

Two Hands on the Wheel: Steering the Rupee

Over the past week, the Reserve Bank of India (RBI) and the government have announced a coordinated response to support the Indian rupee. The approach echoes 2013, when the taper tantrum and the 'fragile five' label put extreme pressure on the currency, and a similar set of interventions proved widely successful in halting its fall. The RBI is now reaching for that same playbook to arrest the rupee's latest slide and restore stability.

Here is a list of the measures announced by the government and the RBI¹:

1. Foreign investors are now fully exempt from Long-Term Capital Gains (LTCG) and Short-Term Capital Gains (STCG) tax on the sale, transfer, exchange, or redemption of G-Secs. The 20% withholding tax on interest earned from these government bonds has also been removed entirely.
2. The list of securities under the Fully Accessible Route (FAR) has been widened to include all newly issued G-Secs with 15-, 30-, and 40-year tenors, expanding the range of long-dated bonds in which Foreign Portfolio Investors (FPIs) can invest.
3. In addition, certain limits on short-term investment, concentration, and individual securities for FPI investment under the General Route are being removed.
4. The limits for investment by Non-Resident Indians (NRIs) and Overseas Citizens of India (OCIs) in equity instruments traded on the stock market without Securities and Exchange Board of India (SEBI) registration are being increased. The same facility is also being extended to all individual Persons Resident Outside India (PROIs), on par with NRIs and OCIs.
5. A concessional forex swap facility will be provided to incentivise External Commercial Borrowings (ECBs) by Public Sector Undertakings (PSUs).
6. A similar facility, covering the full hedging cost, will be provided to banks raising fresh 3–5-year Foreign Currency Non-Resident (Bank), or FCNR(B), deposits.
7. Lastly, the time allowed for realisation of export proceeds is proposed to be restored to nine months.

Of all the measures announced, the most consequential are likely to be the removal of tax on FPI investment in G-Secs, the concessional swap for ECBs, and the full hedging-cost benefit for banks raising dollar deposits. Let's do a deep dive into these.

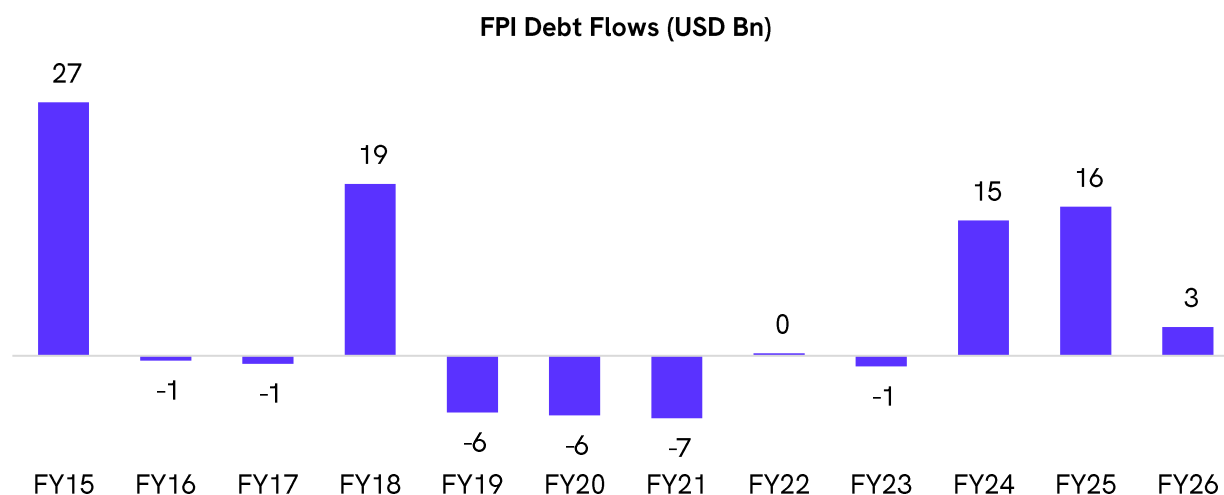
1. Tax Exemption on G-secs

The tax exemption for FPIs on interest and capital gains from Indian G-Secs may not generate substantial inflows on its own. But it does remove a key hurdle to the inclusion of Indian bonds in major global bond indices.

Over the past two years, Indian bonds have steadily entered the major benchmarks — first the JPMorgan Emerging Market Local Currency Index in June 2024, then the Bloomberg Emerging Market Local Currency Bond Index in January 2025, and the FTSE Russell Emerging Market Index in September 2025. The one key index that Indian G-Secs are still not part of is the Bloomberg Global Aggregate Bond Index.

