

RBI Steps Up Measures to Contain Rupee Pressure and Manage Surplus Banking-System Liquidity



- Amid sustained pressure on the rupee, the RBI announced a series of measures on October 9–10. To support the INR, it introduced a special USD window for public-sector OMCs, a Foreign Exchange Risk Reserve (FERR), and tighter restrictions on FX derivatives. To manage surplus rupee liquidity, it announced an OMO sale and tightened daily CRR maintenance requirements.
- The RBI announced an OMO sale of Rs 25,000 crore scheduled for October 13, following around Rs 1tn of OMO sales in September. The latest sale represents only ~5% of October MTD average surplus liquidity of ~Rs 4.8tn, suggesting modest direct liquidity absorption, although further operations are likely.
- The RBI raised the minimum daily CRR maintenance requirement from 90% to 99%, effective from the fortnight beginning October 16, while keeping the prescribed CRR unchanged at 3%. The immediate liquidity impact should be limited, but the measure reduces banks' intra-fortnight liquidity-management flexibility, potentially increasing short-term funding pressures as the surplus narrows.
- The RBI introduced a special USD window from October 12 to meet the entire daily dollar requirements of three public-sector oil marketing companies (OMCs) through designated banks. By redirecting a sizeable, predictable source of dollar demand away from the regular FX market, the measure could provide immediate relief from spot-market pressures.
- We estimate the three public-sector OMCs' gross crude oil-related dollar requirements at US\$8.5–9.5bn per month. If facility utilisation is of this magnitude, outright dollar sales or the spot leg of sell/buy swaps could initially absorb Rs 0.8–0.9tn in gross rupee liquidity per month. Under swaps, rupee liquidity would be released as the swaps mature. However, the net liquidity impact would depend on the operational structure, swap maturities and the extent of substitution for other RBI interventions.
- The RBI introduced a 20% FERR cash-reserve requirement on the full INR-equivalent notional of qualifying FX derivative contracts exceeding US\$2mn, where users purchase foreign currency against INR to hedge current-account transactions. Assuming FERR balances are non-remunerated and using the repo and MSF rates as illustrative funding-cost benchmarks, we estimate an annualised carry cost of 110–115 bps of notional. FERR could also absorb rupee liquidity as qualifying positions accumulate.
- The RBI also prohibited rebooking of INR-related FX derivatives cancelled after issuance of the Directions and lowered the threshold for transactions without establishing the existence of underlying exposure from US\$100mn to US\$5mn. These restrictions, alongside any FERR-related costs passed on by banks, could discourage forward-dollar purchases and ease interbank forward premia. However, the net impact on customers' hedging costs will depend on the extent of cost pass-through and any easing in interbank forward premia.
- Overall, the measures should ease near-term INR pressure, potentially moderate forward-dollar demand and strengthen liquidity management. However, they primarily affect the timing and channels of dollar demand rather than the underlying external-sector pressures. Sustained INR recovery will depend on crude oil prices, foreign capital flows, and global financial conditions.

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Amid continued rupee pressure and substantial surplus liquidity in the banking system, the RBI has announced additional measures to support the INR and absorb excess liquidity. At its October policy meeting, the RBI raised the repo rate by 25 bps to 5.50% and shifted its policy stance from “Neutral” to “Calibrated Tightening”. Although the RBI announced no additional liquidity-absorption measures at the meeting, it reiterated its commitment to aligning the weighted average call rate (WACR) more closely with the repo rate through appropriate liquidity-management tools. On FX, the RBI noted that FX reserves remained comfortable, providing around 11 months of import cover, and reaffirmed its commitment to containing excessive exchange-rate volatility and ensuring orderly INR adjustment.

