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RBI dollar measures: Progress and impact

The US-Iran war created significant challenges for the Indian economy, as rising oil prices and persistent FPI outflows led to concerns over external stability given India's high dependence on imported oil. Fiscal concerns too emerged as expectations of government support increased. Hence, the narrative of "twin deficit" gained steam which led to considerable volatility in the domestic financial markets. To address the external challenges and strengthening its buffers, the government and the RBI announced a slew of measures to attract dollar inflows. While the government measures were more structural in nature and addressed longstanding issues with regard taxation of FPI's investment in India, RBI's measures aimed at providing incentives for attracting durable dollar liquidity in the system. In this study, we have briefly analysed the current status of dollar inflows into India due to RBI's measures pertaining to swap facility for ECBs/OFCBs and FCNR (B) deposits and how it shaped different market variables.

Context:

US-Iran war had a profound impact on global economic and financial systems. The war and related disruptions to the global supply chains led to spike in global commodity prices, most notably oil and natural gas prices. India, being the world's second largest importer of oil, is susceptible to volatility in oil prices. International oil prices (Brent) rose from about US$ 70/bbl at the end of Feb'26, to a peak of US$ 118/bbl by the end of Mar'26. Oil prices remained elevated in the subsequent months as well, as uncertainty over a possible peace deal prevailed. Oil imports typically account for about 25-30% of India's total imports. Hence higher global oil prices push the import bill higher leading to concerns over elevated trade deficit. At the same time, prices of other imported items such as metals, fertilizers, etc.; too saw a significant traction which led to concerns over trade deficit and India's external stability. There was also higher demand of dollars from importers, which pushed the exchange rate lower. Compounding this, FPI flows turned negative, further fuelling concerns over an imminent balance of payment crisis.

Figure 1: Oil prices elevated

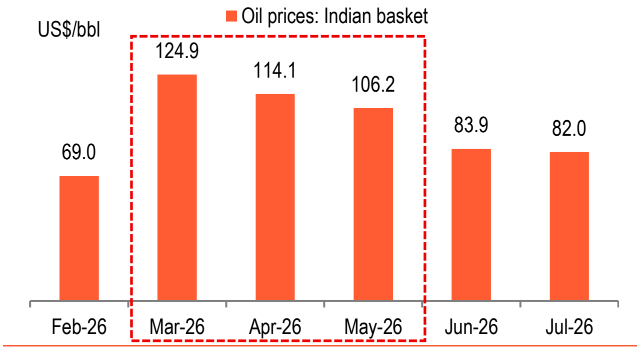
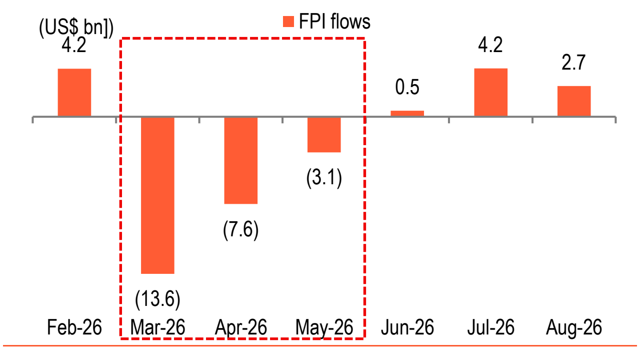


Figure 2: Persistent FPI outflows



Source: CEIC, Bank of Baroda Research

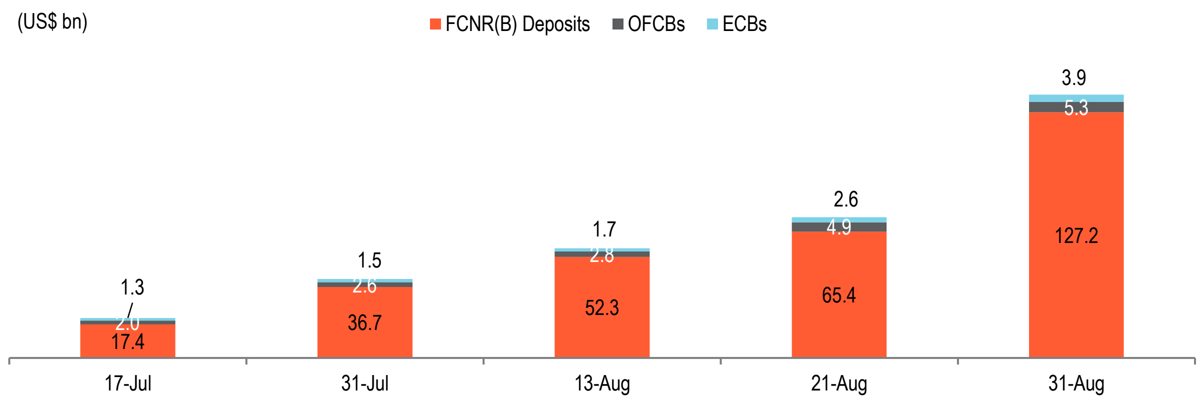
RBI's measures:

