

LEAP INSIGHTS · REPORT

Defending the Rupee

Capital outflows, the cost of hedging and the limits of the RBI's measures

Team LEAP

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SUMMARY

The rupee has weakened from about 83 to the dollar at the start of 2024 to about 95.5 in September 2026. Foreign portfolio investors, who were net buyers of Indian equity and debt in 2024, withdrew a net US\$21.4 billion between January and September 2026. The Reserve Bank of India (RBI) has responded by selling dollars, by attracting about US\$133 billion of foreign-currency deposits, and by tightening the rules on currency derivatives. Gross foreign-exchange reserves reached US\$785.7 billion in early September 2026, but much of the increase was matched by commitments to deliver dollars in the future. The RBI's net short position in forward contracts rose to US\$200.1 billion at the end of August, and reserves net of that position fell from US\$650.8 billion at the end of February to US\$551.7 billion at the end of August. The cost of hedging the rupee has also risen. The one-year cost, which averaged 2.9 per cent between January and August, rose to 3.79 per cent on 8 October and was reported at around 4.6 per cent on 15 October, after new reserve requirements were imposed on certain derivative contracts. These measures can relieve immediate pressure on the currency, but they do not close the gap between the demand for and the supply of foreign exchange. That gap must eventually be closed by some combination of a return of foreign capital, lower imports, higher exports and the use of reserves.

1 Context

The RBI has several instruments with which to resist a depreciation of the rupee. It can sell dollars in the spot and forward markets, attract foreign-currency deposits from non-residents, alter the rules on capital flows, and tighten the rules governing currency derivatives. In 2026 it has used all of these. Such measures can relieve immediate pressure on the currency. They raise a further question, which is how long the defence can be sustained if foreign capital does not return to India.

India's current account deficit has generally been financed in part by foreign capital inflows. The deficit was US\$27.4 billion in 2025-26, and US\$4.2 billion, or 0.5 per cent of GDP, in April–June 2026.¹ When foreign investors withdraw funds or become reluctant to invest, the supply of dollars falls relative to demand. If the deficit persists, the gap must be closed through some combination of four adjustments: a return of capital, lower imports, higher exports, and the use of foreign-exchange reserves. A weaker rupee is one of the means by which the second and third occur, because it raises the rupee price of imports and lowers the foreign-currency price of exports.

This report describes how that process has proceeded so far, using five indicators: the monthly flow of foreign portfolio investment, the exchange rate, the RBI's purchases and sales of dollars, the level of reserves after allowing for forward commitments, and the cost of hedging the rupee in the forward market. It then considers how long the present measures can substitute for a recovery in capital flows, and what other adjustments are available.

2 Evidence

2.1 Foreign portfolio investment

The weakness of capital inflows is the central difficulty. Foreign portfolio investment is one component of the capital account, together with foreign direct investment, external commercial borrowing and other flows, but it responds quickly to changes in investors' assessment of Indian assets and is reported monthly.

Net portfolio investment in equity and debt was US\$18.4 billion in 2024, –US\$12.3 billion in 2025 and –US\$21.4 billion in January–September 2026 (Figure 1).² The outflows have come mainly from equity. Equity outflows were US\$18.9 billion in 2025 and US\$27.8 billion in the first nine months of 2026, while debt investment remained positive in both periods, at US\$6.6 billion and US\$6.4 billion. The largest monthly outflow was in March 2026, when foreign investors sold US\$12.7 billion of equity. Inflows resumed briefly in July and August 2026 and turned negative again in September. Provisional data for 1–16 October show a further equity outflow of about Rs 52,100 crore.

Over the same period the RBI raised dollars through other channels. Deposits under the FCNR(B) scheme brought in US\$133.0 billion, and related swaps of ex-

¹RBI, "Developments in India's Balance of Payments during the First Quarter (April–June) of 2026-27", press release, 1 September 2026, and Statement I.

²NSDL, FPI Monitor, monthly net investment by foreign portfolio investors, accessed 17 October 2026. For January–August 2026 the figures are identical to those published in the SEBI Bulletin.

