



India's External Resilience Under Pressure

The Rupee, External Shocks and the Limits of Policy Defence



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Executive Summary

India is running two economies on one balance sheet. The real economy grew 7.8% in the first quarter of FY27, ahead of the RBI's own forecast. Over the same eighteen months, the external account absorbed three shocks it did not create: an American tariff dispute, a war in West Asia that has kept the Strait of Hormuz effectively closed since February, with one failed attempt to reopen it, and a steady exit of foreign portfolio money. The rupee fell by roughly a tenth of its value over the year, in line with other Asian currencies exposed to imported energy, and the RBI met the pressure with the most active currency defence it has run in over a decade.

What is Happening

- Domestic demand, investment, services and consumption, has stayed strong through the shock. The external account has not: the current account deficit is set to widen to 1.4-1.5% of GDP in FY27, from about 0.6% in FY26.
- The rupee's fall is best read as a story about Asian energy importers, not a uniquely Indian one. Over one year it has moved almost exactly in line with the Indonesian rupiah, and worse than commodity exporters like Brazil and South Africa.
- The RBI leaned on four tools: selling dollars directly, building a record forward book, two administrative curbs on the currency market (one of which it reversed within three weeks), and a special deposit scheme for non-resident Indians.

Why It Matters

- Every tool has a cost, and the costs are not alike. Direct dollar sales draw down reserves today. The forward book defers the bill. The administrative curbs cost banks an estimated Rs 3,000-5,000 crore in a single quarter. The deposit scheme turns a currency problem into a foreign debt due in three to five years.
- That deposit scheme, called FCNR(B), raised roughly five times the dollar amount its 2013 predecessor did, yet moved the rupee by only a fraction as much. The defence bought time, not a reversal.
- All three rating agencies have held India's sovereign rating through the shock. Their concern is the same one they had before the crisis: government debt and the fiscal deficit, not the currency.

What Corporate India Should Watch

- The FCNR(B) deposits raised in 2026 fall due between mid-2029 and late 2031, concentrated in FY32. The RBI's forward book stood at a record net short position of \$136.77 billion at end-July, of which \$47.66 billion falls due within twelve months. Whether these obligations fall due in a favourable or hostile global rate environment will shape how easily this year's defence is unwound.
- Sectors exposed to oil, the currency and the EU's carbon border tax at once, aviation and refining among them, face compounding pressure rather than a single, manageable risk.
- Whether the current account deficit holds under 1.5% of GDP even with expensive oil. If it does, India's buffers are doing more work than the pessimistic reading gives them credit for.

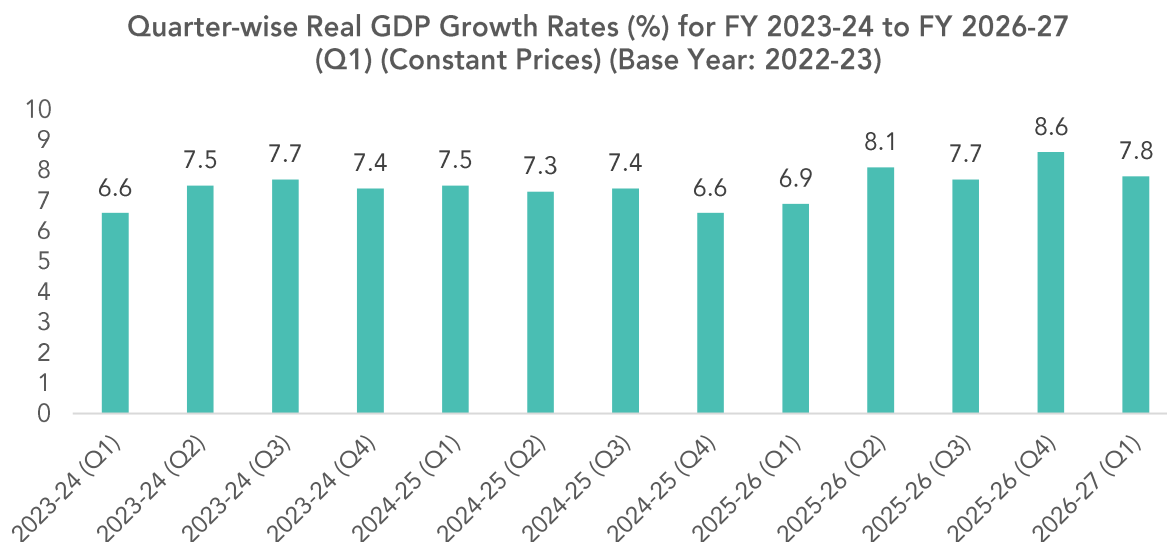
Chapter 1: India's Economy at an Inflection Point

India enters FY27 carrying two economies inside one balance sheet. The domestic economy is growing close to its fastest pace in years. The external account, by contrast, has spent eighteen months absorbing shocks it did not create. This chapter sets out both halves of that picture before the rest of the paper asks what the gap between them costs, and why a CFO reading only the headline growth number would be missing the more interesting story underneath it.