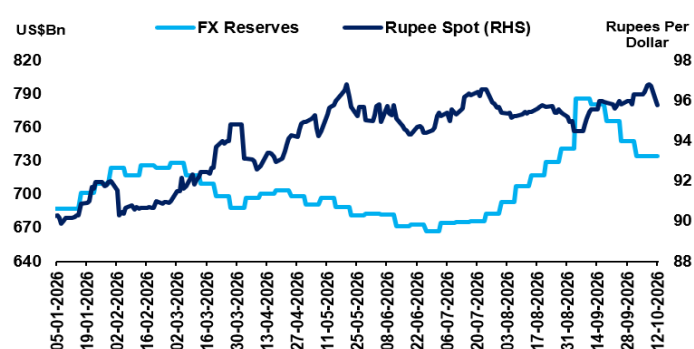
After depreciating by around 11% in FY26, the rupee weakened a further 2% against the US dollar through October 9 in FY27, despite RBI market interventions, regulatory measures, and substantial foreign currency inflows under its special USD-INR Forex Swap facility announced on June 5, 2026. The facility mobilised US\$143.6bn, including US\$133.0bn in FCNR(B) deposits (through August 31), with the remainder from overseas foreign currency borrowings (OFCBs) and external commercial borrowings (ECBs), as reported through September 18. Alongside these inflows, the RBI's gross FX reserves rose to a record US\$785.7bn in the week ended September 4, before declining by around US\$51bn to US\$734.6bn as of October 2, likely reflecting RBI spot-dollar sales, sell/buy swaps and valuation effects.

Crude oil prices remain elevated, with Brent trading around US\$105.9/bbl intra-day on October 12, despite announcements concerning additional Russian diesel supplies and a potential Russia–Ukraine energy ceasefire. However, the reported ceasefire remains uncertain, while continuing Middle East tensions pose upside risks to oil prices. Higher crude oil prices are also pressuring India's current account and the rupee. We expect the current

account deficit (CAD) to widen to around 1.4% of GDP in FY27 from around 0.7% in FY26, with sustained high oil prices posing further upside risks.

The RBI's October 9–10 package combines an OMO sale and tighter daily CRR maintenance requirements to manage surplus liquidity, alongside a special dollar window for public-sector oil marketing companies (OMCs) and restrictions on FX derivatives, including a new Foreign Exchange Risk Reserve (FERR), to ease pressure on the INR. The rupee responded positively, strengthening to around 95.78 per USD on October 12 from Friday's close of 96.735 per USD.

FX Reserves Down Sharply from Record High as Pressures on the Exchange Rate Continued



Source: Bloomberg, RBI. FX reserves through 2 October; Exchange Rate through 12 October 2026.

The measures operate through distinct channels, with differing implications for domestic liquidity and spot and forward FX markets. The announced OMO sale would directly absorb liquidity, while the higher daily CRR floor primarily restricts banks' intra-fortnight liquidity-management flexibility. The OMC window redirects a large, predictable source of spot-dollar demand to the RBI, while FERR and the associated derivative restrictions primarily aim to moderate forward-dollar demand and tighten hedging discipline. FX measures could also affect rupee liquidity over time.

Liquidity Measures: Limited Immediate Absorption, but Tighter Liquidity Management

The Banking-system liquidity remains in substantial surplus, averaging around Rs 4.8tn in October MTD, although down

RBI's FX and Liquidity Management Measures Announced on 9-10 October		
Measure	Key Details	Likely Impact
OMO sale	OMO sale auction of government securities worth Rs 25,000 crore on October 13	Direct and relatively durable liquidity absorption
Daily CRR maintenance	Daily minimum raised from 90% to 99% from the fortnight beginning October 16; prescribed CRR unchanged at 3% on a fortnightly average basis	Restricts banks' intra-fortnight liquidity flexibility
Special USD window for public-sector OMCs	RBI to meet the entire daily dollar requirements of three public-sector OMCs through designated banks from October 12 until further notice	Shifts a large, predictable source of spot-dollar demand from the regular FX market to the RBI window
Foreign Exchange Risk Reserve (FERR)	20% cash reserve on full INR-equivalent notional of new qualifying contracts exceeding US\$2mn, involving current-account hedges where users purchase foreign currency against INR; maintained daily	Could increase banks' costs of providing qualifying foreign-currency purchase hedges and absorb rupee liquidity as qualifying positions accumulate.
Other FX-derivative restrictions	Rebooking of INR-related derivatives cancelled after issuance of the Directions prohibited; threshold for transactions without establishing the existence of underlying exposure reduced from US\$100mn to US\$5mn in outstanding notional; tighter documentation requirements.	Restricts rebooking of cancelled contracts and strengthens underlying-exposure controls.