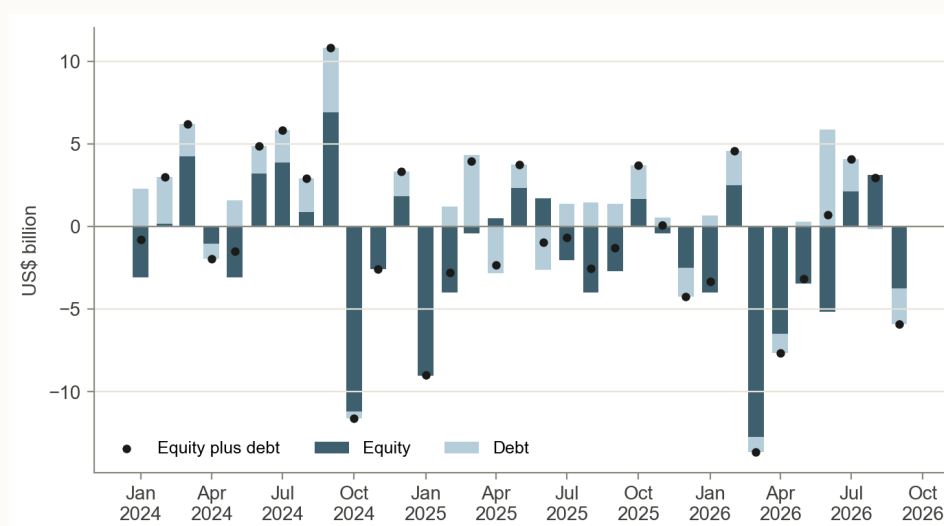


Figure 1. Monthly net foreign portfolio investment in India, equity and debt, January 2024–September 2026, in US\$ billion. Debt combines the general, voluntary-retention and fully-accessible routes. Points mark the sum of equity and debt. Source: NSDL.

ternal borrowings a further US\$10.6 billion, between June and September.³ These deposits add to reserves now, but they have maturities of three to five years and must be repaid in 2029–2031. Because the RBI swapped them at par, it also bears the cost of hedging them.

2.2 The exchange rate

The monthly average exchange rate rose from 83.12 rupees per dollar in January 2024 to 86.27 in January 2025 and 95.46 in September 2026 (Figure 2), a depreciation of about 13 per cent over the whole period.⁴ The largest monthly increases were in March and May 2026; March was also the month of the largest portfolio outflow. The reference rate reached its highest level, 96.84, on 20 May 2026. Since June the monthly average has remained between 95 and 96.

2.3 RBI intervention in the foreign-exchange market

The RBI was a net seller of US\$12.4 billion in the foreign-exchange market in 2024 and of US\$51.7 billion in 2025 (Figure 3).⁵ The largest monthly sale in the period was US\$20.2 billion in November 2024. In 2026 it bought US\$9.9 billion in January and February, sold US\$24.8 billion in March–May, and bought US\$18.7

³RBI, press release on the USD/INR swap facility for FCNR(B) deposits, 21 September 2026.

⁴RBI, Handbook of Statistics on the Indian Economy 2025-26, Table 205, for January 2024–June 2026; monthly averages of the RBI/FBIL daily reference rate thereafter.

⁵RBI Bulletin, Current Statistics, Table 4, “Sale/Purchase of U.S. Dollar by the RBI”, issues of March 2024 to September 2026. The figures cover the RBI’s operations in the onshore and offshore over-the-counter market.

