SBI RESEARCH

ECOWRAP

THE MIRROR HAS TWO FACES: A 5 TRILLION 'LOSS' BECAUSE OF THE FCNR(B) SCHEME AS BEING ATTRIBUTED BY AN AUGUST SCHOOL OF NAYSAYERS IS ACTUALLY A 5.5 TRILLION PROFIT NOTIONALLY FOR THE BANKS AND RBI

Issue No. 27, FY27
Date: 18 Sep 2026

India's much billed FCNR(B) deposit scheme was indeed a grand success with $127 bn mobilized with a short span of less than 3 months. **However, the success has become a particular point of pain for a august school of naysayers.** Even though the regulator took a wise decision to curtail the scheme preponing its closure, the mammoth fund flows eclipsed the frontier calculations, with the needle immediately shifting to the cost(s) architecture as being pushed by the lobby of naysayers. **It is a strange case indeed, in the history of financial wizardry, where a scheme meeting its KRAs/KPIs is vilified and villainized just because it exceeded its original goal by a wide pole, through an overlapping symphony of Design and Destiny. T**o begin with, we test the hypotheses of august school of naysayers on four quadrants individually and then retrace back to the overarching factors converging into pillars of resilient macros that travel beyond what meets the ordinary eyes.

Firstly, the cost(!) of the Scheme and Benefits to Banking System. The cost and price attributed to the scheme is a distraction at best going by common prudence and evolving landscape of elevated borrowing costs across global markets. The 'cost' of the FCNRB scheme has primarily two components; interest outgoes through the contractual maturity period at contracted rates of interest and the hedging cost. **In fact, the vaulting yields in dollar terms across global markets is hovering around 7.5-8.0% for AAA rated corporates (SOFR + Sovereign spread + Term premium + Credit risk premium) given elevated borrowings by multiple actors, thus making these deposits at 6-6.5% quite attractive** and also the elevated cost of bulk borrowing in local markets (38% through bulk deposits) should calm down somewhat through these liquidity pools, having a sobering effect on overall systemic pricing of wholesale deposits / CDs.

Secondly, the logic of the naysayers regarding hedging cost and adding back depreciation and ascribe it to a notional loss of 5 trillion is completely incorrect. This is because once the liabilities have been hedged by the counter parties (a back-to-back hedging is prevalent), the direction of the currency becomes immaterial on the due date of maturity and hence double counting the same exposure (cost of hedging PLUS cost of depreciation) does not serve any meaningful interpretation but purely a work of fiction

Thirdly, the gush of (unanticipated) liquidity is being portrayed as a challenging feat to the system. However, if we look at the levers anchoring its end usage, there is little reason to ponder much or panic as the festive season demand, credit disbursal pipeline, new advances sanctions, outflows on account of advance taxes and GST flows make it align to an elevated systemic liquidity, anchoring robust credit management by Banks. However, there are no magic wands for Banks to cede, or put at bay their prudent risk management principles and deploy all liquidity to either advances, or deploy in G-Sec (that may distort the curve temporarily). **Taking a watered down, time lagged credit multiplier of ~2.5 these Deposits can result in additional credit of say ~Rs 25 lakh crore and an effective yield of ~7.50%, result in accretion of notional yield of Rs 1.8 trillion per annum to the banks (while interest outgo @6.5% for Rs 12 lakh cr works to Rs 75,000 cr thus giving an effective NIM of say ~1 trillion per annum i.e. 5 trillion in 5 years, on a notional basis!**

Fourthly, for the RBI , the deployment of say $100 bn globally investible avenues at a yield of say 4%, over 5 years, should accrue profits of ~$20 Bn, which offsets the outgo on hedging ($15 Bn) and actually adds some profitability of say ~$5 Bn / Rs 50,000 crores to the RBI B/S also at current estimates. It may be noted that RBI's investment of the dollars received (hedge was allowed in USD only) is open to permitted avenues as per its board approved policy only and not at the whims of the naysayers. In a high yields environment prevailing now, current investments can even earn higher returns than what were envisaged and calculated earlier.

Thus, overall profit to Banks is a notional Rs 5 trillion and to RBI another Rs 0.5 trillion.

