

How NRI deposits and its components have moved over the years

RBI in its recent policy, has announced host of measures to attract foreign capital. The centre-point of discussion has been garnering flows through the FCNR (B) route where RBI will be bearing the full hedging cost of Banks till 30th September 2026 for raising fresh FCNR (B) deposits. The move is often compared with the 2013-period when RBI introduced the swap window facility to attract more flow of funds through the FCNR (B) route. Against this context, let us see how the NRI deposits of Banks and its components have fared in the past.

This note captures:

- 1) The trend of NRI and FCNR (B) deposit movement since 2010 to see the impact of 2013-measure of RBI and form an idea about how much inflow through the FCNR (B) route might be possible under the current measure, just by looking at the past data.*
- 2) Apart from FCNR (B) deposits, how other components of NRI deposits have fared.*
- 3) The share of NR (E) RA is dominant in overall NRI deposits. However, since the past 5- & 10-Year period, flows through the NRO account have gained prominence albeit small in absolute number.*
- 4) This may be on account of growing confidence of investors on Indian economy as the NRO account basically handles domestic revenue.*

How NRI and FCNR (B) deposits have moved?

The movement of NRI deposits is interesting. The general trend is rising albeit some flatlining recently. Let us demarcate phases where NRI deposits picked up:

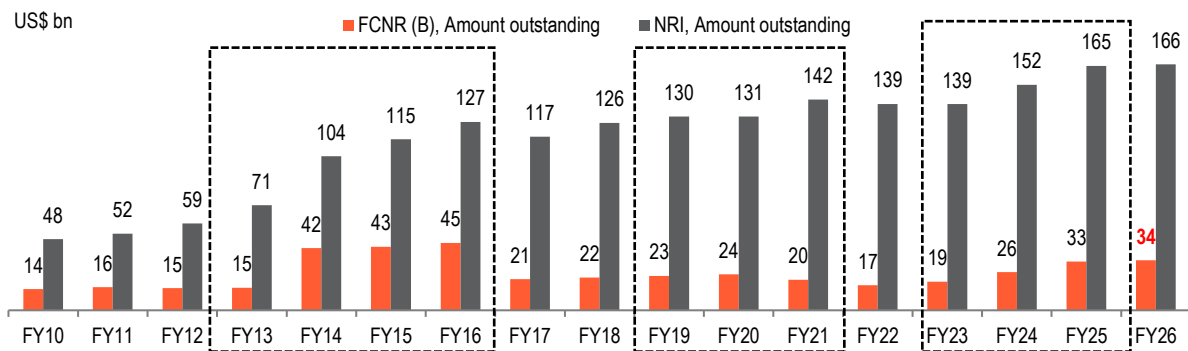
Phase 1: FY13-16. The pickup in overall NRI deposits from US\$ 71bn in FY13 to US\$ 127bn in FY16, is attributable increase in FCNR (B) deposits from US\$ 15bn to US\$ 45bn in FY16, due to RBI's introduction of swap window. The lucrative tax benefits in FCNR (B) deposits amidst a lower global interest rate regime attracted considerable funds through this route.

Phase 2: FY19-21. NRI deposits rose to US\$ 142bn from US\$ 130bn during this period. This is despite a softer interest rate regime globally. Bank deposits probably have been the preferred choice of investment during the uncertain environment (Covid-19) where other asset classes exhibited considerable volatility. Apart from this, increase in precautionary savings globally (Gross savings rate to GDP of world rose from 27.1% from 27.9% in the same period, as per World Bank data), have also led to repatriation of savings in terms of bank deposits. The contribution of FCNR (B) towards increase in overall NRI deposits was insignificant during this period.

Phase 3: FY23-25: NRI deposits rose to US\$ 165bn from US\$ 139bn during this period. A calibrated approach of domestic central bank compared to global central banks, where the rhetoric of interest rates has been far more volatile have gained confidence of foreign depositors.

