

Another Needless Controversy Amid External Shocks: RBI's Temporary Incentive Scheme for Inward Remittances

■ Dr. T. K. Jayaraman

The controversy over the publication of India's revised GDP series, based on the new 2022–23 base year, had largely subsided by mid-September. The mathematical procedure cited by the Opposition to question the government's GDP estimates was found to be incorrect, alongside other objections, including allegations of “fudging the figures”.

Attention has now shifted to another issue: the Reserve Bank of India's (RBI) temporary special incentive programme for inward remittances, operational from June 8 to August 31, 2026, combined with the regular Foreign Currency Non-Resident (Bank), or FCNR(B), deposit scheme established in 1993.

The FCNR(B) scheme is a popular, tax-free fixed-deposit mechanism regulated by the RBI. It enables Non-Resident Indians (NRIs) and Overseas Citizens of India (OCIs), broadly constituting the Indian diaspora, to deposit funds in freely convertible foreign currencies, particularly the US dollar.

The scheme offers several attractions. First, there is no currency risk because deposits are maintained in foreign currency and are insulated from fluctuations in the rupee. Second, both

principal and accrued interest are fully repatriable. Third, interest earned is exempt from Indian income tax and is not subject to tax deducted at source (TDS). Deposits can generally be held for one to five years, with interest rates linked to international benchmarks and varying according to the currency, maturity and bank.

Remittances and India's External Balance

India has emerged as the world's largest recipient of remittances. In 2024–25, remittance inflows reportedly reached \$135.4 billion, accounting for around 15% of global remittances.

These inflows serve an important role in financing the current account and supporting India's overall balance of payments. They also provide a stable source of foreign exchange and help moderate external-sector pressures during periods of volatility.

The developmental impact is equally significant. RBI surveys indicate that a substantial share of remittances is used by recipient households for day-to-day maintenance and essential

TABLE 1 | Macro and External Sector Key Indicators : 2025 and 2026

Year & Quarter	Real GDP Rate (%)	Forex Reserves) \$ (Billion)	Exchange Rate Rs/\$	Volatility % Annualised (%)	Capital Outflows / Inflows Billion Dollar	Merchandise Trade Deficit Deficit (%)	BoP Deficit / Surplus (%)
2025 Q1 Jan-March	7.4	643	~83.5	Low (~3.8%)	+\$7.9B Net Capital	~6.5%	+0.4% (Accretion)
Q2 April-June	7.8	673	~84.1	Moderate (~4.2%)	-\$4.1B FPI Outflow	~7.2%	-0.3% (Depletion)
Q3 July _ Sept	8.2	668	~84.4	Moderate (~4.5%)	-\$16.5B FPI Outflow	~7.0%	-0.006
Q4 Oct-Dec	7.0	691	~84.3	Moderate (~4.1%)	Modest Net Balance	~6.2%	+0.5% (Surplus)
2026 Q1 Jan-March	7.8	701	~83.9	Low (~3.9%)	-\$3.9B Net Capital (FPI -\$9.6B)	~7.4%	-0.7% (Depletion)
Q2 April-June	7.8	722	~83.7	Low (~3.5%)	Rebounding Inflows	~7.6% (Est)	+0.2% (Est)
Q3 July- Sept	NA	741(Proj)	~84.2 (Proj)	Projected Low (~3.5%)	Proj. Neutral	~7.5% (Proj)	Flat
Q4 Oct-Dec	NA	\$745(Proj)	~84.5 (Proj)	Proj. Stable (<5%)	Institutional inflows steady	~7.8%	-0.2% to +0.2%

~ Approximate

Sources : RBI Montly Bulletin and Asian Devekoment Bank ADO Update , September 2026

expenditure, including healthcare, while a portion is spent on children’s education. Remittances therefore contribute not only to India’s foreign-exchange reserves but also to the real resources available to households.

A Special Incentive Scheme

Following severe pressure on the Indian rupee in early 2026, the RBI introduced a temporary special facility alongside the regular FCNR(B) scheme. The initiative, operationalised on June 8, was designed to attract foreign-currency inflows from NRIs and other members of the Indian diaspora.

