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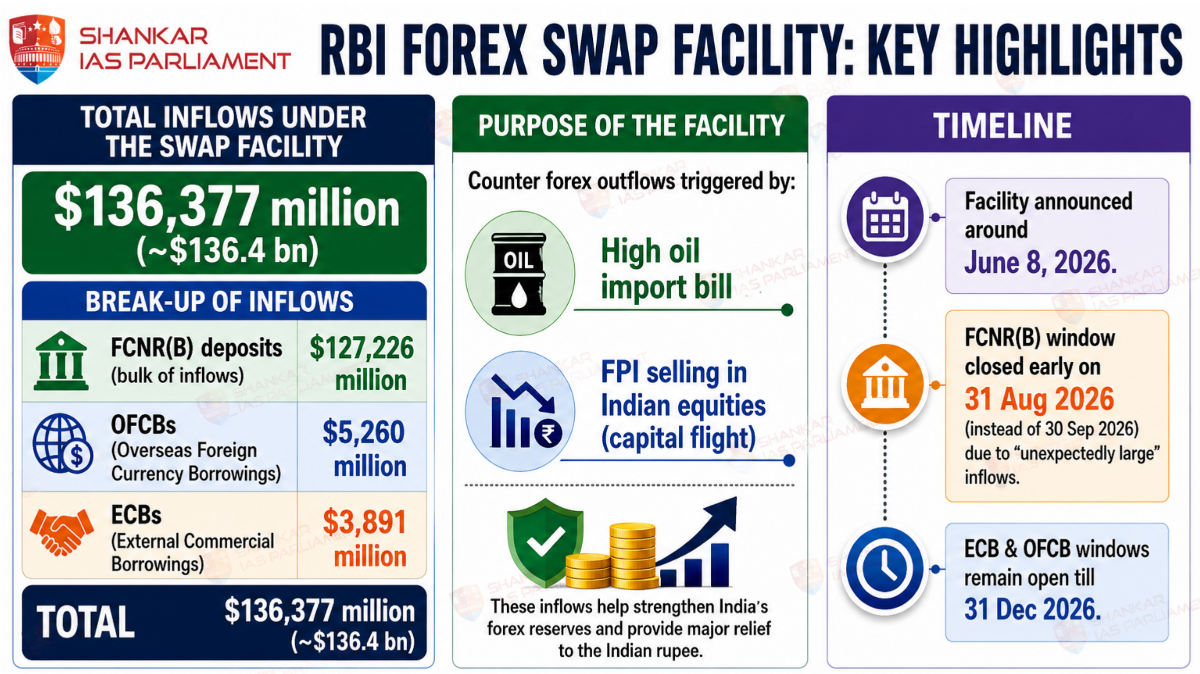
RBI Forex Swap Facility

Prelims: *Current events of national and international importance | Economy*

Why in News?

The Reserve Bank of India's (RBI) special USD-INR swap window has attracted over $136 billion in foreign currency through FCNR(B) deposits, OFCBs, and ECBs, significantly exceeding initial projections.



FCNR(B) – Foreign Currency Non-Resident (Bank) Deposits

- **Eligibility –** Non-Resident Indians (NRIs) and Overseas Citizens of India (OCIs) may open accounts with authorised Indian banks.
- **Currency –** Deposits are maintained in designated foreign currencies such as USD, EUR, GBP, and JPY, rather than in Indian rupees.
- **Tenure –** The typical deposit period ranges from one to five years as a fixed deposit.
- **Depositor risk –** There is no exchange rate risk, as both principal and interest are repaid in the same foreign currency.
- **Taxation and repatriation –** Interest earned is tax-free in India for eligible non-residents, and both principal and interest are fully repatriable.

External Commercial Borrowings (ECB)

- **Definition –** It refer to loans obtained by Indian entities, including companies, Non-Banking Financial Companies (NBFCs), and occasionally Public Sector Undertakings (PSUs), from foreign lenders in foreign currency.
- **Uses –** ECBs are utilized for capital expenditure, refinancing of existing debt, and working capital requirements, subject to Reserve Bank of India (RBI) guidelines.

OFCB – Overseas Foreign Currency Borrowings

- **OFCB –** It refer to funds raised in foreign currencies by eligible Indian borrowers.
- Term overlaps with categories of External Commercial Borrowings and treated as an additional foreign currency inflow channel.
- **RBI Mechanism –** Currency introduced via OFCBs/ECBs may be swapped with Reserve Bank of India.

Reason for introducing RBI's special USD-INR swap window

- **Oil Prices –** Increased crude oil imports result in higher demand for US dollars.
- **Foreign Portfolio Investors (FPIs) Exit –** Heightened risk aversion and changes in global interest rates lead to equity outflows and a reduction in dollar liquidity.
- **Dollar Shortage –** Domestic foreign exchange demand exceeds available supply.
- **Rupee Stress –** The currency faces increased depreciation risk and heightened volatility in foreign exchange reserves.

Reference

[The Hindu | Forex Swap Window]

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