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Macro & Matrices

Editor: Dr. B. K. Bhoi

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Public Policy Responses to a Global Supply Shock

The recent West Asia conflict represents a classic adverse supply shock with significant implications for inflation, growth, fiscal balances, and external stability. Given India's dependence on imported energy and integration into global trade networks, the transmission of such shocks occurs through multiple channels, including oil prices, shipping costs, exchange rates, and financial markets. An attempt has been made here to briefly reflect on public policy responses to a global supply shock.

India's strong macroeconomic fundamentals provide sufficient buffers to manage the spillover effects of the West Asia conflict compared to previous episodes of geopolitical turmoil. To address the immediate problems of capital outflows, exchange market pressure, and disruptions in commodity supply chains, particularly for crude oil and gas, the choice was between market-based solutions and prudent supply management. Assuming the West Asia conflict as a temporary supply shock, India preferred to pursue active supply management on multiple fronts rather than adopt market-based solutions. Moreover, India sought to convert this challenge into an opportunity by initiating several medium-term structural reforms to reduce its large dependence on crude oil from the Middle East, which passes through the Strait of Hormuz.

Short-term Measures

Unlike demand shocks, which can often be addressed through conventional monetary and fiscal interventions, supply shocks simultaneously affect inflation, output, and external balances, creating difficult policy trade-offs. Market-based solutions, such as raising the repo rate, allowing a freely floating exchange rate, and complete pass-through of oil prices to consumers, would have harmed the Indian economy more severely than preventing capital outflows and reducing inflation/trade deficit, given India's inelastic demand for crude oil.

The immediate concerns of the West Asia conflict were portfolio outflows, pressure on the rupee exchange rate and disruptions in the energy supply. Hence, government's short-term initiatives were designed to include, *inter alia*, a) moral suasion/austerity measures announced by the Prime Minister, b) an increase in import duties on select goods like gold/silver, c) slashing of special additional excise duties on petrol and diesel to protect the consumers, d) limited pass-through of petroleum product prices to retail consumers, e) a temporary ban on sugar exports, f) provision for MSMEs/other sectors under Emergency Credit Line Guarantee Scheme, g) increased fertilizer subsidies to protect farmers, and h) drawdown from strategic oil reserves as apart of supply management. Moreover, to encourage portfolio investment, the government removed tax on interest (withholding tax) and capital gains tax on investment in G-secs by foreign portfolio investors and Bank for International Investments.

In consultation with the government, the RBI also announced several short-term measures to encourage capital inflows, such as: a) a concessional forex swap window for ECBs by PSUs and Overseas Foreign Currency Borrowings by Authorised Dealers (ADs) till December 31, 2026, b) similar facility for bearing the full hedging cost for raising fresh 3–5-year FCNR (B) deposits by AD banks till September 30, 2026, c) expansion of the list of G-secs under Fully Automatic Route to include all new issuances of 15-, 30-, and 40-year tenor G-secs/sovereign green bonds, d) enhancement of the limit for investment by NRIs and OCIs in equity instruments traded on the stock market without SEBI registration from 5 per cent to 10 per cent, e) similar facility has been extended to all individual Persons Resident Outside India (PROIs) at par with NRIs and OCIs within the overall investment limit in equity, which increased from 10 per cent to 24 per cent of the paid-up capital of a listed company, f) relaxation of ECB norms, and g) reduction of overnight net open position to $100 million besides restrictions on non-deliverable forward markets involving Rupee. Moreover, the RBI has restored the time for the realisation of export proceeds to nine months to augment the dollar supply and pursued intermittent interventions in the forex market to reduce exchange rate volatility.

In view of the recent ceasefire and an MoU signed between the US and Iran for an enduring solution to the Middle East conflict, crude oil prices have started reverting to the pre-war level. While some of the short-term measures mentioned above are likely to be rolled back in the event of a long-term solution to the Middle East conflict, the rationale behind these measures has been to finance the potential widening of India's external current account deficit in 2026-27.

Medium-Term Measures

The government has been using the lessons learned from the West Asia conflict to find long-term solutions to the structural problem. First, efforts are being made to diversify the imports of crude oil, gas and fertilizers from alternative sources. Second, negotiations are being expedited to make the free trade agreements, signed with multiple countries, effective as early as possible. Third, domestic oil and gas exploration has been initiated involving multinational corporations. Fourth, two new sites for strategic oil reserves at Visakhapatnam in Andhra Pradesh and Chandikhol in Odisha, are being developed involving FDI from the UAE. Fifth, to reduce large dependence on crude oil, besides promoting renewable energy, the Union Cabinet has approved an expenditure of Rs. 37,500 crore for the coal gasification project, in addition to pushing electric and flex-fuel vehicles, promoting bio-refineries to produce ethanol/gas, and incentivising production of e-buses and e-trucks through an interest subvention scheme. Sixth, production of green hydrogen, used by domestic fertilizer companies, has been explored.