FY26 onwards: FY26 numbers have broadly flatlined. However, with current measure in place we expect a steep jump in the number in FY27.

Fig 1: Trend of inflows in NRI deposits

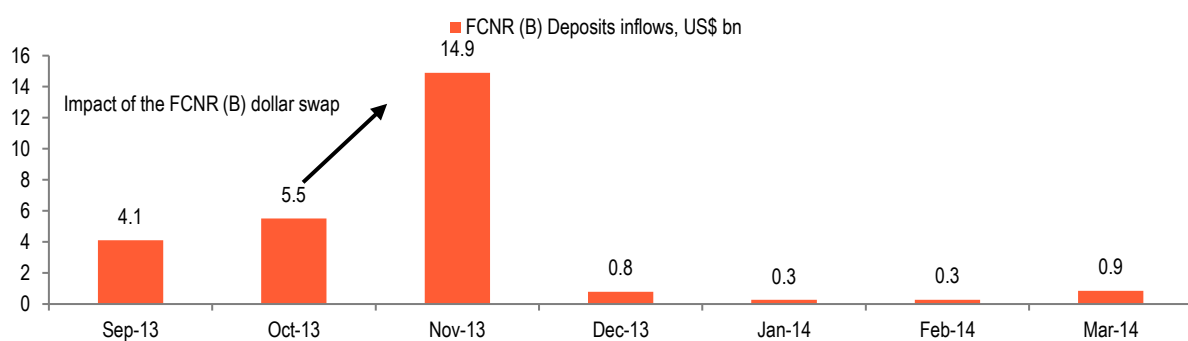


Source: CEIC, Bank of Baroda Research

2013-FCNR (B) flows in detail:

To give a background, RBI in 2013 has introduced two swap windows. In simple terms, 1) FCNR(B) swap facility where RBI allowed banks to swap their FCNR(B) deposits with it by paying a fixed interest rate of 3.5%, lower than the market rate and 2) swap facility for bank borrowings by allowing banks to raise foreign currency and swap into INR at a concessional rate. So, it was a win-win situation for both RBI in terms of dollar inflow and Banks in terms of improving rupee liquidity at a time when INR was depreciating sharply and foreign exchange reserves were depleting. On account of RBI's measures alone, between Oct'13 to Nov'13, the inflow shot up from US\$ 5.5bn to US\$ 14.9bn. It is to be mentioned that the FCNR (B) deposits related announcement by RBI was made on 4 Sep 2013. Between Oct-Dec'2013, there was major inflow of US\$ 21.2bn. Between Sep-Mar'14, inflow in FCNR (B) deposits was US\$ 26.7bn.

Fig 2: FCNR (B) inflows during the 2013 period



Source: CEIC, Bank of Baroda Research

NRI deposits vis a vis aggregate deposits:

NRI deposits have grown at a softer pace compared to aggregate deposits converted in dollar for parity with NRI deposits denominated in US\$ (average for the year is considered for conversion to dollar). If we look at the 5Y CAGR, aggregate deposits in US\$ terms have grown by 7.8% whereas NRI deposits have risen by only 3.1%. Since the 5-Y CAGR has the Covid effect, hence CAGR from 2019 is taken to eliminate the Covid effect. The data for CAGR since 2019 shows that there has been 7.4% growth in aggregate deposits in US\$ terms whereas for NRI deposits it is only 3.5%. The results do not change much even after eliminating the Covid period and highlight that NRI deposits are growing at a softer pace compared to the overall growth in deposits supplemented by higher domestic resources. The 10Y CAGR also shows much softer pace of growth in NRI deposits at 2.7%. Only if we consider the 15-Yr CAGR, RBI's regulatory initiatives get reflected with NRI deposits growth of 7.2% during this period because of a low base.