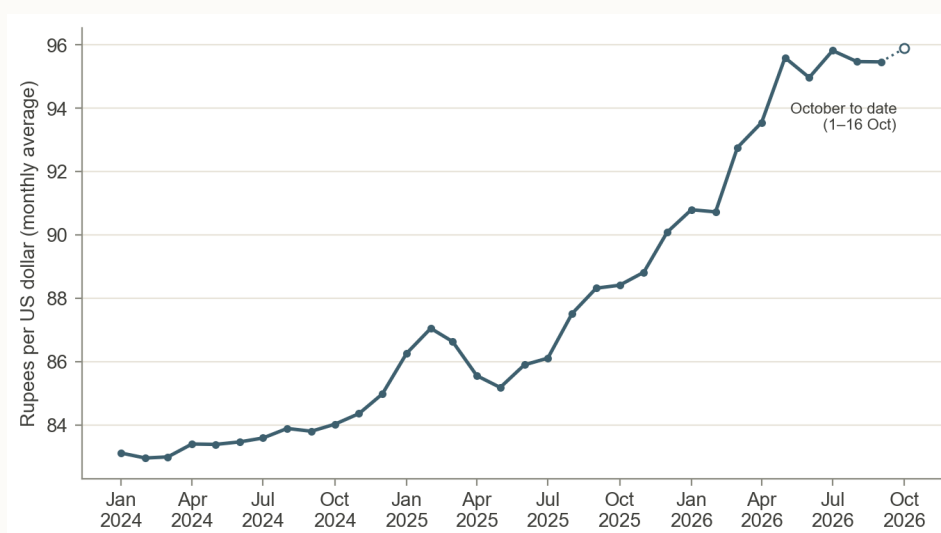


Figure 2. The rupee against the US dollar: monthly average of the RBI reference rate, January 2024–October 2026. The October value covers 1–16 October. Source: RBI; FBIL.

billion in July, while FCNR(B) deposits were being raised. Data for August and September 2026 have not yet been published.

Sales in the spot market are only part of the RBI's intervention. It also sells dollars for future delivery, which supports the rupee without an immediate fall in reserves but commits reserves at a later date. The RBI's outstanding net forward position moved from a net purchase of US\$10.0 billion at the end of January 2024 to a net sale of US\$88.8 billion at the end of February 2025. It declined to US\$53.4 billion in August 2025 and then rose again, to US\$103.1 billion at the end of March 2026, US\$136.8 billion at the end of July and US\$200.1 billion at the end of August 2026.⁶ Of the end-August position, US\$176.6 billion has a residual maturity of more than one year. This is consistent with the three- to five-year swaps under which the RBI bought dollars from banks against FCNR(B) deposits and agreed to sell them back at maturity.

2.4 Reserves and the forward position

Weekly data show the effect of these operations on reserves (Figure 4).⁷ Reserves rose by US\$44.9 billion in the week ending 4 September 2026, the largest weekly increase in the period, shortly after the FCNR(B) scheme closed on 31 August, and

⁶RBI, International Reserves and Foreign Currency Liquidity, monthly releases; the figure for August 2026 is from the release of 30 September 2026. The net position is the sum of short and long forward positions of up to one year and derivative positions with a residual maturity above one year. For the months to July 2026 it is identical to the outstanding net forward position in RBI Bulletin, Table 4.

⁷RBI, Weekly Statistical Supplement, Foreign Exchange Reserves, weeks ending 5 January 2024 to 9 October 2026.