Concluding Observations

As geopolitical uncertainty has become an increasingly persistent feature of the global economy, India's policy framework must continue evolving from crisis management toward resilience building. The above framework illustrates a coordinated approach between RBI and the government, which combines macroeconomic stabilisation with energy security, fiscal management, and structural transformation. While short-term measures are expected to contain the immediate disruptions in financial markets and inflationary effects, long-term policies seek to reduce the economy's vulnerability to future geopolitical disruptions.

Editor

Swap Facility for FCNR (B) Deposits, June 2026

On June 8, 2026, the Reserve Bank of India (RBI) introduced a US Dollar-Rupee forex swap facility for Foreign Currency Non-Resident Bank (FCNR(B)) deposits, following the Governor's Statement dated June 5, 2026. The facility provides an additional mechanism for managing foreign currency liabilities associated with such deposits.

Key Highlights

- **Applicable to fresh FCNR (B) deposits within a defined window:** The facility covers fresh FCNR(B) deposits mobilised between June 8, 2026 and September 30, 2026, and remains available for availing swaps until October 16, 2026.
- **Tenor restrictions aligned with deposit maturities:** Eligible deposits must have a minimum tenor of three years and a maximum tenor of five years, with the swap tenor aligned to the underlying deposit maturity.
- **Available for deposits in all permitted currencies but settled in USD:** While deposits can be mobilised in any freely convertible currency, the swap facility with RBI is available only in US dollars, with non-USD deposits converted at prevailing market rates.
- **Operational limits linked to deposit mobilisation:** Banks can access the facility once a week, with the eligible swap amount capped at the US dollar equivalent of FCNR (B) deposits mobilised in the preceding weeks.
- **Swap structure at par**: Under the arrangement, banks sell US dollars to RBI and agree to repurchase them at maturity. Both legs of the swap are executed at the same rate (FBIL reference rate), implying no separate swap premium.
- **Exclusion from net open position (NOP):** As per the June 23, 2026 circular, banks are permitted to exclude positions arising from hedged FCNR(B) deposits mobilised under the swap facility while computing their net overnight open position limits, providing regulatory relief on forex exposure management.
- **SLR/CRR forbearance specified:** The June 19, 2026 circular focuses on reporting requirements for FCNR(B) deposits mobilised under the swap facility. Moreover, explicit exemption from existing SLR/CRR requirements has been specified.
- **Pricing flexibility within existing caps:** Banks retain the flexibility to price FCNR (B) deposits as per their internal policies, subject to extant regulatory ceilings.
- **Lock-in and withdrawal conditions:** The underlying deposits are subject to a minimum lock-in period of one year, after which premature withdrawal may be allowed as per bank policy; however, the swap itself cannot be cancelled.
- **Documentation and audit requirements:** Banks are required to maintain separate records and audit trails for deposits covered under the scheme and provide declarations confirming compliance with eligibility conditions.
- **Standardised operational framework:** The facility is operated daily (with weekly access limits) and administered by RBI's Financial Markets Operations Department, with allocation schedules determined based on market conditions.
- **Simplified participation requirements:** No International Swaps and Derivatives Association (ISDA) agreement with RBI is required for availing the swap facility.
- **Loan and SBLC facilities permitted against deposits:** Indian banks, including their overseas branches, may extend loans to non-residents or issue Standby Letters of Credit (SBLCs) in favour of overseas lenders against FCNR(B) deposits mobilised under the swap facility.

The FCNR(B) swap facility sets out a defined framework for managing foreign currency deposits through a standardised swap mechanism. By linking access to fresh deposit mobilisation, aligning tenors, and prescribing operational conditions, the facility provides a structured approach while remaining within the existing regulatory framework.

For details, please refer to RBI Notification dated June 8, 19 and 23 2026, available at:

https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=13468&Mode=0,
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=13516&Mode=0,
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=13529&Mode=0

Swap Facility for ECBs and OFCBs, June 2026

On June 8, 2026, the Reserve Bank of India (RBI) introduced a US Dollar–Rupee forex swap facility for External Commercial Borrowings (ECBs) and Overseas Foreign Currency Borrowings (OFCBs), following the Governor's Statement dated June 5, 2026. The objective is to support stable foreign currency funding, encourage longer-tenor borrowings, and provide a cost-effective hedging mechanism amid evolving global financial conditions.