1.1 The domestic economy remains resilient

Real GDP grew 7.7 per cent in FY26 on a provisional basis. The momentum has, on the surface, carried into FY27: the Q1 FY27 print released on 31 August 2026 showed real GDP growth of 7.8 per cent, comfortably ahead of the RBI's own projection of 7 per cent for the quarter and above the median of private forecasts, which had clustered around 7.1 to 7.3 per cent. Nominal GDP grew 10.3 per cent in the same quarter, and gross fixed capital formation, the closest proxy for private and public investment appetite, grew 11.9 per cent against 5.8 per cent a year earlier.

Figure 1.1: Real GDP growth, selected periods



Source: Ministry of Statistics and Programme Implementation (MoSPI) press releases.

Sector composition tells a cleaner story than the base-year arithmetic. Services grew 10 per cent in Q1 FY27, led by financial, real estate and professional services at 12.1 per cent. Manufacturing grew 9.2 per cent and construction 7.7 per cent, while agriculture grew a comparatively modest 3.6 per cent. For FY27 as a whole, the RBI's August projection stands at 6.7 per cent, India Ratings at 6.8 per cent, and Fitch, in its 11 August rating affirmation, at a more cautious 6.4 per cent. The gap between these three numbers is not a disagreement about whether the shocks discussed below are real; it is a disagreement about how much of them still has to reach the domestic economy in the second half of the year.

One caveat belongs with this print. Nominal growth of 10.3 per cent against real growth of 7.8 per cent implies an economy-wide deflator near 2.3 per cent, in a quarter when CPI ran at 4.45 per cent, and the manufacturing deflator was negative. MoSPI has defended the double-deflation methodology publicly and the series is internally consistent, but the gap is wide enough that a reader building an FY28 plan should treat the real number as a range rather than a point. We use the published series throughout, and flag it here rather than in a footnote because the whole of this paper's "resilient domestic economy" premise rests on it.

1.2 The external environment has deteriorated

Three shocks arrived from outside India's policy system over the past eighteen months.

