SBI RESEARCH

ECOWRAP

FCNR(B) DEPOSITS MAY HAVE (ALREADY) CROSSED 2013 LEVEL OF $26 BILLION IN JUST ~45 DAYS....CONTINUED RUPEE DEPRECIATION IS A MATTER OF CONCERN...DECISIVE RBI FOREX INTERVENTION COULD BE A PART OF BROADER EXCHANGE RATE STRATEGY

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The RBI figure of ~$20 bn inflows till 17 July came as a positive reprieve, chiefly with a smart FCNR(B) corpus of $17.4 bn. **We now estimate that FCNR(B) since then has already crossed 2013 level**.

However, broader markets are still wrestling with (a) the co-relation of these flows with first FCA position and (b) why the exchange rate has continued to weaken even after such strong capital inflows. Public Sector Banks, front led by larger Banks, are apparently anchoring the drive, ensuring incremental flows by leveraging not only the deposits, but also the trust built with materially significant clientele (credit worthiness and risk profile duly factored) spread across various geographies and remaining tacitly agile by shifting their strategy to an optimally blended Onshore-Offshore gameplan. We believe that significant majority of existing FCNR deposits which are going to mature in Aug/Sep'26 will be renewed under the new scheme (gravitated by higher interest rates) and will boost the FCNR (B) inflows, wherein total amount mobilized so far in 45 days would have easily crossed the total amount mobilized in 2013 in 3 months! **Overall, we believe, FCNR (B) deposits in the range of $65-70 billion should be received overall in scheme, and including OFCB and ECB at $80-$85 bn.**

Firstly, the puzzle of FCNR(B) accretion and such being not reflected concomitant growth in FCA of RBI. It is important to explain this link as otherwise there could be conjectures and speculation dotting the landscape.

In principle, while RBI provides weekly change in FCA every Friday, every bank has a designated time during the week to swap these FCNR(B) deposits with RBI and get equivalent rupee resources. Thus it is entirely possible that FCNR(B) deposit numbers are being captured by RBI and becomes a part of FCA with a clear lag, with the assumption that a large part of foreign exchange reserves is being recouped and adding to RBI foreign exchange coffers. Also, as long as such accounting is not reflected in RBI FCA, it will also not show rise of equivalent rupee resources. Let us explain this in terms of numbers. **So far (till 17 Jul), FCA has increased by $7.6 billion (since 8 June), while till July 17th as per RBI deposit mobilization, the numbers were $17.4 bn for FCNR(B) flows, possibly reflecting that exchange process at RBI by the banks were happening gradually (say 44%, for the entire amount/ Rs 87,995 increase in time deposits).** The next reporting for FCA for July is for the week ended July 24 & week ended July 31 and we expect for the next 15 days period (17 Jul-31 Jul) FCA inflows could touch $10-12 billion based on current trends. This should make most of the overall FCA accruals/growth (till July end) of $17-20 billion post the RBI measures accounted for in RBI reserve data buoyed primarily by FCNR (B) inflows.

Secondly, **RBI intervention in the foreign exchange market has been somehow sporadic and not full throttled ever since the disturbances in West Asia has broken out**. Employing a Censored Tobit model to estimate how RBI's daily foreign exchange intervention reaction function has influenced the direction of rupee value and impacted volatility, **our results indicate that RBI on an average intervenes $14 million/day to thwart rupee intervention which is statistically significant** . However, the volatility coefficient though positive, but is statistically insignificant suggesting that such quantum of RBI intervention strategy was unable to arrest the volatility and prevent Rupee from further depreciation. **This amount given the stock of $676 billion is not significant enough to curb the rupee depreciation. In contrast,** the findings of Ghosh (2001) **using a similar model indicate that in 1997-98 during the time of former RBI Governor Bimal Jalan, RBI intervention on an average was much higher at $55 million and was also able to stop rupee from further depreciation, even as overall foreign exchange reserves was of the order of only $29 billion or so.** The volatility coefficient was also statistically significant during that time indicating that the volatility also had declined then because of forceful intervention by RBI.