Key Highlights

- **Defined eligibility for ECBs and OFCBs:** The facility is available for ECBs with a minimum average maturity of three years raised by eligible public sector undertakings (PSUs), and for OFCBs raised by Authorised Dealer (AD) Category I banks.
- **Applies to drawdowns within a specified window:** It covers ECBs drawn between June 8, 2026, and December 31, 2026, and the undrawn portion of existing ECBs as on June 8, 2026, subject to conditions.
- **Specified exclusions**: ECBs with embedded options and those raised for refinancing or repayment of existing ECBs are not eligible under the facility.
- **USD-INR swap structure**: Banks can undertake swaps by selling US dollars to RBI and agreeing to repurchase them at maturity, thereby converting foreign currency inflows into rupee liquidity during the tenor of the swap.

(Continued)

- **Fixed swap cost:** The swap carries a fixed rate of 1.5 per cent per annum, compounded semi-annually, providing clarity on hedging cost over the tenor.
- **Tenor aligned with underlying borrowing:** The swap tenor is coterminous with the repayment schedule of the ECB or OFCB, subject to a maximum period of five years.
- **Operational framework and limits:** The facility operates on all working days, with weekly limits linked to the amount of eligible ECB/OFCB inflows mobilised by banks in preceding weeks.
- **Usage linked to hedging purpose:** Banks are required to confirm that the facility is used for hedging eligible ECB inflows or OFCB exposures.
- **Regulatory forbearance and reporting flexibility:** RBI provided operational relief by excluding hedged ECB/OFCB (and FCNR(B)) exposures under the swap facility from banks' overnight net open position (NOP) limits, thereby easing balance sheet constraints, while introducing streamlined daily reporting requirements for such mobilised flows.
- **Pricing and settlement mechanism:** The first leg of the swap is executed at the FBIL reference rate with spot settlement, while the reverse leg involves repayment of rupee funds along with the swap premium.
- **Simplified operational requirements:** No (ISDA) agreement with RBI is required, and the facility is administered by the Financial Markets Operations Department.

The RBI's swap facility provides a targeted liquidity and hedging backstop for foreign currency borrowings by PSUs and banks. By offering a fixed-cost hedging window, aligning tenors with underlying exposures, and restricting eligibility to long-term and incremental flows, the framework aims to enhance external financing stability while mitigating exchange rate risks in a calibrated manner.

For details, please refer to RBI Notification dated June 8, 19 and 23 2026, available at:

https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=13469&Mode=0,
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=13516&Mode=0,
https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=13529&Mode=0

Conduct of Regulated Entities in Recovery of Loans and Engagement of Recovery Agents, May 2026

The RBI issued revised draft Amendment Directions on 'Conduct of Regulated Entities in Recovery of Loans and Engagement of Recovery Agents' for public consultation on May 20, 2026. The revisions incorporate feedback received on the earlier draft released in February 2026 and aim to refine the regulatory framework governing recovery practices across regulated entities (REs).

Key Highlights

- **Revised draft based on stakeholder feedback**: The updated draft reflects inputs received from regulated entities and other stakeholders, leading to modifications in key provisions of the earlier framework.
- **Scope extended across categories of regulated entities**: Separate amendment directions have been issued covering banks, NBFCs, housing finance companies, co-operative banks, regional rural banks, and all-India financial institutions, ensuring uniform conduct standards.
- **Focus on conduct in loan recovery and agent engagement:** The framework seeks to strengthen norms governing recovery practices and the engagement of recovery agents, with emphasis on responsible business conduct.
- **Consideration of technology-based recovery mechanisms:** The revised draft incorporates feedback on enabling lenders to use technology-based tools, including mechanisms that may restrict certain functionalities of financed digital devices in case of default.
- **Alignment with broader responsible lending framework:** The directions are positioned as amendments to existing 'Responsible Business Conduct' frameworks applicable to different categories of REs.
- **Further round of public consultation initiated:** The RBI has sought comments on the revised draft, indicating an iterative approach before finalisation of the framework.

Stakeholders were invited to submit comments by May 31, 2026.

The revised draft Amendment Directions represent a continuation of RBI's efforts to standardise and strengthen recovery-related conduct practices across regulated entities. By incorporating stakeholder feedback and exploring the role of technology in recovery processes, the framework seeks to refine existing guidelines while maintaining consistency across different regulatory segments.