¹Source: Press Information Bureau, Reserve Bank of India

Chart 1: Index inclusion drove heavy FPI debt inflows in FY24 and FY25



Source: CMIE, 360 ONE Asset Outlook

India is now pushing for that inclusion. In deferring it in January 2026, Bloomberg cited investor concerns over slow settlement, tax-related post-trade processes, a lack of automation in trading workflows, and long fund-registration timelines. Progress appears to have been made on several fronts, including faster repatriation of proceeds and extended settlement hours. The tax exemption now clears another key deterrent, opening the way for India's potential entry.

2. FCNR (B) Deposits

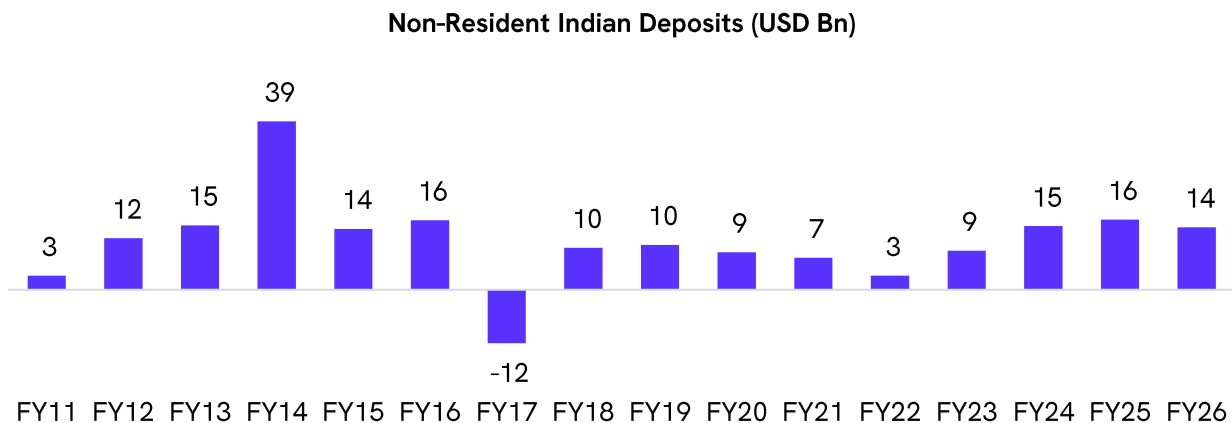
The most consequential announcement is the full hedging-cost support for banks raising FCNR(B) deposits.

Under FCNR(B), banks can raise deposits in any freely convertible currency, and the RBI will provide a swap facility, settled only in US dollars, at zero cost to the banks. This removes the currency risk that banks would otherwise bear.

Inflows are permitted until 30 September 2026, and the swap facility remains open until 16 October. Banks are free to set the interest rate offered to FCNR(B) depositors, subject to the RBI's broad guidelines.

The removal of an earlier restriction now allows Indian banks to support NRIs in borrowing offshore and investing those funds in FCNR(B) deposits. This feature has the potential to amplify inflows. In addition, no Cash Reserve Requirement or Statutory Liquidity Ratio needs to be maintained on these extra deposits, and banks may exclude the FCNR(B) swaps from their Net Open Position (NOP) calculations. Taken together, all of this significantly reduces banks' funding costs.

Chart 2: FCNR(B) scheme drew heavy inflows in FY14



Source: CMIE, 360 ONE Asset Outlook

3. Concessional Swap for ECBs by PSUs

The RBI has opened a concessional swap facility for PSUs on ECBs with an average maturity of three years or more, for borrowings drawn until December 31, 2026. These can be raised in any currency, but the swap is offered only in dollars, with a five-year tenor, at a fixed 1.5% per annum, compounded semi-annually. Note that the current hedging cost is close to 3% per annum. Crucially, banks can also raise Overseas Foreign Currency Borrowings (OFCBs) with maturities of at least 3 years and tap the same facility. However, for banks, the OFCB route might be slightly more expensive than FCNR(B) deposits.

Implications

Taken together, the measures amount to the most comprehensive dollar-mobilisation effort India has mounted since 2013. The swap facilities offered by the RBI on FCNR(B) deposits and ECBs could potentially bring in around **\$60 billion** in inflows². In addition, market estimates put the inflows from Bloomberg Global Aggregate inclusion at roughly **\$20–25 billion**, depending on India's eventual weight and whether the entry is phased³.

The facilities will not only support the rupee but also provide a meaningful boost to domestic liquidity conditions, improve deposit growth, and reduce the cost of funding, while helping to plug the balance of payments deficit in FY27. This could also improve banks' Net Interest Margins (NIMs) and support credit growth.

The boldness and flexibility demonstrated by the RBI and the government point to a discomfort with the pace of the rupee's depreciation — a stance RBI Governor Sanjay Malhotra reinforced at the June 2026 press conference, stating that the central bank remained fully prepared to do **whatever it takes** to preserve orderly market conditions.

² Source: Axis Capital

³ Source: [Business Standard](#)

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