Source: RBI, DMI Assessment. Detailed regulatory provisions are provided in the Appendix.

from a peak of approximately Rs 11tn in early September. Substantial foreign currency inflows mobilised through the RBI's June measures boosted rupee liquidity, while subsequent RBI liquidity-absorption operations and quarterly advance-tax outflows helped moderate the surplus. Against this backdrop, the Rs 25,000 crore OMO sale represents only around 5% of the October MTD average surplus, implying relatively modest direct liquidity absorption. However, it follows around Rs 1tn of OMO sales since the August policy and reinforces the RBI's efforts to normalise liquidity conditions following the October rate hike. We expect further OMO sales and variable rate reverse repo (VRRR) auctions in the coming weeks.

While the prescribed CRR remains unchanged at 3%, the RBI has raised the minimum daily maintenance requirement from 90% to 99%. The measure is unlikely to absorb significant liquidity immediately, as the prescribed fortnightly average CRR requirement remains unchanged and banks can adjust their daily reserve balances to meet the higher floor. Recent observations of aggregate CRR maintenance suggest balances have often stayed close to or above 99% of the requirement, though they have fallen below this level on some days. The impact will vary across banks, depending on their existing reserve-maintenance patterns and ability to smooth daily balances.

The more important implication is likely to be reduced flexibility for banks to temporarily draw down reserve balances within a reporting fortnight, particularly after maintaining higher balances earlier in the period. The tighter floor could also encourage banks to maintain larger precautionary liquidity buffers, potentially reducing their participation in VRRR auctions. While the immediate liquidity impact should be limited, the restriction could become more binding as surplus liquidity narrows, potentially increasing demand for overnight funds and accentuating short-term interest-rate volatility around tax payments, government cash balance movements and other temporary liquidity shocks.

OMC Dollar Window: Direct Spot-Market Relief, but at a Potential Reserve Cost

The special OMC window is likely to provide the most immediate support to the INR by shifting a large and predictable source of dollar demand from the regular interbank market to a dedicated RBI facility. By redirecting the three public-sector OMCs' dollar requirements to the RBI, the measure should ease spot-market pressure, discourage positioning ahead of anticipated OMC purchases, and help contain one-way depreciation expectations.

Based on FY26 crude-processing volumes of the three public-sector OMCs, and recent Indian crude basket prices,

we estimate their gross crude-related dollar requirements at around US\$8.5–9.5bn per month, equivalent to approximately US\$0.3bn per calendar day or US\$0.4bn per trading day (assuming 22 trading days per month). Actual facility utilisation could differ, as the RBI has committed to meeting the OMCs' entire daily dollar requirements, not just crude oil imports. Other FX obligations could increase requirements, while export receipts, supplier credit, existing hedges and payment timing could reduce immediate dollar purchases.

The estimated monthly dollar requirement is equivalent to approximately 1.2–1.3% of the RBI's US\$734.6bn reserve stock as of October 2. This highlights a potential trade-off: while the window should ease near-term INR pressure, outright dollar sales could entail sustained FX reserve utilisation, whereas sell/buy swaps would temporarily reduce gross FX reserves, with the reduction reversed when the swaps mature. However, the incremental impact on FX reserves will depend on the extent of RBI FX intervention that would otherwise have been required, alongside offsetting capital flows, RBI purchases and valuation changes. Importantly, the measure changes how dollar demand reaches the market rather than reducing India's underlying dollar requirements. Assured dollar availability could also reduce OMCs' incentive to pre-hedge future payments, easing pressure on forward markets.