RBI Governor, in his policy statement on 5 Jun 2026, announced several measures to attract foreign inflows. Some of these measures aimed at attracting FPI inflows, particularly through including higher tenured government securities under the FAR framework, while others allowed exporters to bring in export proceeds faster, thus strengthening the external position. More specifically, RBI announced special concessional swap facility for ECB/OFCB and FCNR (B) deposits. Under the scheme, PSUs through AD banks could raise ECBs/OFCBs (in US dollars) with a maturity period of over 3 years with a maximum maturity period of 5 years, which could then be swapped with the RBI which would bear the swap cost. Similarly, banks could mobilize fresh FCNR (B) deposits of 3-5 years tenor (in US dollars), with the option to swap it with the RBI. This basically eliminated the hedging costs for the banks, making it more attractive to raise ECBs and FCNR (B) deposits.

Current status:

The measures received overwhelming response. Figure 3 below shows foreign inflows garnered under these measures since implementation. As of 31 Aug 2026, US$ 136.4bn were mobilised through these measures. Out of this, FCNR (B) deposits witnessed the maximum traction, amassing US$ 127.2bn, in a span of just 84 days. These account for over 90% of the total inflows garnered. Dollar inflows through the OFCB routes also increased to US$ 5.3bn, while the amount mobilised through ECBs stands at US$ 3.9bn, as of now.