Rupee has moved 360 degrees; from being a shock absorber to not being a shock absorber. It is therefore important to not let the Rupee travel 360 degrees again but ensure its implied resilience to checkmate exogenous shocks without losing competitiveness. This is important given frictions in trade and supply/value chains, geopolitical risks and skewed capital flows. **Allowing the rupee to depreciate even now against such healthy capital inflows may result in an endless fall driven by self fulfilling prophecy after the window for FCNR(B) closes on 30'Sep 2026.**

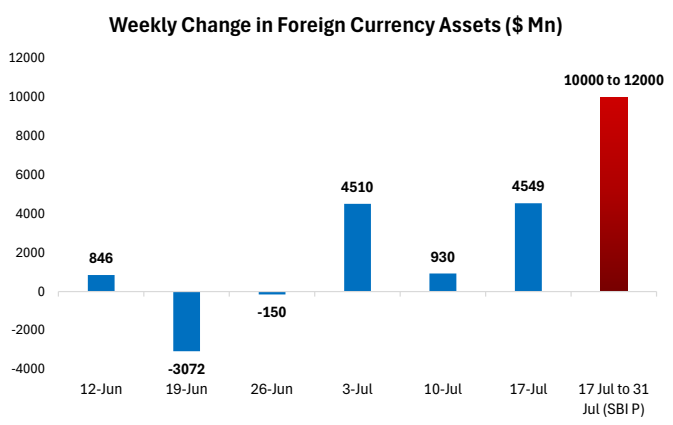
FCNR(B) DEPOSITS MAY HAVE (ALREADY) CROSSED 2013 LEVEL IN JUST ~45 DAYS

- RBI data indicates that FCNR(B) deposits worth $17.4 billion have been mobilized till 17 July 2026 **and trend suggest that PSBs are major drivers of this mobilization**. However, the market is rife with many speculation theories on why the FX reserves are not rising concomitantly with the inflows or why Rupee slid from the temporary reprieve of June?
- While levered borrowing facilitated by Banks has been anchoring a handsome part of the deposits accrual (9X and above leverage beyond a defined threshold taking into account credit worthiness and risk profile of the clientele), there is also one concurrent argument being peddled in market that a few customers having existing FCNR (B) deposits with banks could be pre-closing the existing deposits and re-routing the same (repatriation and remittance) to benefit from competitively higher rates. However, as long as such FCNR(B) deposits comes back with incremental funding in much higher multiples, the inflows by definition is systemic FCNR(B) deposits eventually. And clearly the accounting method does not change the categorization of deposits being made as FRESH inflows, through RBI's SWAP window.
- We also believe that significant majority of existing FCNR deposits which are going to mature in Aug/ Sep'26 will be renewed under the new scheme (gravitated by higher interest rates) and will boost the FCNR (B) inflows. Our preliminary estimate indicate that amount worth $10 billion on a conservative basis in addition to base line estimates are going to be mobilized mostly through those economies where tax-concessions are available.
- Nevertheless, given the current trend we believe that total amount mobilized so far in 45 days has easily crossed the total amount mobilized in 2013 in 3 months! **Overall, we believe, India may now receive FCNR (B) deposits in the range of $65-70 billion by the end of the scheme and overall $80-$85 bn.**

THE PUZZLE OF RESERVE ACCRETION AND FCNR(B) FLOWS

- Regarding the concomitant increase in FX reserves (or basically in Foreign Currency Assets), there is a catch here. While RBI provides weekly change in FCA every Friday, every bank has a designated time during the week to swap these FCNR(B) deposits with RBI and get equivalent rupee resources.