Officially described as a Special USD-INR Forex Swap

TABLE : 2		
India : Annual Inward Remittances & GDP Proportion (2021–2024)		
Year	Inward Remittances (US\$ Billion)	Proportion of India’s GDP (%)
2021	105.60	3.3%
2022	111.22	3.3%
2023	125.00	3.5%
2024	137.67	3.5%

Sources: World Bank (2026), World Development Indicators

TABLE - 3		
Month-Wise High-Frequency Data (2026)		
Period / Month (2026)	Remittances Inflow (US\$ Billion)	Remarks / Category Inflow
January – March (Q1 Total)	31.07	Steady private transfers; 13-year quarterly high
April	16.00	Precautionary spikes amid regional changes
May	13.60	Routine remittance transactions
June 5 – August 31	136.40	Total Inflows under Special and Normal Schemes
- Special Incentives Scheme	127.00	Central bank targeted forex incentives
- Normal Channels	9.40	Routine remittance transactions

Note : Monthly for the year 2026. GDP proportion metrics for the 2026 blocks are deliberately omitted as the calendar year remains incomplete.

Sources: RBI 2026 (Monthly Bulletin Various issues) _____

Facility, the measure was intended as an emergency macroeconomic response to external-sector vulnerabilities. Commercial banks were provided access to concessional swap and hedging arrangements, enabling them to offer attractive returns on foreign-currency deposits.

The facility was initially announced for a period extending to September 30, 2026. Its performance, however, exceeded expectations. The RBI subsequently closed the window on August 31, a full month ahead of the original deadline.

The scale of mobilisation was substantial. By August 31, FCNR(B) deposits mobilised under the facility had reportedly reached \$132.98 billion. When combined with parallel foreign-currency inflow windows, the total inflow under the broader swap arrangement reached \$143.596 billion. (Tables 2 and 3)

The early closure immediately triggered political questions, particularly from the principal Opposition party, about the consistency and the so-called communication gap, hurting the credibility.

From an institutional perspective, however, changing an operational deadline in response to an unexpectedly large

capital inflow can also be viewed as an exercise in policy flexibility and risk management. Once the facility had achieved its primary objective, continuing it simply because of the original deadline could itself have created additional macroeconomic risks.

The issue therefore involves a delicate balancing act between external-sector management, exchange-rate stability, domestic liquidity and price stability, which has two sides: domestic real value of rupee and external value of money, the exchange rate.. These considerations will also form part of the broader context for the RBI’s October 2026 Monetary Policy Committee meeting.

The International Context

The global monetary environment has also become more complicated. The US Federal Reserve raised the federal funds rate by 25 basis points on September 16, 2026, bringing the target range to 3.75%–4.00%, after a prolonged period of policy easing and subsequent pause.

The Fed had previously raised rates aggressively to 5.25%–5.50% in 2023 before cutting them during late 2024 and 2025. The September 2026 increase therefore marked a significant shift in the international interest-rate environment.

With geopolitical tensions and global energy-price pressures adding to inflation risks, major central banks are once again confronting the difficult balance between supporting growth and containing inflation. For India, this makes careful management of foreign capital, exchange rates and domestic liquidity particularly important.

Simulation Exercise: What Could Have Happened?

It is useful to consider what might have happened had the RBI allowed the facility to continue until September 30.

- FCNR(B) deposits had already reached \$132.98 billion by August 31. An additional month of mobilisation could potentially have pushed the total substantially higher, \$150 or to \$200 billion, to \$. If the inflows had continued at the same pace, the additional foreign currency entering the banking system could have created a very large expansion of rupee liquidity when swapped domestically.

- excessive foreign-currency inflows and the resulting rupee liquidity could have generated additional upward pressure on the rupee. An excessively strong rupee, if sustained, could adversely affect the international competitiveness of Indian exports of goods and services.

- the concessional swap arrangements involved a cost for the RBI and the banking system. If the facility had been extended despite the exceptionally strong response, the associated hedging and swap costs could have increased the financial burden on the central bank and potentially affected its

future surplus transfer by its usual dividend payments to the Government of India.

The decision to close the facility on August 31 can therefore be understood as an attempt to contain emerging macro-financial risks after the scheme had already achieved its immediate objective.

The broader lesson is that emergency monetary measures cannot always be administered mechanically according to their original timetable. When market conditions change dramatically, central banks need the flexibility to adjust their interventions. It is expected RBI would raise the Repo, the policy rate, to 5.25% from 5.50% the first hike since February 2023. ■



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