Figure 3: Progress of RBI's forex measures



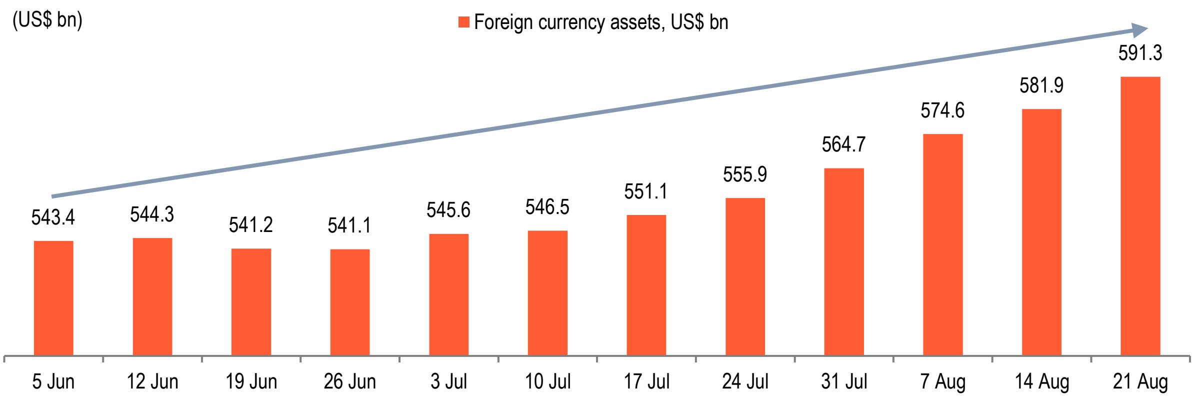
Source: RBI, Bank of Baroda Research

It must be noted that the relative attractiveness of FCNR (B) deposits was significant as SCBs provided higher interest rates on the deposits raised under the scheme. In fact, as per estimates, the interest rates offered for FCNR (B) deposits in the 3-5 years tenor was raised from about 2-4% to 6-7% by several banks. Another interesting thing to note is that in 2013, when the scheme was introduced for the first time, there was an increase of US$ 24.5bn in FCNR deposits between Sep'13 to Nov'13. The response this time was much stronger, prompting the RBI to announce a premature closure of the scheme window by a month from 30 Sep 2026 to 31 Aug 2026. As a result, there was a sharp increase in the pace of accretion in FCNR (B) deposits after the premature closure was announced. In fact, there was a significant traction seen in inflows through the FCNR (B) scheme in the last 10 days of the scheme. Between 21 Aug to 31 Aug, FCNR (B) inflows rose by US$ 62bn. This was more or less equal to the total accretion under the FCNR (B) since the start of scheme. The swap facility for OFCBs/ECBs will continue till 31 Dec 2026, and inflows are likely to pick up.

Forex reserves

The major objective of the proposed measures was to strengthen India's external buffers, even as the RBI reiterated that India's foreign exchange reserves were at comfortable level. However, the measures were pre-emptive in nature due to the continued volatility in the global financial market, and more importantly in the domestic exchange rate, which could cause a depletion of the forex reserves. Figure 4 charts the movement in India's foreign currency assets since the RBI measures were announced.

Figure 4: Movement in India's foreign currency assets post the policy announcements



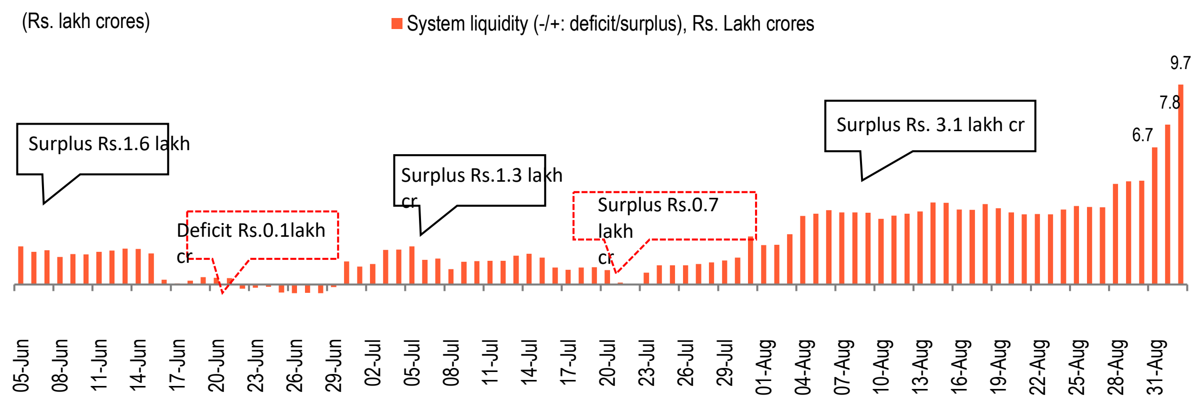
Source: CEIC, Bank of Baroda Research

India's foreign currency assets (FCA), which exclude gold, SDR and reserves with IMF, increased by US$ 47.9bn, pushing forex reserves to a record high of US$ 729.3bn. Incidentally, FCA had increased by US$ 17bn in Sep-Nov'13. It must be noted that the increase in FCA is less than the quantum of foreign inflows received through the RBI's swap route in both the periods. Furthermore, a part of the increase in FCA in the current phase could also be attributed to other dollar inflows, such as FPI/FDI inflows. While the data on FDI inflows is not yet available, FPI inflows into India in the period Jun-Aug-26 totalled US$ 7.4bn. At the same time, it is also worth mentioning that the RBI could have used some part of its forex reserves to smooth out the volatility in the exchange rate. Hence, a one-to-one relation is difficult to ascertain.

Liquidity

The impact of higher foreign inflows is also visible in the evolving domestic liquidity situation. There has been a gradual increase in the liquidity surplus as banks swapped the FCNR (B) deposits with the RBI, resulting in higher rupee liquidity in the system. After the initial announcement, system liquidity surplus remained largely stable at Rs. 1.6 lakh crores. Subsequently, liquidity conditions tightened leading to a deficit. Since then, there has been a steady increase in the liquidity surplus. In fact, liquidity surplus started to swell to over Rs. 3 lakh crores since the beginning of Aug'26 to Rs. 6.7 lakh crores by the end of Aug'26. As of 2 Sep 2026, the liquidity surplus surged further to Rs. 9.7 lakh crores.