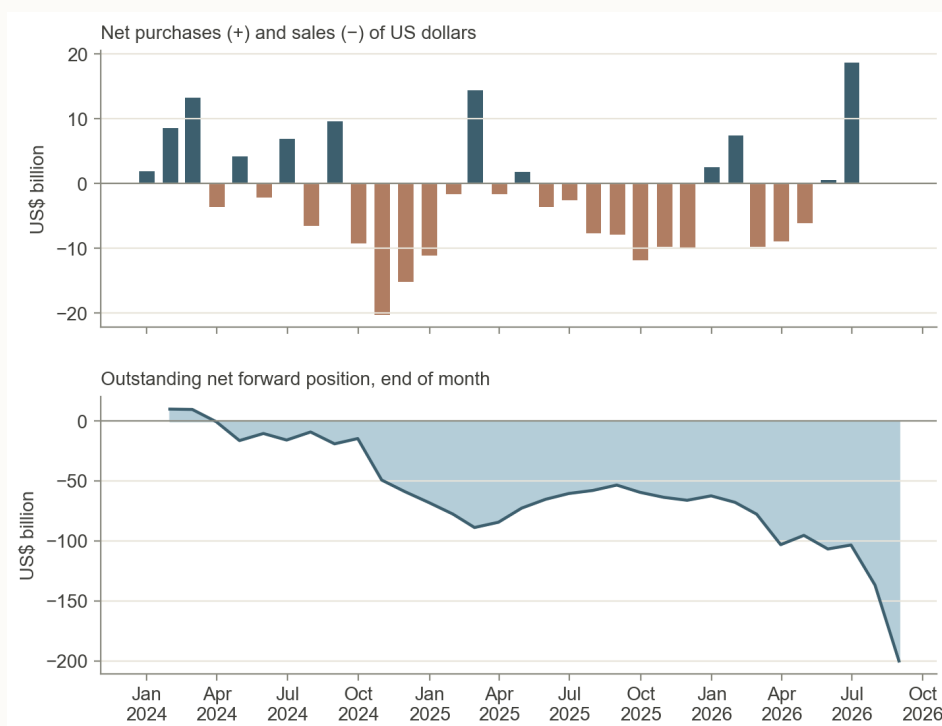


Figure 3. RBI intervention in the foreign-exchange market. Upper panel: monthly net purchases (+) and sales (–) of US dollars, January 2024–July 2026. Lower panel: outstanding net forward position at the end of each month, January 2024–August 2026; a negative value is a net commitment to sell dollars. Source: RBI Bulletin, Table 4; RBI, International Reserves and Foreign Currency Liquidity.

reached US\$785.7 billion. In the following five weeks they fell by US\$59.7 billion, to US\$726.0 billion on 9 October. Foreign currency assets accounted for US\$50.6 billion of the fall and the value of gold for US\$8.7 billion. The weekly figures include changes in the valuation of gold and of non-dollar assets, and are therefore not a direct measure of intervention.

Because forward sales are a claim on future reserves, a more complete measure deducts the RBI's net forward position from its reserves. On this measure the picture is different. Between the end of February and the end of August 2026, official reserve assets rose from US\$728.5 billion to US\$751.8 billion, but reserves net of the forward position fell from US\$650.8 billion to US\$551.7 billion.⁸ In July and August together, reserves rose by US\$83.2 billion while reserves net of the forward position fell by US\$13.5 billion, because the dollars received from FCNR(B) deposits were matched by commitments to return them. The level at the end of August is close to the lowest in the period, US\$549.9 billion at the end of February 2025.

⁸RBI, International Reserves and Foreign Currency Liquidity, monthly releases for February–August 2026. Reserves net of the forward position are computed by LEAP as official reserve assets plus the net forward position.