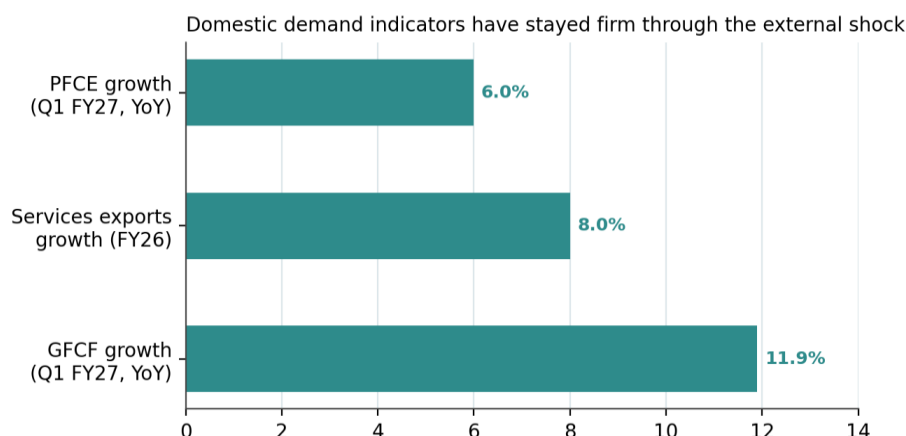
- The first was an American tariff action, and it has since moved twice, not once. An interim framework announced on 6 February 2026, never signed by India, proposed cutting the IEEPA reciprocal rate from 50 to 18 per cent in exchange for Indian purchase commitments worth up to \$500 billion over five years. That framework was overtaken by events: on 20 February 2026 the US Supreme Court ruled 6–3 that IEEPA does not authorise tariffs, striking down the 18% rate along with every other IEEPA-based duty. The administration replaced it first with a flat 10% global surcharge under Section 122 of the Trade Act (effective 24 February), and then, once that lapsed around 24 July, with a 10% baseline under new Section 301 authority. Section 232 duties of 50% on steel and aluminium articles (25% on derivatives) apply on top, unaffected by the ruling. GTRI estimates that roughly 55% of India's US-bound exports, about \$48 billion, came out from under the 18% rate as a result, and importers who paid the higher rate between April 2025 and February 2026 may be entitled to refunds from a pool sized at roughly \$166 billion across all affected countries. India held off signing a full agreement through the spring amid a fresh US trade probe.
- The second shock was the war in West Asia, which has continued to escalate and remains unresolved. Traffic through the Strait of Hormuz, a key route for India's crude imports, has been largely blocked since late February 2026. A temporary reopening in June failed after attacks on commercial vessels resumed in early July. By August 2026, crude exports from the Gulf were around 47% below pre-war levels, at roughly 9 million barrels a day compared with 17 million in 2025. Crude movements through the Strait itself were only around 2.2 million barrels a day. Vessel traffic has also fallen sharply, from around 85 to 100 ships a day before the crisis to single digits or low tens. Oil prices have been highly volatile. Brent fell to \$69 on 2 July, then recovered to around \$79 by mid-July as attacks resumed, and to about \$90 by mid-August. It closed at \$101.21 on 9 September, its highest level since May, and subsequently climbed above \$105. On 11 September 2026 Saudi Arabia shut its East-West crude pipeline following repeated drone attacks launched from Iraq. The line runs to Yanbu on the Red Sea and exists precisely to move crude around the Strait of Hormuz, so its closure removes the principal workaround rather than adding a safeguard, and it tightens the supply position materially. Iran-Gulf talks brokered by Oman have been postponed. This helps explain why the impact on the domestic economy and fuel prices has so far been slower than the sharp rise in global oil prices suggests. Russian crude has also become a larger part of India's import mix amid the disruption. In July 2026, Russian crude accounted for 50.83% of India's total oil imports, or around 2.47 million barrels per day, according to trade-source data reported by Reuters.
- The third shock has been a sustained portfolio outflow: foreign portfolio investors have sold roughly 2.2 lakh crore rupees of Indian equity in calendar 2026 to date, on top of about 1.6 lakh crore in 2025, driven substantially by global capital rotation rather than by anything specific to India.

On trade policy, the India-EU free trade agreement concluded on 27 January 2026, covering more than 99 per cent of Indian exports and zero duty on around 33 billion dollars of labor-intensive exports. The same period saw the EU's Carbon Border Adjustment Mechanism enter its definitive phase on 1 January 2026, a reminder that even as tariffs recede as a source of friction, carbon and standards are becoming the operative instrument of trade policy. Affected Indian exporters may need price reductions of 15 to 22 per cent to absorb CBAM, according to the Global Trade Research Initiative.

1.3 The divergence between domestic and external performance

Put the two halves side by side and the divergence is stark. Domestic demand indicators, GFCF, services activity and consumption, have held up through all three shocks.

Figure 1.2: Selected FY26-Q1 FY27 demand-side indicator



Source: MoSPI Q1FY27GDP Release (31 Aug 2026), RBI/Ministry of Commerce FY26 Service Export

The external account has not: the current account deficit is projected to widen to between 1.4 and 1.5 per cent of GDP in FY27, from about 0.6 per cent in FY26, and the rupee has been, by several measures, Asia's weakest major currency for stretches of 2026.

Some of this divergence is straightforwardly cyclical: it tracks the oil price and a global capital rotation away from emerging markets that has hit most of India's peers as well. Some of it may be more structural, tied to a merchandise trade deficit that was already widening before the West Asia shock arrived.

1.4 India's balance of payments

India's current account is moving from near-balance, about 0.6% of GDP in FY26, to a projected deficit of 1.4-1.5% of GDP in FY27. Merchandise trade deficit widened to a six-month high of \$31.98 billion in July 2026, as exports rose 19.6% to \$44.24 billion while imports increased by 17.5% to \$76.22 billion, a larger absolute increase in dollar terms. Services ran a \$16.95 billion surplus that month (exports of \$35.89 billion against imports of \$18.94 billion), narrowing the overall goods-and-services deficit to \$15.03 billion. Note that July's strong headline export growth was substantially a price effect, elevated commodity prices inflating trade values rather than a volume story.