Figure 5: System liquidity surplus has increased



Source: CEIC, Bank of Baroda Research

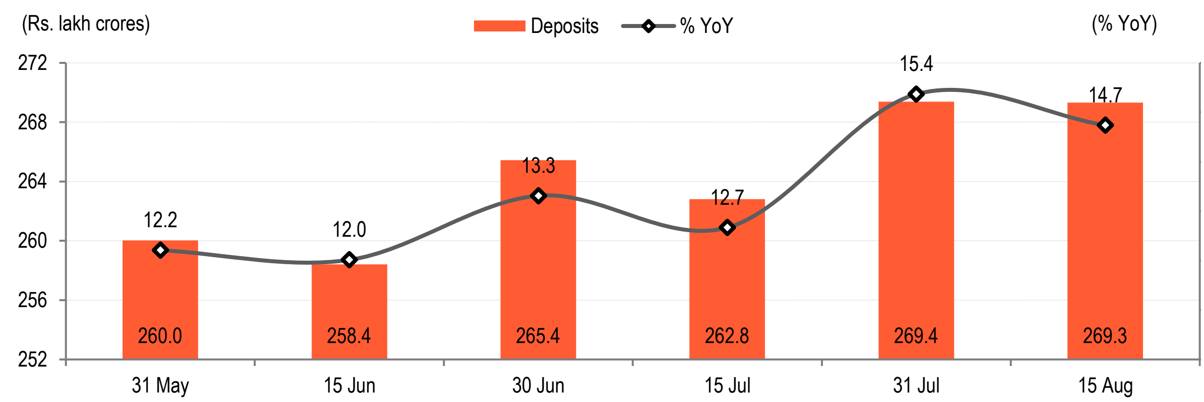
It must be noted that the RBI has been proactively managing the evolving liquidity situation through its money market operations. More specifically, RBI has ramped up the pace of conducting its VRRR auctions to absorb the excess liquidity. Between 6 Aug 2026 to 2 Sep 2026, RBI announced VRRR auctions for a cumulative amount of Rs. 53.5 lakh crores. Interestingly, banks have showed a preference towards shorter duration VRRRs (usually overnight), rather than longer duration due to robust credit demand.

Liquidity surplus is expected to peak in Sep'26. Seasonal increase in currency in circulation during the festive season, RBI's FX intervention to stabilise the rupee (if needed) and maturity of RBI's forward position would help in draining out the excess liquidity in the system. It must be noted that as per latest data, US$ 17.4bn of RBI's forward position is expected to mature in the next 3 months. At the same time, RBI is expected to actively manage the liquidity operations through stepping up the pace of VRRR auctions.

Deposits

Bank deposits have increased from Rs. 260 lakh crores at the end of May'26 to Rs. 269.3 lakh crores as of 15 Aug'26. This is important since deposit mobilization was touted as a significant challenge for the banking system, particularly due to the buoyant credit demand. By removing the hedging costs for banks, RBI essentially allowed banks to offer higher returns on FCNR (B) deposits, which made it attractive for NRI customers. The interest rate offered on FCNR (B) deposits was still lower than other avenues such as bulk deposits and CP/CD rates, making it attractive for banks as well.

Figure 6: Deposit accretion gathered pace



Source: CEIC, Bank of Baroda Research

In the corresponding time frame, FCNR mobilisation through the FCNR (B) route was US$ 52bn (8 Jun-13 Aug 2026), which roughly translates to Rs. 5lakh crores. Hence, the entire increase in deposits cannot be attributed to FCNR (B) deposits, and indicates that other bank deposits too have increased.

T-bills and Bond yields

Figure 6 gives the change in T-bill rates since the RBI's policy measures to attract forex inflows. It can be seen that there has been moderation in T-bill rates across tenors, barring the 6M T-bill rate which increased by 4bps. Given the abundant liquidity in the system, this is expected. The largest decline is for the 9M tenor, with yields falling by 21bps.