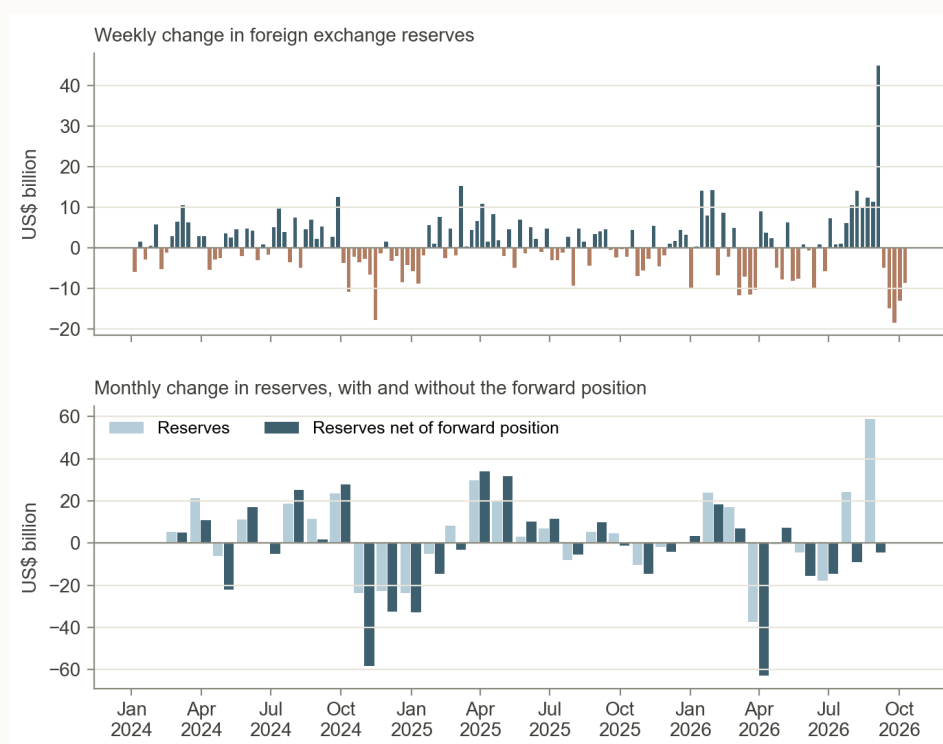


Figure 4. Foreign-exchange reserves. Upper panel: weekly change in total reserves, January 2024–October 2026. Lower panel: monthly change in official reserve assets, and in reserves net of the RBI's outstanding forward position, February 2024–August 2026. Source: RBI, Weekly Statistical Supplement; RBI, International Reserves and Foreign Currency Liquidity.

2.5 The cost of hedging

Importers, and companies that have borrowed in foreign currency, use forward contracts to protect themselves against a fall in the rupee. The cost of that protection is measured by the forward premium, the annualised difference between the forward and the spot exchange rate. In this report it is referred to as the cost of hedging. In normal conditions it largely reflects the difference between Indian and US interest rates. When the forward market is disturbed, it also reflects the scarcity of dollars for forward delivery and the cost to banks of offering contracts.

The cost of hedging for one year was between 2.5 and 3.0 per cent on 113 of the 159 days from January to August 2026, with an average of 2.9 per cent (Figure 5).⁹ It rose to 3.78 per cent on 6 April, after the RBI prohibited banks from offering non-deliverable rupee contracts on 1 April, and eased over the following weeks; the prohibition was largely withdrawn on 20 April. The three-month cost rose more sharply, to 5.75 per cent. Between June and August the one-year cost was between 2.7 and 3.2 per cent. It began to rise in September, and reached 3.79 per

⁹Financial Benchmarks India Ltd (FBIL), daily USD/INR forward premia, 1 January–9 October 2026.

cent on 8 October, the day after the repo rate was raised, its highest level since May 2022. The three-month cost was 5.0 per cent on the same day.

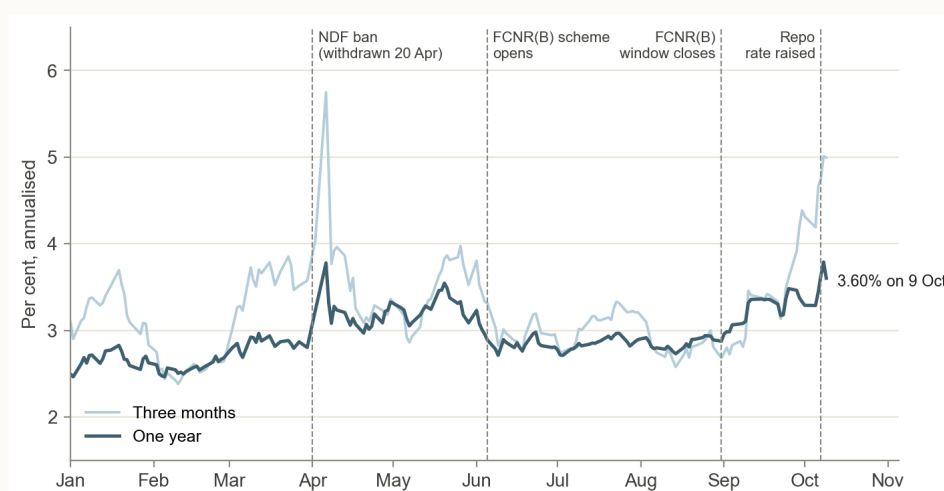


Figure 5. The cost of hedging: the three-month and one-year USD/INR forward premia, annualised, 1 January–9 October 2026. Dashed lines mark RBI measures described in Table 1; the derivative rules of 10 and 12 October fall after the last available observation. Source: FBIL.

