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Liquidity concern? NRIs redeem $2.1 bn FCNR-B deposits

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Non-resident Indians redeemed around .1-2.5 billion of foreign currency non-resident bank (FCNR-B) deposits.

In the week ended Friday, non-resident Indians redeemed around $2.1-2.5 billion of foreign currency non-resident bank (FCNR-B) deposits, treasurers with domestic banks told FE. These deposits were made three years ago, shortly after Raghuram Rajan took over as governor of the Reserve Bank of India (RBI), as one of his first moves as governor was to extend the FCNR(B) scheme to non-residents in an effort to put an end to the rapid decline in the value of the rupee.

The treasurers estimated that in the next week, the one ending on November 11, redemptions of around $2.2-2.4 billion are expected to made, while around $5.1-5.4 billion is expected to go out in the week after that. Between November 19 and November 30, around $7 billion is seen being redeemed, they said, adding that just over $5 billion has already been redeemed in October.

At the time when the scheme was initially extended to non-residents, Indian banks together attracted close to $26 billion of foreign inflows, which they swapped with the RBI at a subsidized rate. These deposits were due to mature anytime between end September to November.

The redemption of these deposits were expected to adversely impact the value of the rupee since the pressure to deliver the adequate amount of dollars could have forced the central bank to sell the local currency in large quantities. However, since the RBI had already foreseen this happening, it had hedged its positions in the forwards market and is now in a comfortable position to deliver he necessary amount of dollars.

“There is no doubt that the RBI has meticulously planned for this situation. It had taken carefully planned forward positions in the market at the very outset to tackle precisely as a result of these redemptions," R Sivakumar, head-fixed income at Axis Mutual Fund, told FE. He added that the market is expecting the RBI to dip into the forex reserves at some of time over the redemption cycle to meet the dollar demand.

The point of concern in the minds of market participants now is the possible dearth of liquidity in the rupee that could happen as a result of too many redemptions in a short span of time.