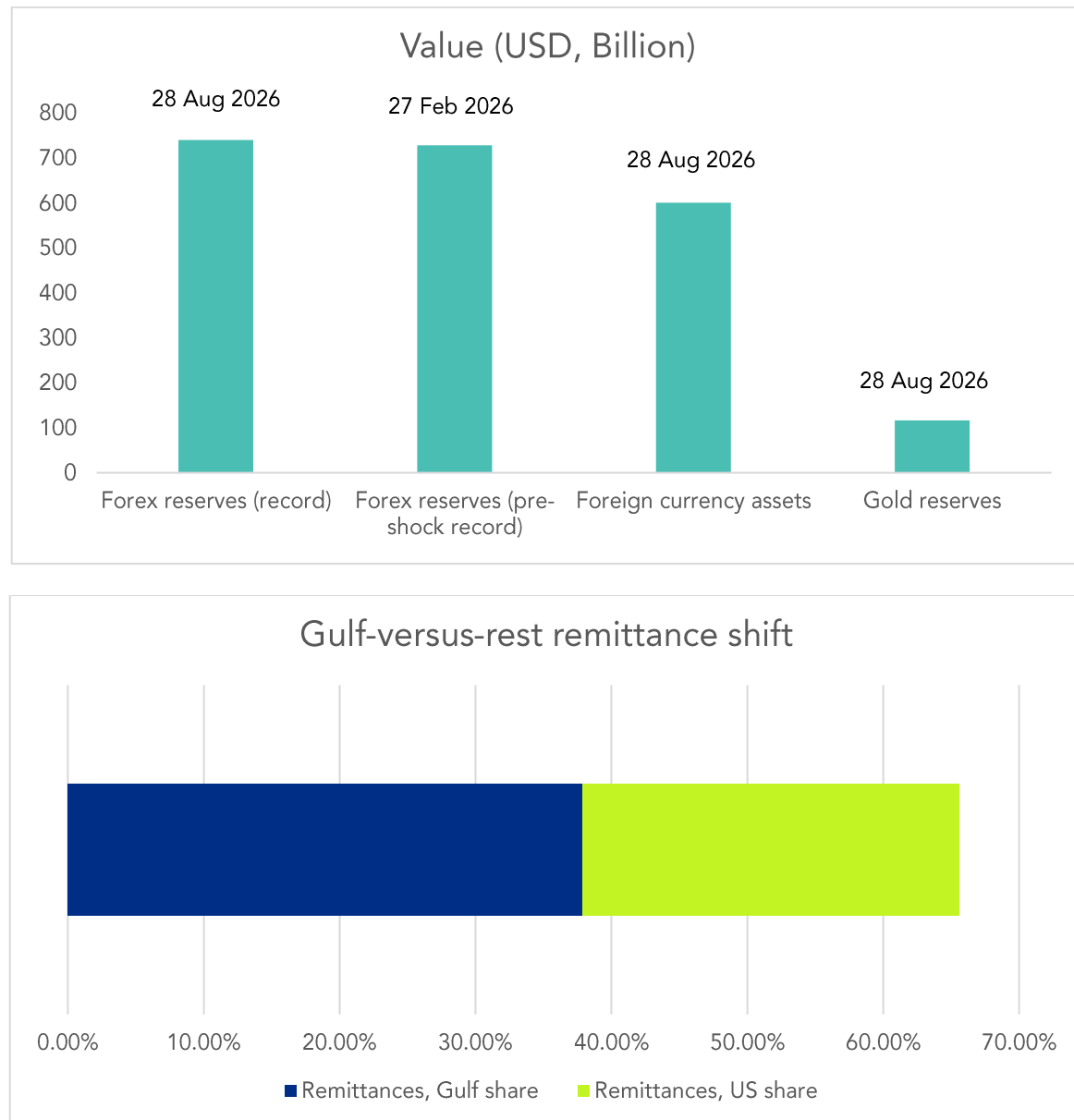
Figure 1.3: India's external trade, July 2026



Source: Ministry of Commerce and Industry, monthly trade release.