Within NRI deposits, we can see in the past 5Year as well as the 10Y period, NRO deposits is gaining popularity albeit in amount it is smaller compared to NR (E) RA. The 5Y and 10Y CAGR of NRO is much higher at 12.1% and 12.6% respectively. There may be several reasons for the same ranging from ease of liquidity and interest rate differential. Whereas for NR (E) RA it has declined by -0.8% for the 5Y CAGR period and has risen only at a modest pace of 3.3% in the 10Y CAGR period. This may be on account of muted global growth which might have impacted the ability of non-residents for transferring foreign profits to India. For FCNR (B) deposits, the 5-Yr CAGR is higher purely on account of a very low base. Hence it should be read accordingly. However, on a 10Y CAGR basis, FCNR (B) deposits have declined by -2.9%.

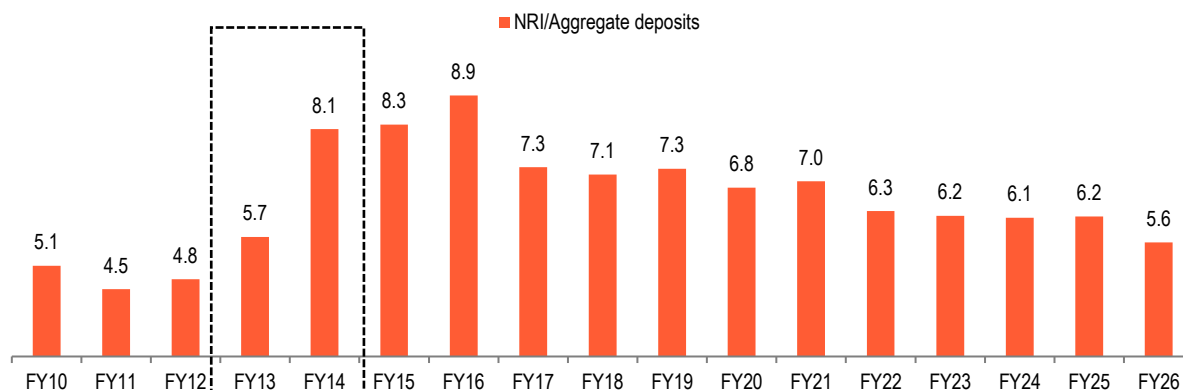
Table 1: NRO segment growing at a faster pace

Growth rate (%)	Aggregate deposits, US\$ bn	NRI Deposits	Foreign Currency Non-Resident Accounts-FCNR(B)	Non-Resident External Rupee Accounts-NR (E) RA	Non-Resident Ordinary Rupee Accounts-NRO
5Y CAGR	7.8	3.1	10.5	-0.8	12.1
10Y CAGR	7.6	2.7	-2.9	3.3	12.6
15Y CAGR	6.0	7.2	5.6	7.9	6.9
Pre-Covid (CAGR since 2019)	7.4	3.5	5.5	1.0	11.8

Source: CEIC, Bank of Baroda Research, Note: Aggregate deposits for the FY are converted in dollar terms before calculating CAGR for an even comparison with NRI deposits denominated in US\$, for exchange rate, average for the fiscal is used.

What can be concluded from **Table 1**. Is that NRI deposits have not been able to catch up with the pace of growth in aggregate deposits. Also, NRO deposits albeit smaller has higher potential.

Fig 3: Share of NRI /Aggregate deposits has shown deceleration due to faster pace of increase in aggregate deposits