Figure 7: Movement in T-bill rates

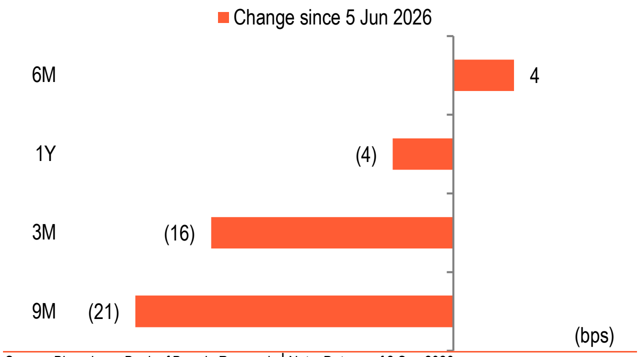
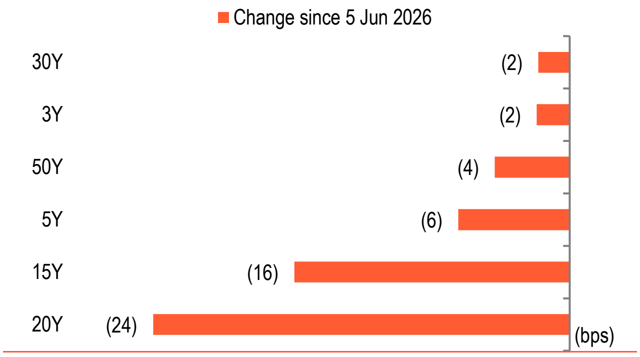


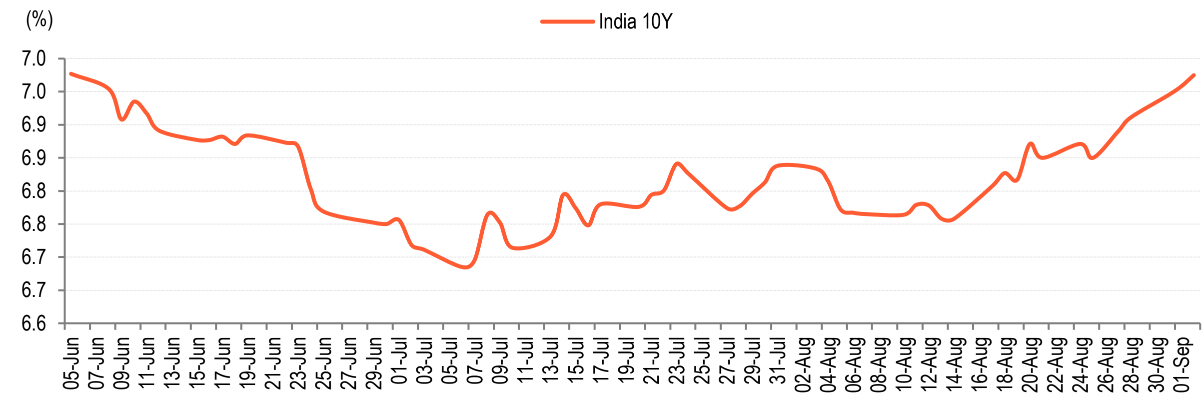
Figure 8: Movement in G-sec yields



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 2 Sep 2026

A similar trend is also seen in the movement in longer dated G-secs. Yields have moderated across tenors, with yields on 20Y and 50Y G-secs witnessing the sharpest decline of 24bps and 16bps respectively. In comparison, the yield on India's 10Y G-sec remained steady, even though there was some variation in the period.

Figure 9: Movement in India's 10Y yield



Source: Bloomberg, Bank of Baroda Research | Note: Data as of 2 Sep 2026

To sum up:

RBI’s measures to attract foreign inflows have been a resounding success with total inflows mobilized far exceeding the expected target. This will bolster India’s external buffers, at a time of heightened external volatility. Despite the war related shocks, India’s internal and external metrics have done well. GDP growth remained buoyant, and CAD remained in a comfortable range. The outlook too is promising as even though there is still uncertainty over the situation in the Middle-East, India now is insulated to withstand any unfavorable external shock. We expect CAD at 1-1.25% of GDP, given the recent strength seen in services exports and remittances. At the same time, higher foreign inflows through the RBI measures would supplement the capital account surplus. We expect a BoP surplus of US$ 65-75bn in FY27. This will further strengthen India’s forex reserves which currently stand at a record high.

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