On the other side of the ledger sit India's buffers. Reserves hit a record \$740.8 billion in the week ended 28 August 2026, the ninth straight weekly rise, after dipping through March to May as the RBI defended the rupee through the worst of the Hormuz disruption. Import cover stood at 7.8 months goods and services, 9.7 months goods alone, on \$740.8bn and July's run rate. Two RBI series matter here and they are routinely confused. Workers' remittances reached a record \$110.47 billion in FY26, up 26 per cent from \$87.55 billion in FY25, the first time that series has crossed \$100 billion in a single year. The balance of payments line that actually offsets the trade deficit is wider: net private transfers, which include workers' remittances together with non-resident deposit withdrawals, personal gifts and donations, and gold and silver brought in through baggage, reached a record \$144.8 billion in FY26 against \$124.6 billion in FY25. This paper uses net private transfers when discussing the external account and workers' remittances when discussing household income, and says which each time. An SBI Research projection of \$137 to \$140 billion, made in April 2026 before the year closed, is a forecast and not an outturn and should not be quoted as one.

Figure 1.4: Reserves and remittances



Source: RBI Weekly Statistical Supplement (reserves); Fitch Ratings rating action commentary, 11 Aug 2026 (import cover); RBI remittance survey data

Domestic institutions, mutual fund flows through SIPs and pension money, have absorbed most of the foreign selling described above, a pattern that has held for three years running and is arguably as important to market stability as anything the RBI has done.

The first hard print of FY27 is now in, and it cuts against the stressed reading. India's current account deficit in Q1 FY27 was \$4.2 billion, or 0.5 per cent of GDP, against \$3.4 billion and 0.4 per cent of GDP a year earlier. It widened,

but only modestly, and it did so in a quarter that carried the full West Asia disruption. The merchandise trade deficit widened sharply, to \$86.1bn from \$68.9bn, with the petroleum deficit alone accounting for \$37.6bn. Net services receipts of \$51.6bn absorbed most of it.

We report this because a sub-1.5% current account deficit remains an important resilience indicator in this paper. One quarter is not a year: Q1's oil bill reflects cargoes priced before the July spike, the import lag runs six to eight weeks, and the FY27 projections discussed above are built on a full year of elevated crude. But the direction of the first data point is against the pessimistic reading and is worth noting explicitly.

The same release also settles a question this paper would otherwise have had to leave open. Reserves fell \$8.1bn on a balance-of-payments basis during Q1 that is, actual outflow while falling \$22.5bn including valuation effects, implying a valuation loss of \$14.4bn driven by lower gold prices and dollar appreciation. The distinction is published quarterly and routinely missed in coverage of the weekly reserve number. It means the headline reserves series overstates the RBI's activity in some weeks and understates it in others, and that no single week's move should be read as intervention.

Put the pieces together and the pressure looks like a capital-account story more than a trade story. The merchandise deficit has widened but cushioned by services and remittances it sits within India's historical range. What has genuinely moved is portfolio behaviour, a global rotation out of emerging markets sharpened by Hormuz-driven risk aversion, not a collapse in Indian competitiveness. That distinction matters, because a capital-account problem and a trade problem call for different medicine, and it is the capital-account diagnosis that shapes the RBI's own toolkit.

Where an Indian exporter to the United States actually stands, September 2026

What rate applies. A 10 per cent additional duty under Section 301, effective for goods entered from 24 July 2026, on most products of India. Section 232 duties apply separately to covered metals: 50 per cent on articles wholly of steel, aluminium or copper, 25 per cent on derivatives, charged on full customs value since 6 April 2026. The two layers do not stack, goods carrying a Section 232 duty are excluded from the 10 per cent base.

Under what authority, and until when. Section 301 of the Trade Act. The IEEPA reciprocal regime that produced the 50 per cent and then the proposed 18 per cent rates was struck down by the Supreme Court on 20 February 2026 and no longer exists. The interim Section 122 surcharge that bridged the gap lapsed on 24 July. The current position has no stated expiry, but a separate Section 301 investigation into industrial overcapacity, covering sixteen economies and targeting electronics and semiconductors, is the forward risk and is not yet resolved.

How India compares. India is in the second most favourable of four tiers. China and Vietnam are at 12.5 per cent. **For the first time in this cycle, India is tariffed below its principal competitors in the US market.** That is a competitive opening, not a threat, and it is the opposite of the conclusion a reader would draw from coverage written before 20 February.

Whether there is money to claim. Duties paid under the struck-down IEEPA regime are refundable. Unliquidated entries can be corrected through the post-summary process; liquidated entries carry a 180-day protest window from the date of liquidation. Any Indian exporter that was the importer of record through a US subsidiary, or whose US customer was, has a live claim. Most do not know it.

