN BY RBI IN 2008-09 GFC & 2013 CRISIS

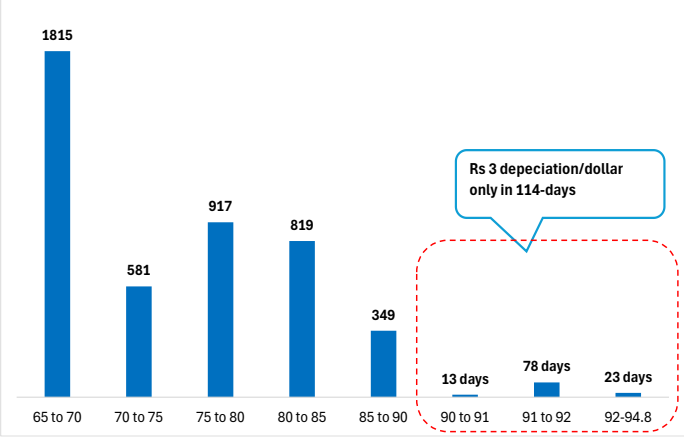
- During H1 2008-09 to prevent capital inflows, RBI increased the CRR. However, as the second half of 2008-09 witnessed tight liquidity, RBI took a number of measures to provide sufficient liquidity in the economy. RBI reduced the CRR by 400 basis points in four tranches from 9.0% (as of August 30, 2008) to 5.0% (January 17, 2009). The Reverse Repo was also reduced by 400 bps in five tranches from 9.0 (September 30, 2008) to 5.0% (March 5, 2009). The reverse repo was lowered by 250 bps in three tranches from 6.0% (November 2008) to 3.5% (March 5, 2009). The repo rate was simultaneous decreased from 9% (August 30, 2008) to 5.0% (March 5, 2009). The SLR was also cut by 100 basis points from 25% of net demand and time liabilities (NDTL) to 24% with effect from fortnight beginning November 8, 2008.
- In 2013 crisis, exchange rate was volatile, and RBI announced a slew of measures to restore stability in foreign exchange market. Marginal Standing Facility (MSF) and Bank rate were increased to 10.25% while OMO sales were conducted. Further, LAF was restricted to 1% of NDTL on 15 July. After a week, LAF was capped at 0.5% of NDTL and a minimum daily CRR balance was increased to 99% of the requirement from the earlier 70%.
- In September 2013, the RBI offered a special concessional window to the banks to swap the fresh FCNR (B) dollar funds, mobilized for a minimum tenor of three years and above at a fixed rate of 3.5% per annum for entire tenure of the deposit. RBI also opened a special forex swap window for three public sector oil marketing companies (IOC, HPCL and BPCL) to meet the entire daily dollar requirements. Under the swap facility, RBI undertook sell/buy USD-INR forex swaps for fixed tenure with the oil marketing companies through designated banks.
- This resulted in a total flows of ~$34 billion (~26 bn through FCNR(B) route) through the swap facility, which not only proved to be timely in strengthening external resilience but also helped in easing domestic liquidity significantly.
- However, the present scenario is different from earlier periods of crisis. So, by looking the present parameters, this is not desirable at the current moment.
- **Given the tumult sweeping the markets, when INR is nose diving sharply, OMCs need to be offered a special window by the regulator that separates their daily demand (around $250-300 mn) from the market chores, offering a more nuanced, insightful view of the broader markets less the cacophony built around surging dollar demands. Putting refinance / swap mechanisms around such special window to OMCs can ensure no near term pressure on the exchange rate dynamics. This should allow better visibility on genuine fx demand and supply dynamics and in measuring the efficacy of various counter measures initiated by the regulator to curb unwarranted volatility.**

Comparison of 2013 vs 2026

Parameter	2013 (Taper Tantrum Context)	2026 (Current Context)
Global Trigger	US Fed's 'Taper Tantrum' (signalling withdrawal of QE, leading to capital flight from EMs)	Geopolitical tensions, energy price volatility.
Rupee Depreciation (USD/INR)	Sharp depreciation (Declined Rs 14 to Rs 68 in 103 days).	Persistent depreciation pressures (Rs 4.8 declined in 114 days)
Forex Reserves	Declining or stagnant (e.g., ~US$275-290 billion, RBI data).	Potentially declining from peak levels ($30 bn decline from the peak of $728.5 billion on 27 Feb'2026; $14.4 bn due to gold and $15.5 bn due to FCA). Sustained pressure from sustained intervention.
CAD	Elevated (peaked at 4.8% of GDP in FY13)	Manageable at 1% 9MFY26 but potentially widening due to global commodity prices, depending on trade balance and remittances
Policy Response	FCNR(B) swap scheme, Deregulation of interest rates on NRE/NRO deposits, import duty hikes, restrictions on gold imports	Potential FCNR(B) like scheme, continued forex intervention, various capital flow management measures
RBI Policy Stance	Monetary tightening to contain inflation and stabilise rupe	Balancing growth, and external stability amidst global uncertainties