FCNR (B) Deposits Inflows	
Type	**Amount ($ Bn)**
Total (till 17 July)	20.72
of which, FCNR(B) Deposits	17.41
OFCBs	1.97
ECBs	1.34
SBI Projections:	
Total FCNR (till 23 July) only	26-28
Total FCNR (end of scheme)	65-70 (Earlier estimate: 40-45)
Source: RBI	



- Thus it is entirely possible and that is why it might be happening that FCNR(B) deposit numbers are captured by RBI and becomes a part of FCA with a clear lag, with the assumption that a large part of foreign exchange reserves is being recouped and adding to RBI foreign exchange coffers. Also, as long as such accounting is not reflected in RBI FCA, it will also not show rise of equivalent rupee resources.
- Let us explain this in terms of numbers. So far (till 17 Jul), FCA has increased by $7.6 billion (since 8 June), while till July 17th as per RBI deposit mobilization, the numbers were $17.4 bn for FCNR(B) flows, possibly reflecting that exchange process at RBI by the banks were happening gradually (say 44%, for the entire amount). The next reporting for FCA for July is for week ended July 24 and week ended July 31 and we expect for the next 15 days period (17 Jul-31 Jul) FCA inflows could touch $10-12 billion based on current trends. This should make most of the overall FCA accruals/growth (till July end) of $17-20 billion post the RBI measures accounted for in RBI reserve data buoyed primarily by FCNR (B) inflows.

INR DEPRECIATION IS INDEED A CONCERN

- While the INR initially responded positively to the announcements of RBI Measures (concessional swaps for fresh FCNR(B) deposits, OFCB and ECB inflows), the euphoria fizzled out soon as the hopes of an amicable solution between US-Iran diminished, energy prices remained volatile and FPIs turned cautious (against good inflows in Debt markets and some stability in equity flows during June).
- Overall, INR has depreciated by ~12.5% from 1 Apr 2025 and remained the second last currency, after JPY, in terms of net depreciation during Apr-Feb (FY26) and fourth during the West Asia crisis period (end Feb-Till Date) after Thai Baht, Philippine Peso and Indonesian Rupiah. DXY has weakened during first phase and strengthened during the second phase.

THE CHICKEN AND EGG PROBLEM OF USD/INR AND CAPITAL INFLOWS

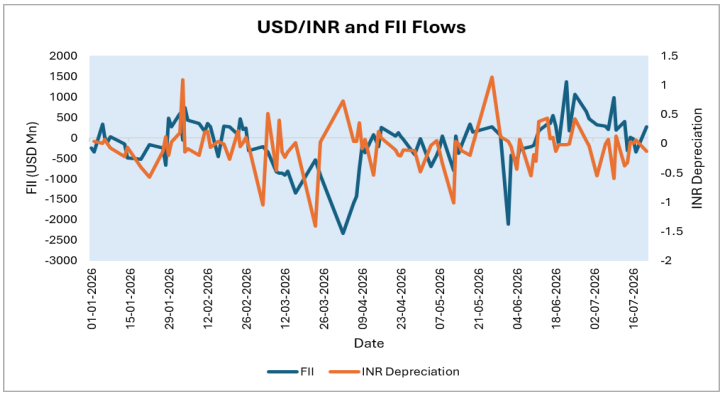
- USD/INR exchange rate and capital inflows shows a chicken and egg problem wherein a depreciating rupee leads to lower capital inflows and on the other hand lower capital inflows exert a burden on the rupee to further depreciate as shown in the graph. Thus any further depreciation of rupee will impact the capital flows adversely.
- Basis CCIL client hedging data analysis, since 02 March 2026, there are 81 instances when buy transactions exceeded US$ 1 Bn, far higher than 28 Sell instances, concentrated along near end of the curve (1-3 months), with a cumulative ~2:1 ratio, implying higher importers interest in cover operations.