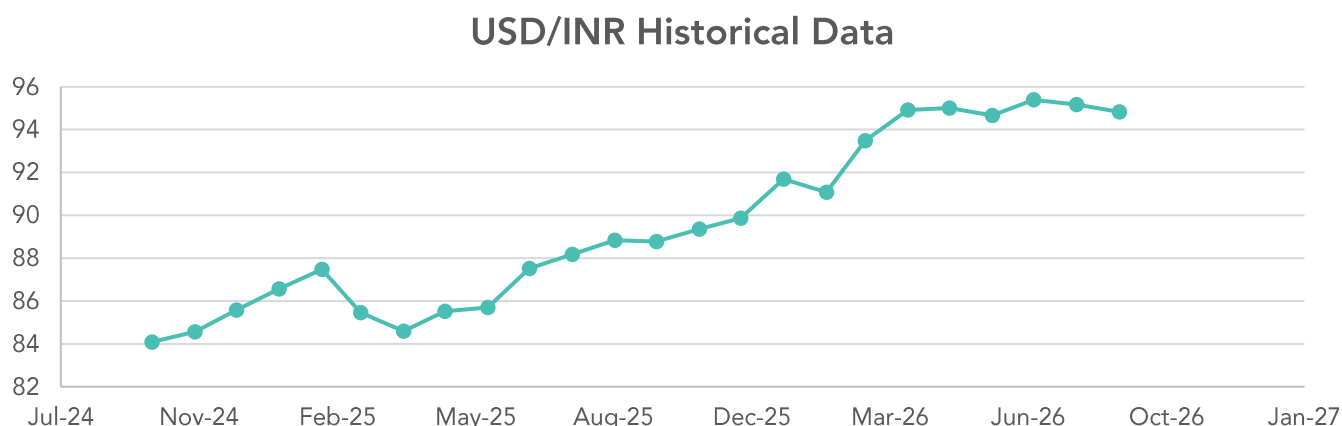
What this does not change. The \$500 billion purchase commitment sat inside a framework India never signed, and which has been legally superseded. Whether any obligation survives, and on what authority, is unresolved. This paper treats it as lapsed unless and until a successor instrument is published.

Chapter 2: The Rupee and the Oil Shock

2.1 The rupee's recent trajectory

The rupee began in 2026 from around 89.9 to the dollar. It touched what was then a record low in the second half of March, immediately before the RBI's administrative measures, after which nearly 40 billion dollars of offshore speculative positions were unwound and the currency recovered some ground. That recovery did not hold: a fresh escalation in the Hormuz conflict pushed the rupee to a new, higher record low of 96.84 on 20 May 2026. Since then, it has recovered again, helped by record reserve accumulation and heavy FCNR(B) inflows, easing to around 95.5 to 95.8 by August and briefly to the mid-94s in the first days of September. That relief did not hold. As this paper closes, the rupee is back near 95.9, its weakest in over a month as Brent moved back above \$100 and markets began pricing the possibility of a Fed hike rather than a cut. The pattern across 2026 has been consistent: every recovery in the rupee has been an oil-driven pause, not a turn.

Figure 2.1: USD/INR trajectory, last 2 years



Source: Investing.com

2.2 Global forces and India-specific forces

Dollar strength through much of 2026 reflected safe-haven demand tied to the West Asia conflict, layered on shifting expectations for the Fed's policy path. Most emerging market currencies weakened against the dollar over the same window, but the degree of weakening varied enormously by region, and that variation is where the India-specific story either shows up or does not.