The RBI has announced USD sales through designated banks without specifying a reverse leg or detailed pricing and settlement arrangements, suggesting an outright dollar-sale facility, although the operational structure remains to be clarified. If conducted through outright dollar sales, the facility could absorb around Rs 0.8–0.9tn of gross rupee liquidity per month, based on estimated dollar requirements and an illustrative exchange rate of Rs 96/USD. If structured as sell/buy FX swaps, the initial rupee absorption would be similar but temporary, with liquidity released as the swaps mature. In either case, incremental liquidity absorption would depend on the extent to which these operations substitute for regular RBI FX intervention and other liquidity operations.

FERR: Raising Banks' Hedging Costs and Potentially Moderating Forward-Dollar Demand

The FERR could moderate forward-dollar demand by increasing the cost to banks of providing qualifying hedges, where users purchase foreign currency against INR to hedge current-account exposures. The requirement applies to derivative contracts undertaken after issuance of the Directions with a notional value exceeding US\$2mn equivalent. Authorised Dealers must maintain cash reserves with the RBI equal to 20% of the full INR-equivalent notional, on a daily basis until contract termination. The Directions

also prohibit users from circumventing the threshold through multiple transactions with one or more Authorised Dealers.

Assuming the reserves are non-remunerated and using the repo and MSF rates of 5.50–5.75% as illustrative funding and opportunity-cost benchmarks, we estimate an annualised carry cost of 110–115 bps of qualifying notional. This represents a potential additional cost for banks providing qualifying hedges, which, if passed on to customers, could discourage incremental forward-dollar purchases and thereby ease pressure on interbank forward premia. However, the RBI's Directions do not specify whether banks will be remunerated for FERR balances, and actual costs will depend on banks' marginal funding rates, contract duration, and any applicable remuneration.

Importantly, while FERR-related costs passed on by banks could raise hedging costs for importers, any resulting moderation in forward-dollar demand could ease interbank forward premia, partly offsetting the additional costs. The net impact on importer hedging costs will depend on the relative magnitude of these effects. Some importers may also reduce or postpone hedges, with deferred dollar demand subsequently reappearing in the spot market. The measure could therefore alter the timing and cost of dollar demand rather than eliminate it.

Restrictions on rebooking cancelled derivatives and the reduction from US\$100mn to US\$5mn in the threshold for transactions without establishing the existence of underlying exposure should further discourage repeated hedging or positioning activity. Authorised Dealers must also obtain and retain undertakings confirming that the same exposure has not been hedged with another dealer, with disclosure of amounts already booked where exposures are hedged in parts across dealers. FERR specifically applies to qualifying purchases of foreign currency against INR, typically importer hedges, rather than conventional exporter forward-dollar sales. This asymmetric application could moderate forward-dollar demand without directly imposing the reserve requirement on conventional exporter hedges, although exporters remain subject to other applicable derivative restrictions. The FERR Directions apply to contracts undertaken with users and do not separately address banks' interbank cover transactions.

FERR could also become a source of rupee liquidity absorption as qualifying derivative positions accumulate. Illustratively, at Rs 96/USD, every US\$1bn of qualifying outstanding notional would require around Rs 1,920 crore in cash reserves with the RBI. Unlike the recurring gross liquidity withdrawal possible through OMC dollar sales, FERR absorption would depend on the stock of outstanding qualifying contracts, with reserves maintained until contract termination. The actual impact will depend on hedging

volumes, contract duration, rollover treatment and offsetting RBI liquidity operations. While maturity rollovers remain permitted under the derivative Directions, their treatment under FERR is not explicitly clarified.

Onshore forward-implied yields rose sharply in recent weeks, particularly at shorter tenors. Bloomberg data show the annualised 1M USD/INR forward-implied yield increasing from 3.04% at end-July to 5.45% on October 9, compared with an increase from 2.92% to 3.69% for the 12M implied yield. The latest measures could ease pressure on interbank forward premia by moderating incremental forward-dollar demand, although the extent of any easing will depend on hedging behaviour, the OMC window's operational structure, RBI interventions and broader market conditions.

Overall Assessment and Outlook

The October measures should ease near-term one-way pressure on the INR and strengthen the RBI's ability to manage domestic liquidity and FX-market conditions. However, their effectiveness will depend on how the measures interact and how much they alter market behaviour rather than merely shift the timing and channels of dollar demand.