FCNR (B) DEPOSITS AND BOP SITUATION

- Due to RBI measures, we expect others (including loans/ capital/ Rupee debt service) component in the Capital account will have additional ~$75 to 85 bn in FY27. Also we expect FY27 inward remittances to crossed $150 billion. Additionally, strong FDI inflows of $15 to $18 bn in FY27 and better FII inflows in H1 FY27 are expected (since 8 June, inflows worth ~10 billion already came).
- **Thus the overall balance of payment would be in surplus of more than $50 billion for FY27. This is way above our previous estimate of $65-70 billion deficit. Subsequently, the current account deficit would be in the range of 1.0-1.2% of GDP for FY27.**

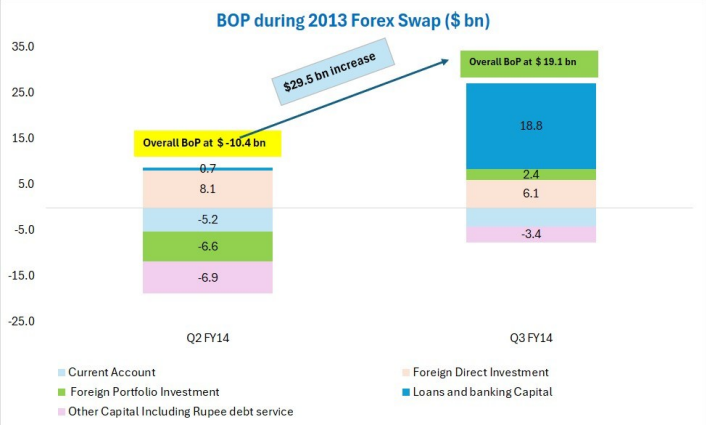
BANK DEPOSITS GROWTH @ 12.7%

- During the fortnight 15-30 June 2026, bank deposits had jumped by Rs 6.97 lakh crore, which may be due to many reasons like end-quarter closing, month-end deposits and traction in FCNR (B) deposits.



HEDGING OPERATIONS BY CLIENTS (CCIL): 10 MOST ACTIVE DAYS

Trade Date	Buy No. of Trades	Buy USD (in Mn)	Trade Date	Sell No. of Trades	Sell USD (in Mn)
30-Mar-2026	1361	5204.36	25-Jun-2026	446	2734.90
25-Jun-2026	839	4241.50	18-Jun-2026	365	2476.95
26-May-2026	670	3628.15	29-May-2026	745	1901.86
25-Mar-2026	479	3608.47	30-Mar-2026	709	1881.44
24-Jun-2026	357	3549.28	27-Mar-2026	746	1817.85
30-Apr-2026	659	3377.19	30-Apr-2026	788	1605.11
29-May-2026	1396	3357.12	24-Jun-2026	396	1575.96
27-Mar-2026	585	3249.78	27-Feb-2026	533	1561.85
27-May-2026	515	2698.58	29-Jun-2026	562	1547.53
28-Apr-2026	343	2579.28	19-May-2026	367	1540.14
	Total	35.5		Total	18.6



India's BoP Estimation($ bn)			
Items	2025-26	2026-27 (P)	
		Before RBI Measures	Post RBI Measures
Overall Balance of Payments	**-23.4**	**-72.0**	**51.0**
CURRENT ACCOUNT	**-25.3**	**-92.0**	**-52.0**
As % of GDP	**-0.6**	**-2.2**	**-1.2**
CAPITAL ACCOUNT	**1.9**	**20.0**	**103.0**
Foreign Direct Investments	6.9	8.0	18.0
Portfolio Investments	-16.4	-8.0	3.0
Others including loans/ capital/ Rupee debt service	**10.8**	**20.0**	**82.0**
Source: RBI,SBI Research			

- **As regular outflows of deposits happens in the first fortnight, so Rs 2.59 lakh crore deposits outflows during 01-15 July 2026, to Rs 262.8 lakh crore, with a YoY growth of 12.7%. Out of the Rs 2.59 lakh crore, demand deposits declined by Rs 3.47 lakh crore, while time deposits increased by Rs 87,995 crore during the fortnight. The increase in time deposits may be due to FCNR (B) inflows.**