Source: CEIC, Bank of Baroda Research

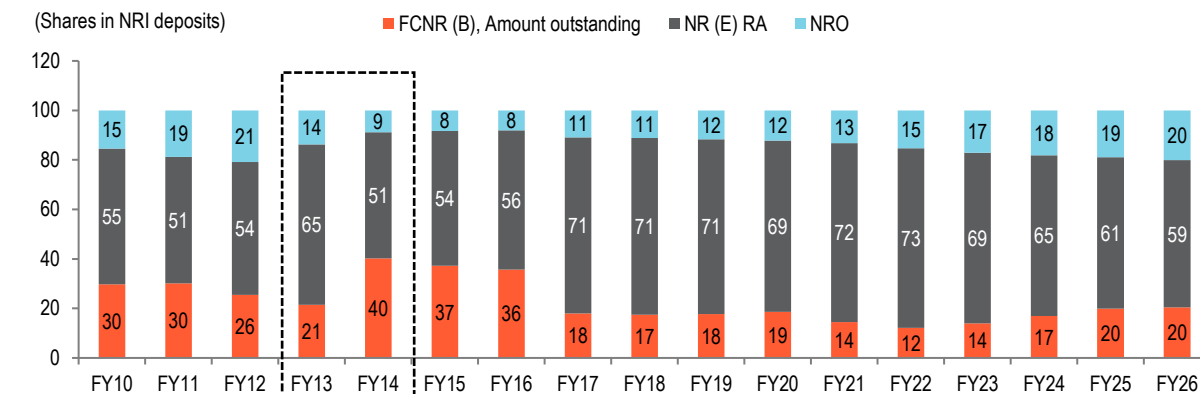
How shares of different components of NRI deposits have evolved?

NR (E) RA has the dominant share at 59.5% in FY26. The shares of FCNR (B) and NRO deposits are broadly similar at ~20% of NRI deposits. However, comparison with the past period shows that there has been some shift. *Shares of NRO deposits have consistently risen. From 11.7% in FY19, it has risen to 20.1% in FY26.* Especially, post Covid period, it witnessed quite a momentum. NRO account basically handles domestic revenue. One explanation of increasing share of NRO account can be higher domestic income earned through rent, dividend, pensions or sale proceeds which are routed through this account. The higher outstanding balance in the NRO account also speaks of increasing confidence of NRIs on higher growth potential of Indian economy compared to global counterparts. On the other hand, NR (E) RA deposits have seen constant deceleration in share since Covid-period. This is albeit tax benefits to eligible NRIs compared to NRO account which is taxable. One conjecture could be some moderation in overseas earnings remitted to India due to muted global growth environment and tighter labour market post Covid period.

FCNR (B) share in NRI deposits got considerable push from the concessional swap window facility by RBI in 2013, which was a one-off event, to support INR. In FY14, the share went up to 40.3% from only 21.4% in FY13. However, post that it had revert to its previous level. During FY17-23, there has been sharp decline in share of FCNR (B) deposits remaining on an average ~16% of NRI deposits. It is to be mentioned that alternate reference rates during this period have been very low (SONIO/N index-Sterling Overnight Index, averaging during these years at 0.60%). Some uptick in share of FCNR (B) deposits was visible in FY24, as remittances inflow picked up (World Bank data) and global interest rates also picked up in line with tighter monetary policy. FY26 also saw shares of FCNR (B) deposits

retained at 20.4%. It is to be mentioned that towards the end of FY26 (Dec'25), RBI also introduced measure of hiking the interest rate ceiling on Foreign Currency Non-Resident (FCNR-B) deposits.

Fig 4: Shares of different components of NRI deposits



Source: CEIC, Bank of Baroda Research

Conclusion:

- 1) NRI deposits have flatlined in FY26.
- 2) The pace of growth in NRI deposits in the 5Y CAGR and 10Y CAGR period is much less than the growth in aggregate deposits (denominated in US\$ terms).
- 3) The current measure to attract FCNR (B) deposits is likely to support growth in overall NRI deposits as seen between FY13-16 period.
- 4) A closer look into the shares of different components of NRI deposits show that NR (E) RA is dominant. However, over the 5Y and 10Y period CAGR data shows that NRO account is gaining importance. This may be on account of growing confidence of investors on Indian economy as domestic revenue earned through rent, dividend, pensions or sale proceeds is routed through the NRO account.
- 5) Based on the current initiative by RBI, we can expect a growth rate of 8-10% in NRI deposits in the next five years or so which will keep it aligned with growth in overall deposits which would be in the region of 10-12% and assuming rupee depreciation of 2-3% per annum.

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