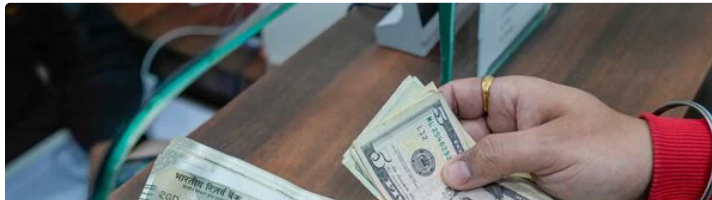


Banks scramble for foreign loans after FCNR deluge

Subhana Shaikh | 4 min read | 9 Sep 2026, 05:40 AM IST



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SUMMARY

Indian banks are pursuing overseas funding through OFCBs to replace short-term financing used for FCNR(B) schemes

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Mumbai: Indian banks are seeking longer-term overseas funding to replace short-term borrowings used during a rush to raise \$127 billion through the Reserve Bank of India's (RBI) special FCNR(B) deposit scheme, according to five treasury officials.

Several lenders turned to short-term borrowing to bridge the gap while arranging longer-term funding for FCNR(B) deposits, the officials said. They are now looking to replace those short-term liabilities with longer-term overseas borrowings, which would reduce their reliance on money-market funding as the existing borrowings come due.



Punjab National Bank, Bank of Baroda, Axis Bank, RBL Bank, Federal Bank, Canara Bank, UCO Bank, Bank of Maharashtra and IndusInd Bank are in early talks for potential overseas fundraising through the central bank's overseas foreign currency borrowing (OFCB) facility, according to people familiar with the matter. State-run power financier REC Ltd is also looking at a **yen-denominated overseas bond**, adding to what could be a

sizable pipeline of foreign-currency fundraising in the coming months.

For banks, foreign-currency funding is becoming more attractive than raising equivalent longer-term funds domestically, particularly as they seek to refinance dollar-linked positions created during the FCNR(B) mobilization.

In simple terms, some banks borrowed money for a short period while putting the funds into longer-term loans or positions. As the short-term borrowings mature, the banks need to refinance them. Longer-term overseas funding offers a way to replace those liabilities and better match the duration of the assets they have financed.

Alongside its FCNR(B) announcement on 5 June, the RBI also introduced a swap facility for external commercial borrowings (ECBs) raised by public-sector companies and overseas foreign-currency borrowings (OFCBs) raised by banks. Under the facility, banks can sell US dollars to the central bank and agree to buy them back at the end of the swap period.

Unlike the FCNR(B) scheme, under which the RBI bears the full hedging cost, the ECB/OFCB facility provides a 1.5% annual subsidy toward the cost of hedging foreign-currency funding. The cost of hedging OFCB exposure is generally about 3.5% to 4%, giving banks a benefit of roughly 200 to 250 basis points on incremental OFCB borrowings.



“The OFCB route is a cheaper option relative to domestic borrowing. The fact that like the FCNR scheme, currency risk is taken on by the RBI adds to the attractiveness,” Madan Sabnavis, chief economist at IDFC First Bank said.

When the scheme was announced on 5 June, the yield gap between 10-year US Treasuries and their Indian counterparts was 245 basis points, compared with 218 basis points on Monday, *Bloomberg* data showed. The 10-year Indian government bond yield ended at 6.96% on Monday, compared with about 4.78% for the US Treasury of similar maturity.

The amounts have not been finalized, but market participants expect the aggregate fundraising to be substantial, two senior treasury officials said. Individual transactions could potentially be in the \$100-750 million range, although specific amounts remain under discussion. An email sent to the banks and non-banks listed above remained unanswered. Axis Bank declined to comment.

“My stronger argument for opting for OFCB would be the tenor, liability, stability, reduced roll-over risk and from funds raised via short-term market and the RBI's concessional swap economics,” Venkatkrishnan Srinivasan, founder of Rockfort Fincap LLP said.

Banks **mobilized a record \$127.22 billion** through FCNR(B) deposits under the RBI's foreign-exchange swap facility before the central bank closed the window on 31 August, a month ahead of its original deadline. Together with \$5.26 billion raised through OFCBs and \$3.89 billion through ECBs, the facility attracted \$136.37 billion of inflows.

The **early closure** of the FCNR(B) mobilization meant some banks did not have enough time to arrange matching long-term funding, according to treasury officials. Instead, they used shorter-term money-market borrowing as a temporary source of funds.

"They would have borrowed short-term because they would not have been able to tie up long-term because the deadline came through. So once that was done, now they still have three months to do the funding," a person involved in such transactions said.

In simple terms, some banks borrowed money for a short period while putting the funds into longer-term loans or positions. As the short-term borrowings mature, the banks need to refinance them. Longer-term overseas funding offers a way to replace those liabilities and better match the duration of the assets they have financed.

During the June-August period, banks raised ₹3.43 trillion through certificates of deposit, higher than the ₹2.44 trillion raised in the same period a year ago, Primedatabase.com showed.



"Banks have given a long-period loan and what they have borrowed against is a shorter-period loan," a senior treasury official at a private sector bank said, adding that lenders were now looking to move away from variable, short-term funding towards longer-term borrowings while the window remains available.

The move comes as global Treasury yields have risen amid an oil shock and growing uncertainty, increasing pressure on borrowing costs across markets.