The rise in the cost of hedging in late September and early October preceded a set of new rules on currency derivatives, introduced from 10 October (Table 1).¹⁰ From that date, banks were required to keep with the RBI, in cash and without interest, 20 per cent of the notional value of rupee derivative contracts above US\$2 million undertaken with clients who hedge current-account payments by buying dollars. The requirement, called the Foreign Exchange Risk Reserve, was extended on 12 October to the contracts that banks themselves use to hedge such positions. At the same time, the RBI prohibited the rebooking of cancelled contracts and reduced from US\$100 million to US\$5 million the exposure that firms may hedge without documenting an underlying transaction. Each of these rules raises the cost to banks of offering forward cover, and that cost is passed on to the firms that buy it.

FBIL data for the days after 9 October were not available at the time of writing. Market reports indicate that the cost of hedging rose further once the new rules took effect: the one-year cost rose to around 4.6 per cent on 15 October, its highest level since January 2022, and the three-month cost reached about 7.2 per cent. Dealers attributed the increase to the reserve requirement on derivative contracts.¹¹ These levels should be treated as provisional until FBIL data are available.

¹⁰RBI, A.P. (DIR Series) Circulars No. 25 and 26 of 10 October 2026 and No. 27 of 12 October 2026.

¹¹Business Standard, “Rupee extends rally for fifth consecutive session as crude, dollar soften”, 15 October 2026.

Table 1. Principal RBI measures on the rupee, 2026. The list is selective. Source: RBI circulars and press releases.

Date	Measure
27 Mar	Banks' net open rupee position limited to US\$100 million.
1 Apr	Non-deliverable rupee derivatives prohibited; largely withdrawn on 20 Apr.
5–8 Jun	FCNR(B) deposit scheme, with the RBI swapping deposits at par and so bearing the cost of hedging; limits on FPI investment in government securities relaxed.
31 Aug	FCNR(B) scheme closed to new deposits, a month earlier than planned; deposits raised US\$133.0 billion.
7 Oct	Repo rate raised by 25 basis points to 5.50 per cent.
10 Oct	Rebooking of cancelled contracts prohibited; threshold for undocumented hedging cut to US\$5 million; 20 per cent cash reserve on certain client contracts.
12 Oct	Cash reserve extended to banks' own hedges; the RBI begins to meet the full daily dollar needs of the three public-sector oil companies.

They are consistent with FBIL's history: the one-year premium was last at or above 4.6 per cent on 25 January 2022. A three-month cost of 7.2 per cent would be the highest in FBIL's series, which begins in April 2018 and whose previous peak was 6.72 per cent in May 2021.

Higher hedging costs affect firms in different ways. Some will continue to hedge and pay more. Others may reduce the share of their exposure that they cover, or shorten the maturity of their contracts. This creates a possible feedback. If the rupee depreciates later, the firms that have reduced their hedging will face larger import bills and larger rupee obligations on their foreign-currency debt. The consequences of a depreciation could therefore be greater because the protection against it has become more expensive.

3 Implications

3.1 How the external gap can close

If foreign capital remains weak while the current account deficit persists, the difference must be met in other ways. The first is the use of reserves, which is limited by the level of reserves net of the forward commitments already made against them. The second is a reduction in imports. The third is an increase in exports. Both of the latter are encouraged by a weaker rupee, which raises the rupee price

of imported goods and makes Indian exports cheaper abroad, but they can also be supported by policies that reduce import demand or improve export competitiveness.

The trade data show that neither adjustment has yet occurred. In April–August 2026 merchandise exports grew by 17.9 per cent to US\$215.9 billion and imports grew by 18.2 per cent to US\$363.0 billion, so that the trade deficit widened from US\$123.9 billion to US\$147.1 billion.¹² Much of the increase in imports came from electronic goods, up 43.6 per cent to US\$66.5 billion, and from higher oil prices: the value of crude oil and product imports rose by 22.4 per cent while the volume of crude imports was almost unchanged.¹³ Part of the growth in exports also reflects prices, since the value of petroleum product exports rose by 39.4 per cent while their volume fell by 16 per cent. Non-petroleum exports grew by 14.4 per cent, and exports of electronic goods by 39.7 per cent. The surplus on services trade rose from US\$79.9 billion to US\$86.7 billion and offset part of the merchandise deficit. A sustained narrowing of the external gap will require either slower growth of imports, faster growth of exports outside petroleum, or both.