Source: learnpro, SBI Research

Rupee took 23 Days to reach from 92 to 94.8 per dollar



Source: MoSPI, SBI Research

ADEQUACY OF FOREIGN EXCHANGE RESERVES

- Forex reserve adequacy is measured in terms of import cover, short-term debt and volatile capital flows (including cumulative portfolio inflows and outstanding short-term debt) to reserves. Currently we have foreign exchange reserves of more than 10 months of imports. Short term debt to reserves is also less than 20%. Meanwhile, volatile capital flows have reduced to 64.5% of reserves from 69% in FY25.
- **If we look at the criteria for adequacy of reserves given by the report of the Committee on Capital Account Convertibility, current forex reserves are much higher than the desirable level of at least six months of imports but the short term debt and portfolio stock is higher than the desirable level of no more than 60% of the level of reserves.**

NDF DYNAMICS

- The mysterious labyrinths of NDF markets, chiefly the offshore markets, offer little light through the tunnel and thus the real impact or interplay remains a little hard to gauge with some precision. But, going by the onshore markets trends, outstanding NDF is estimated at around ~$45 bn, with banks making around three-fourth of volume.
- Interestingly, Indian banks (both PSBs and PVBs) are generally long onshore and short offshore, while foreign banks exhibit a contra trend.
- Most of the open positions (~80%-plus), basis data and feedback from market participants, is converged around 1 month. Especially, PSBs have little appetite beyond one month whereas Private banks are understood to have somewhat more tenor appetite.
- With valuation curves for both onshore and offshore trades being different, both PSBs and PVBs may face significant headwinds on their NDF positions till they square off. With spike in one month forward, distortion is evident, decoupling between onshore and offshore forward premia post the regulatory measure on NOOP implying banks remain exposed to risks.
- As banks attempt to unwind their positions, liquidity shortages are likely to emerge, creating a vicious cycle where offshore premiums could witness sharp rise.
- There are other operational challenges across monitoring and reporting domains for banks too when NOOP is imposed on the whole bank level.

Foreign Exchange Reserves: Indicators of Adequacy

Year	Import cover in months	Outstanding Short term debt and portfolio cover	Short-term debt (original maturity) to reserves
FY 09	10.3	51.1	19.6
FY 14	7.8	90.4	29.3
FY 25	11.0	69.0	20.1
FY 26	10.8	64.5	19.6

Source: RBI, SBI Research

Country wise Currency Movement

Currencies Vs USD	% change from 02.04.2025 to 27.02.2026	% change from 27.02.2026 till date
Dollar Index	-6.0	2.7
Euro	8.8	-2.7
Brazilian Real	9.4	-2.2
British pound	3.9	-1.8
Chinese Yuan	5.6	-0.7
Indonesian Rupiah	-0.4	-1.3
Indian Rupee	-6.4	-4.2
South African Rand	15.4	-7.6
Philippine peso	-0.8	-5.3
Malaysian Ringgit	12.6	-3.5
Polish Zloty	6.9	-4.4
Russian Rouble	8.7	-5.1
Thailand Baht	9.0	-5.9
South Korean Won	1.5	-5.3
Japanese Yen	-3.9	-2.2

Source: Bloomberg, SBI Research, (-)Depreciation and(+)Appreciation

- Post the current measure, calculation of NOOP in INR may become much more complex. At present, banks use a shorthand method (currency-wise) rather than currency-pair-wise. Incorporating balance sheet items such as interest receivables/payables and calculating net forward positions on a discounted, real-time basis remains extremely difficult for reporting Banks.
- **It therefore is worth exploring if NOOP is imposed upon only the trading book of banks, and not on whole bank level given the genuine constraints. This is also important as many FPIs and some FDI players would be taking out their funds in present situation (reallocation / profit booking) and would be placing genuine demands on banks.**
- Also a straight jacket method for all banks with a $100 million open position limit may be revisited, taking into account the volume of fx turnover and customer order flows that may not be covered immediately for lack of market making activities (incidentally, today not much dollar selling happened in the markets as originally envisaged and that could be a prime reason for the U-turn of exchange rate).
- The Central Bank has taken the cudgels to support the rupee all through but it's time to step up the pedal perhaps by bringing currencies in demand from outside markets and incorporate alternative mechanisms (like special $ window for OMCs) since the fall of the rupee exceeds the macro fundamentals of the country by a wide margin.
- **The $700 bn plus external reserve, we believe, is sufficiently strong to deter speculative moves and reposition rupee to levels that enhance export competitiveness sans imposing a burden on the country.**

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