NEWS ALERT

10 July 2026

RBI announces USD-Rupee swap facility for FCNR(B) deposits[1]

In light of the geopolitical tensions around the world, there has been considerable uncertainty in the global economy, disruption of global supply chains and increase in energy prices. To tackle these uncertainties and to attract foreign capital into India, the Reserve Bank of India ('RBI') has introduced a US Dollar-Rupee forex swap facility for fresh Foreign Currency Non Resident (Bank) ('FCNR(B)') deposits for a minimum tenor of three years and maximum tenor of five years. The swap facility is effective from 8 June 2026 to 30 September 2026. Only non resident Indians, Persons of Indian Origin and Overseas Citizens of India are eligible to make deposits in FCNR(B) account.

The RBI scheme allows Authorised Dealer Category-I banks ('AD') to use the swap facility for new FCNR(B) deposits raised in any freely convertible currency but with the RBI, the swap will be only in US dollars.

The swap will be for amounts of USD 1 million or in multiples of that amount. The swap period will be the same as the deposit period. In the first leg, the bank will sell US dollars to the RBI at the Financial Benchmarks India Pvt. Ltd. ('FBIL') reference rate, with settlement made on a spot basis. In the second leg, the same amount will be bought back at the same rate, so the swap is done at par. Since the settlement is done at par, there is saving in hedging cost & benefit is passed to the depositors in the form of higher interest.

It is clarified that swap facility covers only the principal amount of the deposit and not the interest component, and that the scheme is intended for fresh eligible FCNR(B) deposits

[1] RBI/2026-27/99
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mobilised for an original tenor of at least three years.

Important conditions

The underlying deposits will be subject to a one-year lock-in period, although banks may permit premature withdrawal after one year in accordance with their internal policy. However, swaps entered into with the RBI cannot be cancelled once executed. Where FCNR(B) deposits are mobilised in foreign currencies other than US dollars, banks may convert the amount into the equivalent US dollar value at prevailing market rates on the date of the swap deal, provided they follow a consistent policy and maintain appropriate documentation. Banks must keep separate records and a clear audit trail for all deposits covered under the scheme.

JMP Insights – *From a treasury and liability management perspective, the scheme is significant because it provides banks with an additional avenue to manage foreign currency deposit mobilisation while reducing exchange rate exposure on the principal. It may also support competitive pricing of FCNR(B) deposits within the existing regulatory ceiling, particularly for banks seeking to attract longer-tenor foreign currency funds.*

The development is best viewed as part of a broader strategy to encourage foreign currency inflows into India without compromising prudential safeguards. The RBI's insistence on separate records, audit trails and a one-year lock-in reflects a calibrated approach that balances flexibility for banks with regulatory discipline.

The interest earned on FCNR(B) deposits by non-resident or resident but not ordinarily resident is exempt from income tax.

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Should you wish to discuss any of the above issues in detail or understand the applicability to your specific situation, please feel free to reach out to us on coe@jmpadvisors.in.

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