FCNR Inflows to Stabilize Bank Deposit Rates

Inflows from FCNR(B) deposits are expected to keep bank deposit rates steady for another two to three months despite the RBI's repo rate hike.

FCNR(B) deposits are foreign currency non-resident (bank) deposits, allowing Non-Resident Indians (NRIs) and Persons of Indian Origin (PIOs) to hold deposits in foreign currencies with Indian banks.

KEY EXAM POINTS

- Inflows from **FCNR(B) deposits** are projected to keep **bank deposit rates stable** for the next **two to three months**.
- This stability is anticipated despite the recent **repo rate hike** by the **Reserve Bank of India (RBI)**.
- Banks are expected to benefit from **higher lending rates**, particularly on **floating rate loans**, which will automatically reprice following the rate hike.
- With **deposit rates** not increasing immediately, **bank margins** are projected to improve.
- A **Macquarie Securities** report indicated that **54%** of floating rate loans for **public sector banks** and **91%** for **private sector banks** are linked to the repo rate.
- RBI Governor **Sanjay Malhotra** noted that high **credit growth**, currently at **18%** (up from **10%** a year ago), suggests FCNR(B) deposits are being utilized for lending.
- The **FCNR(B) scheme** has attracted a substantial **$133 billion**, contributing significantly to **bank liquidity**.

DID YOU KNOW..!?

The **Reserve Bank of India (RBI)** was established on **April 1, 1935**, under the **Reserve Bank of India Act, 1934**.

The RBI was nationalized on **January 1, 1949**, and serves as **India's central bank**.

The **repo rate** is the rate at which the **RBI lends money** to **commercial banks** in case of any shortfall of funds.

FCNR(B) deposits can be opened by **Non-Resident Indians (NRIs)** and **Persons of Indian Origin (PIOs)** in major **foreign currencies** like USD, GBP, EUR, JPY, and CAD.

The **Monetary Policy Committee (MPC)** was constituted in **2016** to set the **benchmark interest rate** (repo rate) to **control inflation**.

The MPC consists of **six members**: three from the **RBI** and three appointed by the **Central Government**.

Credit growth in the banking system is a key indicator of **economic activity** and demand for funds in the economy.

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