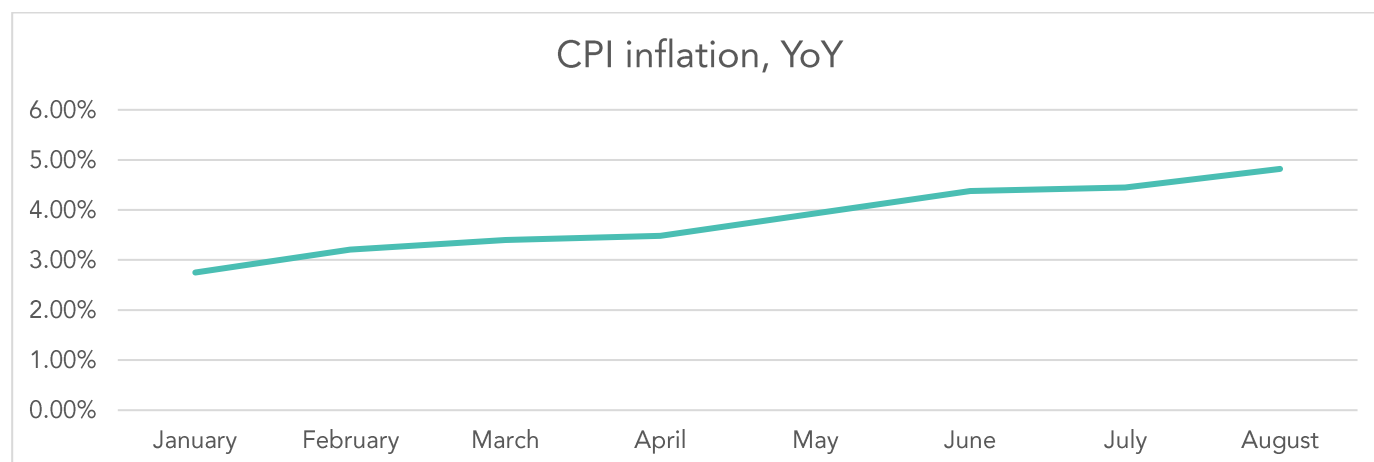
Against that global backdrop, three India-specific pressures have been at work: FPI outflows of roughly 2.2 lakh crore rupees in 2026 adding direct dollar demand; a heavier oil import bill widening the current account and with it the economy's structural dollar requirement; and interest rate differentials, with the RBI holding the repo rate at 5.25 per

cent since December 2025 even as global rate expectations shifted, periodically narrowing the carry that supported the rupee in calmer years.

2.3 The Oil Channel

Oil is the most direct channel from the West Asia shock to the rupee. The rule of thumb used by RBI and finance ministry economists is that a ten dollar move in crude shifts the current account by roughly 0.3 to 0.4 per cent of GDP, with a direct CPI impact of 20 to 30 basis points and a larger second-round effect as transport and input costs pass through. Applied to the swing from 69 dollars in early July to roughly 90 dollars by mid-August and above 100 dollars in September, the arithmetic accounts for a meaningful share of both the current account widening projected for FY27 and the inflation uptick recorded through June, July and August, with the August print at 4.82% and food at 5.95%.

Figure 2.2: Headline CPI inflation, 2026



Source: MoSPI/PIB monthly CPI press releases (base year 2024=100), Jan-Jul 2026, all provisional. The RBI's tolerance band is 2-6% around a 4% target

The physical cost of moving oil has risen too. War-risk premiums on Gulf transits reportedly climbed from about a quarter of one percent of a tanker's hull value to between one and five percent at the worst of the disruption, and at least one major carrier added a war-risk surcharge of up to \$3,500 per container on Gulf-touching shipments.