For details, please refer to RBI Notification dated May 20, 2026,available at:

https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=62776

1. Major Weekly Indicators

As on week ended (2026)	3-Apr	10-Apr	17-Apr	24-Apr	01-May	08-May	15-May	22-May	29-May	5-Jun	12-Jun	19-Jun
Liquidity (Injection (+)/ Absorption (-)) (₹ trillion)	-4.02	-6.41	-4.92	-3.46	-2.10	-2.34	-2.57	-0.96	-1.14	-1.95	-1.76	-1.35
Weighted Average Call Money Rate (%)	5.65	5.06	5.08	5.19	5.16	5.17	5.24	5.25	5.38	5.28	5.28	5.34
91-Day Treasury Bill (Primary) Yield (%)	..	5.31	5.21	5.22	5.26	5.29	5.34	5.52	5.56	5.56	5.30	5.26
182-Day Treasury Bill (Primary) Yield	..	5.53	5.48	5.47	5.50	5.50	5.53	5.75	5.73	..	5.55	5.50
364-Day Treasury Bill (Primary) Yield	..	5.63	5.59	5.60	5.65	5.69	5.77	5.98	6.03	..	5.91	5.79
10-Year G-Sec Par Yield (FBIL) (%)	7.19	6.99	6.99	7.02	7.08	6.95	7.02	7.06	6.99	6.98	6.91	6.87
INR-US$ Spot Rate	93.21	92.65	92.72	94.30	95.24	94.44	95.93	95.96	95.38	95.40	95.38	94.47
Forex Reserve (USD Billion)	697.12	700.95	703.31	698.49	690.69	696.99	688.89	681.38	682.32	681.61	671.63	672.59
Brent Crude Spot Price (USD/Barrel)	111.69	119.07	98.63	111.86	118.26	103.48	113.96	106.90	92.88	97.29	88.64	80.46
10-Year US Treasury Yield to Maturity (%)	4.35	4.31	4.26	4.31	4.39	4.39	4.59	4.56	4.45	4.55	4.48	..
Gold Spot Price (₹/10 gram) (in Lakhs)	1.50	1.53	1.55	1.53	1.52	1.53	1.59	1.59	1.57	1.55	1.51	1.47

Source: Reserve Bank of India, U. S. Energy Information Administration, Federal Reserve Board, Bullions.co.in.

2. Select Monthly Indicators

Monthly	May '25	Jun '25	Jul '25	Aug '25	Sep '25	Oct '25	Nov '25	Dec '25	Jan '26	Feb '26	Mar '26	Apr '26	May '26
Reserve Money (₹ Trillion)	49.63	49.24	48.88	49.15	48.59	48.34	48.14	47.99	49.23	49.89	51.20	52.25	52.73
Broad Money (₹ Trillion)	279.90	282.30	281.40	283.09	283.50	289.98	291.36	298.01	299.04	302.98	314.66	311.59	313.62
Consumer Price Index Inflation (Y-o-Y % Change)	3.03	2.31	1.62	2.01	1.41	0.04	0.49	1.17	2.74	3.21	3.40	3.48	3.93
Index of Industrial Production (Y-o-Y % Change)	4.80	3.00	5.00	3.60	5.50	0.00	6.50	5.80	4.50	5.30	3.20	4.90	5.10
Gross GST Collection (₹ Trillion)	1.88	1.85	1.96	1.86	1.89	1.96	1.70	1.75	1.93	1.84	2.00	2.43	1.94
Overall Trade Balance (Goods +Services) (USD Billion)	-6.79	-2.57	-10.90	-10.89	-13.32	-24.24	-7.14	-2.36	-13.14	-9.26	0.33	-9.78	-12.49
Weighted Average Term Deposit Rate of SCBs (%) - Monthly average													
Fresh Term Deposits	6.11	5.75	5.61	5.56	5.60	5.57	5.59	5.67	5.66	5.65	6.07	5.77	5.84
Outstanding Term Deposits	7.07	7.00	6.92	6.87	6.82	6.78	6.73	6.68	6.64	6.62	6.62	6.59	6.57
Weighted Average Lending Rate of SCBs (%) - Monthly average													
Fresh Loans	9.20	8.62	8.81	8.74	8.50	8.64	8.71	8.28	8.49	8.44	8.40	8.50	8.51
Outstanding Loans	9.69	9.44	9.38	9.32	9.26	9.24	9.2	9.06	9.04	9.00	8.99	8.98	8.97

Source: Ministry of Statistics and Programme Implementation, Ministry of Commerce & Industry, Reserve Bank of India, Central Board of Direct Taxes.
Note : Reserve Money and Broad Money data are outstanding as of the last Friday of each month,
CPI numbers are based on Base year ~2023-24, IIP numbers are based on Base year ~2022-23

3. Major Parameters of AU Small Finance Bank (as on 31st March 2026)

1.22 Cr.+ — *Total Customers*

59,200 + — *Employees*

2,790 — *Total Touchpoints*

25 — *21 States + 4 UTs*

Rs. 1,91,797 Cr — *Balance Sheet*

Rs. 1,52,661 Cr — *Total Deposits*

Rs. 1,40,327 Cr — *Total Loans*

Rs. 19,627 Cr — *Net Worth*

For detailed data, go to our website www.au.bank.in