RBI INTERVENTION IN FOREIGN EXCHANGE MARKET REQUIRED AS A FULL THROTTLE STRATEGY

- RBI intervention in the foreign exchange market has been somehow sporadic and not full throttled ever since the disturbances in West Asia has broken out. As per our analysis RBI has intervened 31 times/days since Jan'26.
- **We employ a Censored Tobit model to estimate how RBI's daily foreign exchange intervention reaction function has influenced the direction of rupee value and impacted volatility. In our model, the dependent variable is RBI daily intervention amount (left censored at zero) which is largely unobservable. In our sample of 116 trading days, the RBI might have intervened on 31 days, while no intervention was recorded on the remaining days. Consequently, the dependent variable consists of a large proportion of zero observations and positive continuous values on intervention days, making the Censored Tobit model the appropriate framework as the dependent variable (Intervention amount) is left censored at zero.**
- Econometric Specification of the Censored Tobit model is as follows:

$$I_t^* = \alpha + \beta_1 ERGAP_t + \beta_2 VOL_t + \varepsilon_t$$

$$ERGAP_t = ER_t - MA7_t \qquad \varepsilon_t \sim N(0, \sigma^2)$$

The observed intervention amount is:

$$I_t = \begin{cases} I_t^*, & if\ I_t^* > 0, \\ 0, & if\ I_t^* \le 0 \end{cases}$$

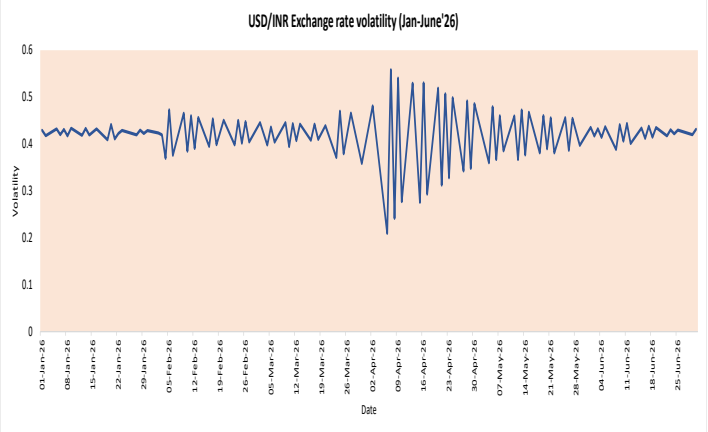
- **The intervention amount is available only on a monthly basis hence, we have estimated the intervention dates using the news from Reuters and Business Standard and reverified using Economic Times and Mint. However, the amount of the intervention is not available publicly, we have proxied it using Foreign Currency Assets and use GARCH (1,1) model to estimate the volatility.**

RBI Intervention and impact on Rupee Depreciation (Censored Tobit model results)

Variables	Dependent variable: Intervention amount Coefficient
Exchange Rate Gap ($ERGAP_t$)	13.95*** (5.087)
Exchange Rate Volatility (VOL_t)	5.87 (45.726)

Note: Robust standard errors are in paratheses.
****p<0.01, ** p<0.05, * p<0.10,*

- Thus, Foreign Exchange intervention is our primary dependent variable while Rupee depreciation (calculated using the difference between USD/INR ER and 7 day moving average of the exchange rate) and conditional variance (calculated using GARCH) are the independent variables.
- **Our results indicate that due to Rupee depreciation RBI on an average intervenes $14 million/day which is statistically significant implying that RBI indeed intervenes whenever there is Rupee depreciation. However, our volatility coefficient is although positive but statistically insignificant suggesting that the RBI intervention strategy was unable to arrest the volatility and prevent Rupee from further depreciation. This $15 million intervention amount given the stock of $676 billion is not significant enough to curb the rupee depreciation.**
- The findings of Ghosh (2001) using a similar model indicate that in 1997-98 during the time of former RBI **Governor Bimal Jalan, RBI intervention on an average was much higher at $55 million and was also able to stop rupee from further depreciation, even as overall foreign exchange reserves was of the order of only $29 billion or so**. The volatility coefficient was also statistically significant then indicating volatility also declined because of forceful intervention by RBI.