3.2 The limits of each instrument

Each of the instruments available to the RBI has a cost. Intervention in the spot market uses reserves, and intervention in the forward market commits them. Foreign-currency deposits bring dollars into the country now but create repayment obligations later, and in this case also a hedging cost borne by the RBI. Restrictions on derivatives reduce speculative demand for dollars, but they also impair a market that firms need to manage currency risk, as the rise in the cost of hedging shows. None of these instruments can substitute indefinitely for sustained inflows of foreign exchange or for an improvement in the trade balance.

There is no single threshold at which the defence of the currency must end. Its sustainability depends on the size and persistence of the external imbalance, the level of reserves net of forward commitments, global financial conditions, and the costs imposed on the domestic economy. The longer the underlying pressure persists, the harder it becomes to treat these measures as more than a temporary bridge.

¹²Ministry of Commerce and Industry, “India’s Foreign Trade: August 2026”, press release and quick estimates, 15 September 2026.

¹³Petroleum Planning and Analysis Cell, import and export of crude oil and petroleum products, April–August 2025 and 2026 (provisional).

3.3 The sequencing of capital flows and the exchange rate

Foreign investors may conclude that the rupee has depreciated sufficiently and that the risk of further losses is adequately priced. They could then return before there is clear evidence of a broader recovery in capital flows, and their inflows would help to stabilise the currency. The opposite is also possible. If investors expect further depreciation, the prospect of currency losses may deter investment even when asset valuations are attractive, and a higher cost of hedging adds to that reluctance.

The RBI therefore faces a problem of sequencing. Capital may need to return before the rupee can stabilise, or the rupee may need to reach a level that persuades investors to return. Which of these applies will determine whether the present measures are a bridge to a more stable external position or a delay of an adjustment that must eventually take place.

3.4 What to monitor

Five series will indicate which of these outcomes is more likely: the monthly flow of foreign portfolio investment, the RBI's purchases and sales of dollars, reserves net of the forward position, the cost of hedging, and the growth of non-oil exports relative to imports. The question is not only how long the RBI can support the rupee, but whether the time bought by intervention and restrictions is used for capital flows to recover and for the trade balance to adjust.

SOURCE

NSDL, FPI Monitor; SEBI Bulletin. RBI: Handbook of Statistics on the Indian Economy, Bulletin, Weekly Statistical Supplement, International Reserves and Foreign Currency Liquidity, balance of payments releases, circulars and press releases. FBIL: reference rates and forward premia. Ministry of Commerce and Industry: monthly trade quick estimates. Petroleum Planning and Analysis Cell: oil trade volumes. Business Standard, 15 October 2026. Processing by LEAP Insights.

Appendix — Data and method

Companion data to “Defending the Rupee” (LEAP Insights, October 2026).

A note on method

Foreign portfolio investment. Monthly net investment by foreign portfolio investors as reported by NSDL, in US dollars at NSDL’s conversion. Equity is NSDL’s equity column. Debt is the sum of the general-limit, voluntary-retention-route and fully-accessible-route columns; before August 2024 NSDL did not report the fully-accessible route separately, so the composition of debt before and after that month is not strictly comparable. NSDL’s total also includes hybrid instruments, mutual funds and alternative investment funds. NSDL data are on a trade basis and differ from the portfolio investment reported in the balance of payments.

Exchange rate. The monthly average of the RBI/FBIL reference rate. Values to June 2026 are from the RBI Handbook of Statistics; values from July 2026 are simple averages of the daily reference rates, a method that reproduces the Handbook averages for earlier months.

RBI intervention. Monthly net purchases and sales of US dollars by the RBI in the onshore and offshore over-the-counter market, from RBI Bulletin Table 4. Each month is taken from the first Bulletin in which it appears and was checked against the following issue; no revisions were found. The table does not separate spot from forward transactions undertaken during the month. Data for August and September 2026 had not been published at the time of writing.