On another note, Japan Credit Rating Agency (JCR) upgraded India's long-term foreign and local currency issuer ratings by one notch from 'BBB+' to 'A-' with a stable outlook on September 2, 2026, right after the FCNRB mobilization ended. This paves the way for other rating agencies to reassess (without a timeline), but the successful scheme in itself bolsters India's rating outlook given the impetus to its macros and how it facilitates a benign credit environment as the windfall deposits can facilitate better credit offtake (without much dependence on foreign borrowings) and rate transmission eventually.

The august school of naysayers need to focus their limited understanding better on numbers and narratives since objects in the mirror may seem closer than they appear.

THE FALLACY OF DOUBLE COUNTING!

- **The argument that the FCNR(B) scheme entails a total cost of around Rs 5 trillion is fallacious, as it effectively adds two costs arising from the same underlying exchange-rate exposure**. The august school arrives at this figure by combining approximately Rs 1.75 trillion of additional interest cost with around Rs 3.18 trillion of foreign-exchange 'depreciation cost', the latter based on an assumed overstretched 5% annual depreciation of the rupee over the next five years.
- However, the latter cannot be treated as an additional FCNR(B)-specific cost over and above the cost of the swap. **The very purpose of the RBI's special USD-INR swap facility is to hedge the exchange-rate risk associated with the FCNR(B) deposits: the Central Bank absorbs the foreign currency risks against rupees and undertakes to return the same amount of foreign currency at maturity at the agreed exchange rate.**
- Once the exchange-rate risk on the principal has been hedged through this mechanism, a subsequent depreciation of the rupee does not generate an additional contractual loss on the principal for either counter parties (Banks or the RBI) in the manner peddled by some painstakingly. **Adding another layer of hypothetical future depreciation cost, over and above the cost of providing the hedge therefore amounts to counting the same exchange-rate exposure twice.**
- A more realistic assessment of hedging cost requires the FCNR(B) mobilisation to be evaluated according to its maturity profile, rather than applying a uniform 4.5-year cost to the entire $127 billion mobilisation. Accordingly, for the purpose of a conservative and transparent calculation, we divide the $127 billion mobilisation into three maturity buckets and apply an average annual USD-INR hedging cost of 3% to each bucket for its respective tenor.
- On this basis, approximately $63.5 billion (50%) is assigned to the five-year bucket, $57.15 billion to the three-year bucket and $6.35 billion to the one-year bucket. **The resulting total cumulative hedging cost is approximately ~$15 billion (@3% per annum).**

Hedging Cost Calculation	
Total FCNR(B) mobilisation	$127 billion
Out of which (Hypothetically)	
5 years Maturity (~50%)	63.5$ bn
3 years Maturity (90% of remaining 50%)	57.15 $ bn
1 year Maturity (10% of remaining 50%)	6.35 $ bn
Annual average USD/INR hedging cost	~3.00%
Hedging cost for 5 year maturity	~9.5 $ bn
Hedging cost for 3 year maturity	~5.1 $ bn
Hedging cost for 1 year maturity	~0.2 $ bn
Total Hedging cost	15 $ bn
Current FX reserves	$785 billion
Average incremental reserve accumulation (FCA) (last 20 years)	~$20 billion per year
Projected FX reserves in 5 years	~$890 billion
5-year hedging cost / current reserves	1.21%
5-year hedging cost / projected reserves	1.07%
Source: SBI Research	

Liquidity Estimation	
Items	**Amount (Rs Lakh Cr)**
End Mar' 26	
Core liquidity surplus as on 31	10.7
1. Currency in circulation	-2.5
2. Forex intervention by RBI	-2.3
3. Forex Swap by RBI (ECB and	0.7
4. CRR drawdown	-0.6
5. OMO Sale	-1.0
Core liquidity as on end Mar'27	**5.0**
System liquidity adjusted with tax outflow	3.0
Source: SBI Research	

- **Fourthly, for the RBI , the deployment of say $100 bn globally investible avenues at a yield of say 4%, over 5 years, should accrue profits of ~$20 Bn, which offsets the outgo on hedging ($15 Bn) and actually adds some profitability of say ~$5 Bn / Rs 50,000 crores to the RBI B/S also at current estimates.**

RUPEE DEPRECIATION IS EXAGGERATED AT BEST!