ANNEXURE

RECENT RBI INTERVENTIONS MAY NOT BE STABILIZING THE RUPEE

- Our findings are further corroborated by an analysis of the Indian Rupee's opening and closing exchange rates around intervention episodes. The evidence suggests that large-scale and credible intervention is more effective in stabilising the exchange rate. For instance, on 22 May, following a sizeable intervention, the Rupee appreciated from Rs 96.28/USD to Rs 95.71/USD by market close and opened stronger at Rs 95.35/USD the following trading day. Similar dynamics were observed on 5 May and 10 February, indicating that sufficiently large interventions can not only reduce intraday volatility but also help stabilize Rupee.
- In contrast, interventions of limited scale appear to have only a transitory impact. Although they may moderate intraday depreciation, the Rupee often resumes weakening when markets reopen. For example, on 25 May, the Rupee strengthened marginally from Rs 95.35/USD to Rs 95.24/USD following intervention but opened weaker at Rs 95.40/USD the next day. A similar pattern was observed on 11 May, 27 April, and 12 January, suggesting that interventions perceived as inadequate are less successful in preventing subsequent depreciation.
- **Possible daily intervention information shows that out of the total intervention dates, RBI intervention successfully arrested the Rupee's depreciation beyond the intervention day in only around 40% of the cases. In the remaining 60% of the episodes, while intraday volatility was contained, the Rupee depreciated again on the following trading day and sometimes by a larger amount breaking new thresholds indicating that the quantum of intervention failed to produce a sustained stabilising effect.**

Anticipated RBI Intervention and USD/INR Exchange Rate

Intervention Dates	Open	Close	Next Day Open
09-Jan-26	89.89	90.17	90.22
12-Jan-26	90.22	90.17	90.25
16-Jan-26	90.37	90.87	90.7
20-Jan-26	90.94	90.98	91.08
01-Jan-00	91.08	91.7	91.49
23-Jan-26	91.52	91.96	91.76
06-Feb-26	90.27	90.66	90.55
10-Feb-26	90.71	90.58	90.56
17-Feb-26	90.69	90.69	90.66
02-Mar-26	91.25	91.48	92.03
05-Mar-26	91.57	91.6	91.63
17-Mar-26	92.39	92.38	92.41
18-Mar-26	92.41	92.64	92.89
20-Mar-26	92.89	93.71	93.83
24-Mar-26	93.64	93.88	93.95
27-Mar-26	94.16	94.82	93.48
30-Mar-26	93.48	94.83	93.25
17-Apr-26	92.95	92.93	92.83
20-Apr-26	92.83	93.12	93.31
27-Apr-26	94.24	94.2	94.38
29-Apr-26	94.75	94.85	95.02
05-May-26	95.31	95.29	95.04
11-May-26	94.89	95.31	95.5
20-May-26	96.86	96.83	96.34
21-May-26	96.34	96.2	96.28
22-May-26	96.28	95.71	95.35
25-May-26	95.35	95.24	95.4
27-May-26	95.75	95.7	95.57
03-Jun-26	95.46	95.71	95.71
08-Jun-26	95.32	95.71	95.49
24-Jun-26	94.9	94.66	94.31
01-Jul-26	94.67	95.25	94.93
02-Jul-26	94.93	95.4	95.21
08-Jul-26	95.17	95.56	95.56
20-Jul-26	96.42	96.45	96.42

Note:Anticipated Intervention dates are accessed from the daily newspapers (Reuters, Business Standards, etc.) from 09 January 2026 to 20 July 2026.The green coloured cells are the days when decisive and possible RBI intervention thwarted rupee depreciation on the following day.

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