On liquidity, the OMO provides modest but direct absorption, while the higher daily CRR floor primarily constrains banks' intra-fortnight liquidity-management flexibility, potentially becoming more binding as the surplus narrows. The OMC window could become a significant source of gross rupee liquidity absorption through outright dollar sales or the initial spot leg of sell/buy swaps, although swap-related absorption would reverse at maturity. FERR could provide additional absorption as qualifying derivative positions accumulate. However, the incremental liquidity impact will depend on how much these operations substitute for other RBI interventions and any offsetting liquidity measures, rather than on the sum of gross withdrawals.

On FX, the OMC window should provide the most immediate spot-market relief by redirecting a sizeable and predictable source of dollar demand to the RBI. FERR and the associated derivative restrictions could moderate forward-dollar demand if higher hedging costs are passed on to customers, although any easing in interbank forward premia could partly offset these additional costs. Some demand could also shift to the spot market. While these measures should help contain near-term INR pressure, they mainly affect the timing and channels of dollar demand rather than India's underlying balance-of-payments needs. The sustainability of the rupee's recovery will therefore continue to depend on crude oil prices, foreign portfolio flows, global yields, and broader capital inflows.

Appendix

RBI Announces FX and Liquidity Management Measures

Measures Relating to Foreign Exchange Derivative Transactions

1. **Restrictions on rebooking cancelled contracts:** Authorised Dealers cannot permit users to rebook any foreign exchange derivative contract involving INR, whether deliverable or non-deliverable, which has been cancelled with any Authorised Dealer after the issuance of the Directions. Rollover of foreign exchange derivative contracts on maturity shall continue to be permitted, subject to compliance with the extant regulatory provisions.
2. **Reduction in threshold without establishing underlying exposure:** The existing threshold of USD 100 million equivalent for undertaking foreign exchange derivative transactions to hedge contracted exposures without establishing the existence of the underlying exposure has been reduced to USD 5 million equivalent, across all Authorised Dealers. The corresponding threshold for taking positions in exchange-traded currency derivatives involving INR, without establishing the existence of underlying exposure, has also been reduced from USD 100 million to USD 5 million equivalent, across all Recognised Stock Exchanges taken together.
3. **Additional documentation for underlying exposures:** Authorised Dealers will be required to obtain and retain an undertaking from users entering into foreign exchange derivative contracts involving INR to hedge contracted exposures, confirming that the same underlying exposure has not been hedged with any other Authorised Dealer. Where an exposure is hedged in parts across multiple Authorised Dealers, the undertaking must disclose the amounts already booked with other dealers.
4. **Introduction of Foreign Exchange Risk Reserve (FERR):** In respect of all foreign exchange derivative contracts involving INR that are for notional value exceeding USD two million equivalent, Authorised Dealers are now required to maintain with the Reserve Bank an FERR in cash, equal to 20% of the INR equivalent of the notional amount of each transaction. This FERR shall be applicable for foreign exchange derivative contracts involving INR undertaken to hedge current account exposures where the user purchases foreign currency against the INR. The requirement applies to contracts undertaken after issuance of the Directions, with cash reserves maintained daily until contract termination.

Special USD Window for Oil Marketing Companies

5. **Special USD window for OMCs:** The RBI has decided to open a special window to meet the entire daily dollar requirements of three public-sector OMCs (IOC, HPCL and BPCL) by selling USD through designated banks, effective October 12, 2026, until further notice.

Other RBI Measures Relating to Liquidity Management

6. **Increase in minimum daily CRR maintenance:** The RBI has decided to increase the minimum daily CRR maintenance requirement from 90% to 99% of the prescribed CRR, effective from the fortnight beginning October 16, 2026. The prescribed CRR must continue to be maintained on a fortnightly average basis.
7. **OMO sale of Government securities:** Following a review of current and evolving liquidity conditions, the RBI will conduct an OMO sale of Government of India securities aggregating Rs 25,000 crore on October 13, 2026.

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