Forward position and reserves net of it. The RBI’s net forward position is the sum of short and long forward positions of up to one year and derivative positions with a residual maturity of more than one year, from the monthly International Reserves and Foreign Currency Liquidity template; non-deliverable forwards, reported separately as a memorandum item, are excluded. For January 2024–July 2026 this sum is identical to the outstanding net forward position in Bulletin Table 4. Reserves net of the forward position are official reserve assets from the same template plus the net forward position. Month-end values from the template differ from the nearest weekly figures in the Weekly Statistical Supplement, so monthly comparisons use the template throughout. Changes in both measures include valuation effects.

Cost of hedging. The USD/INR forward premium, expressed as an annualised percentage of the spot rate, as published daily by FBIL. The one-year (12-month) premium is used in the text, and the three-month premium is shown for comparison. The series covers every FBIL publication day from 1 January to 9 Oc-

tober 2026, the latest date available on FBIL’s public site at the time of writing. The levels for 15 October are as reported by Business Standard. Comparisons with earlier years use FBIL’s history from 2018.

Trade and the balance of payments. Merchandise and services trade figures for April–August are the quick estimates of the Ministry of Commerce and Industry; services data for August are the Ministry’s estimate. Merchandise trade is on a customs basis and differs from the balance-of-payments figures published by the RBI. Petroleum volumes are provisional figures from the Petroleum Planning and Analysis Cell; the 2025 comparison is the sum of its monthly figures. Current account figures are the latest RBI estimates; quarterly estimates for 2025-26 have been revised several times.

Table A1. Monthly exchange rate, RBI intervention and foreign portfolio investment

Monthly average USD/INR reference rate; RBI net purchases (+) and sales (–) of US dollars; and net foreign portfolio investment, in US\$ million, January 2024–September 2026. Negative values for portfolio investment are net outflows.

Month	USD/INR	RBI net	FPI equity	FPI debt	Equity + debt
Jan 2024	83.12	1,950	–3,096	2,302	–794
Feb 2024	82.96	8,557	186	2,806	2,992
Mar 2024	83.00	13,249	4,240	1,938	6,178
Apr 2024	83.41	–3,647	–1,036	–919	–1,955
May 2024	83.39	4,222	–3,063	1,566	–1,497
Jun 2024	83.47	–2,107	3,186	1,676	4,862
Jul 2024	83.59	6,934	3,874	1,934	5,808
Aug 2024	83.90	–6,494	873	2,036	2,909
Sep 2024	83.81	9,639	6,890	3,919	10,809
Oct 2024	84.03	–9,275	–11,195	–431	–11,626
Nov 2024	84.36	–20,228	–2,563	–1	–2,564
Dec 2024	84.99	–15,150	1,828	1,480	3,308
Jan 2025	86.27	–11,139	–9,043	52	–8,991
Feb 2025	87.05	–1,621	–3,977	1,208	–2,769
Mar 2025	86.64	14,355	–401	4,342	3,941
Apr 2025	85.56	–1,660	510	–2,841	–2,331
May 2025	85.19	1,764	2,344	1,419	3,763
Jun 2025	85.90	–3,661	1,690	–2,638	–948
Jul 2025	86.11	–2,540	–2,052	1,374	–678
Aug 2025	87.52	–7,695	–3,994	1,447	–2,547
Sep 2025	88.32	–7,910	–2,702	1,393	–1,309
Oct 2025	88.42	–11,877	1,656	2,061	3,717
Nov 2025	88.83	–9,710	–425	527	102
Dec 2025	90.09	–10,020	–2,515	–1,710	–4,225
Jan 2026	90.80	2,526	–3,976	663	–3,313
Feb 2026	90.73	7,409	2,497	2,067	4,564
Mar 2026	92.76	–9,758	–12,724	–926	–13,650
Apr 2026	93.55	–8,944	–6,474	–1,169	–7,643
May 2026	95.60	–6,104	–3,450	291	–3,159
Jun 2026	94.97	561	–5,157	5,849	692
Jul 2026	95.82	18,652	2,123	1,948	4,071
Aug 2026	95.47	–	3,104	–152	2,952
Sep 2026	95.46	–	–3,750	–2,163	–5,913

Source: RBI Handbook of Statistics and FBIL reference rates; RBI Bulletin, Table 4; NSDL FPI Monitor. RBI data for August and September 2026 not yet published. Com-

puted by LEAP Insights.