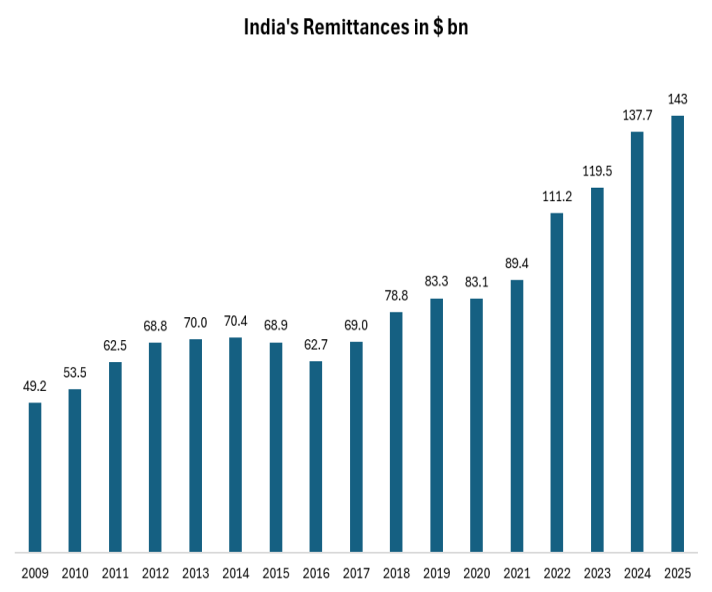
- The notional assumption of 5% annual depreciation of the rupee used to estimate the foreign-exchange cost appears considerably more conservative than the historical experience would warrant. An examination of the rupee's five-year depreciation trends indicates that annual depreciation has generally remained below 5%, with the notable exception of the 2010–15 period, when the rupee experienced sharper depreciation amid episodes such as the 2013 taper tantrum. Against this historical backdrop, assuming a persistent 5% annual depreciation over the entire five-year horizon represents a relatively severe scenario rather than a trend-based assumption.
- Using a more moderate 3% annual depreciation assumption, the rupee would reach approximately ₹110 per US dollar by 2030 from the current level of around ₹95, rather than the ₹120–125 per dollar range projected under 5% assumption.

USD INR Depreciation (%)		
FY	USD INR end March	Annual Average USD INR
2000-05	0.22	0.81
2005-10	1.48	1.42
2010-15	6.89	5.40
2015-20	3.87	3.10
2020-26	3.96	3.78
Average	3.28	2.90

Source: RBI, Bloomerg, SBI Research

FOREIGN REMITTANCES INFLOW

- Remittances nearly tripled from US$48.2 billion in 2009 to a record US$143 billion in 2025, with a sharp acceleration in recent years. Higher levels of currency (a depreciation taking place) can attract more inflows as ordinary investors want to lock in better rates. However, these ordinary remittances often get diffused through the economy, bolstering its growth and resilience and thus assigning a cost factor to such diaspora led flows can be hard to justify.



Source: World Bank, RBI

LIQUIDITY

- Third, the gush of (unanticipated) liquidity is being portrayed as a challenging feat to the system. However, if we look at the levers anchoring its end usage, there is little reason to ponder much or panic as the festive season demand, credit disbursal pipeline, new advances sanctions, outflows on account of advance taxes and GST flows make it align to an elevated systemic liquidity, anchoring robust credit management by Banks. However, there are no magic wands for Banks to cede, or put at bay their prudent risk management principles and deploy all liquidity to either advances, or deploy in G-Sec (that may distort the curve temporarily).

Taking a watered down, time lagged credit multiplier of ~2.5 these Deposits can result in additional credit of say ~Rs 25 lakh crore and an effective yield of ~7.50%, result in accretion of notional yield of Rs 1.8 trillion per annum to the banks (while interest outgo @6.5% for Rs 12 lakh cr works to Rs 75,000 cr thus giving an effective NIM of say ~1 trillion per annum i.e. 5 trillion in 5 years, on a notional basis!

Disclaimer: The Ecowrap is not a priced publication of the Bank. The opinion expressed is of Research Team and not necessarily reflect those of the Bank or its subsidiaries. The contents can be reproduced with proper acknowledgement. The write-up on Economic & Financial Developments is based on information & data procured from various sources and no responsibility is accepted for the accuracy of facts and figures. The Bank or the Research Team assumes no liability if any person or entity relies on views, opinion or facts & figures finding in Ecowrap.

Contact Details:
Dr. Soumya Kanti Ghosh
Member 16th Finance Commission &
Group Chief Economic Adviser
State Bank of India, Corporate Centre
M C Road, Nariman Point, Mumbai - 400021
Email: soumya.ghosh@sbi.co.in, gcea.erd@sbi.co.in
Phone:022-22742440
: kantisoumya