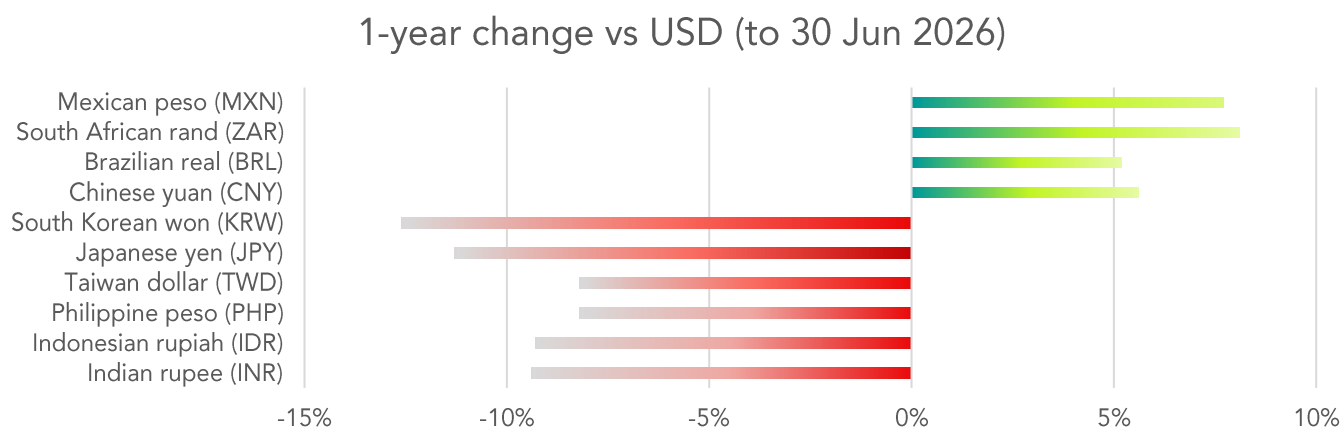
2.4 India Versus Emerging-Market Peers

The real effective exchange rate, which adjusts for inflation differences with trading partners, is the number that actually settles whether a currency is cheap or expensive, and it cuts against the domestic narrative of a currency in crisis. The live verdict is available, and it cuts against the crisis narrative. The RBI's own 40-currency REER index fell from 108.03 in November 2024, about 8% overvalued, to 91.26 in June 2026, roughly 8.7% undervalued on the same measure. Governor Sanjay Malhotra said explicitly in interviews in late May and again in late July 2026 that it was reasonable to consider the rupee undervalued in both nominal and real effective terms, while stressing the RBI targets no specific level. That reframes the question this paper is really asking: the RBI has spent reserves, built a record net short forward position of \$136.77 billion and separately swapped in \$136.38 billion of non-resident money, all in defence of a currency that its own valuation measure says is already cheap.

A cleaner test is to compare the rupee against its actual peers. Deutsche Bank's one-year currency performance data through 30 June 2026 shows the Indian rupee down 9.4 per cent against the dollar, essentially in line with the Indonesian rupiah's 9.3 per cent decline, and worse than the Philippine peso and Taiwan dollar, both down 8.2 per cent. It is a materially worse outcome, however, than commodity-linked or higher-real-rate emerging markets: the

South African rand gained 8.1 per cent, the Brazilian real gained 5.2 per cent, and the Chinese yuan gained 5.6 per cent over the same window.

Figure 2.3: One-year currency performance vs USD, selected emerging markets

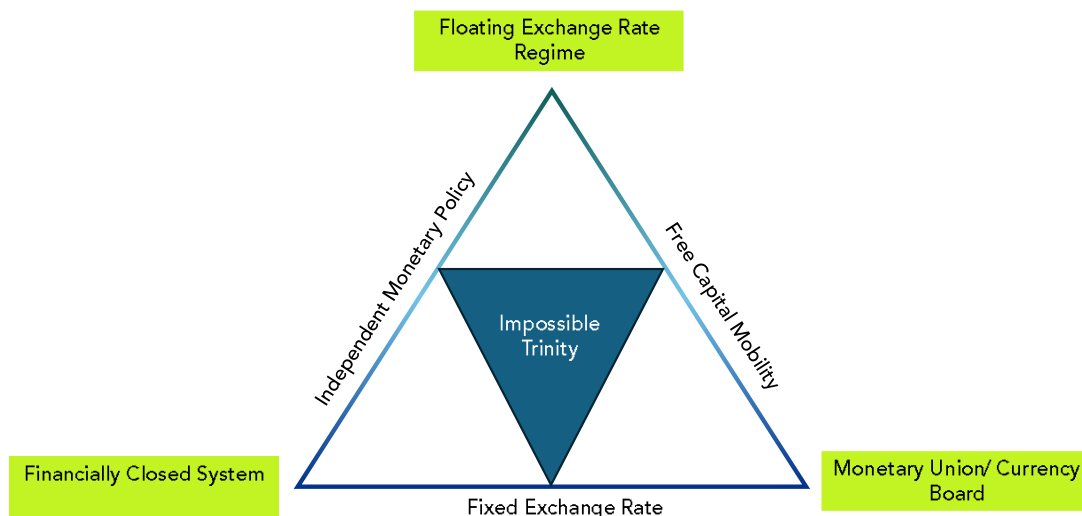


Source: Deutsche Bank data as published by Visual Capitalist, "Ranked: World Currencies vs. the U.S. Dollar in 2026" (12 Aug 2026), covering the one-year period to 30 June 2026.

Six of the eight weakest currencies in Deutsche Bank's ranking are Asian, and energy dependence is the common thread: Japan and South Korea, like India, import the overwhelming majority of the energy they use. That points to a shared regional story about energy exposure rather than a uniquely Indian one. But the gap against commodity exporters is real too, and it fits a currency being hit by a specific terms-of-trade shock rather than a broad loss of confidence in emerging markets as a group. The honest answer, then, is that this is mostly an Asian energy-importer story, layered on India's own portfolio outflows and administrative currency management, and it is the shared, regional part of that story that should shape how much credit or blame the RBI's own choices deserve.

Chapter 3: Defending the Rupee-Tools and Their True Cost

A central bank defending a currency is always choosing which corner of a well-known trade-off to lean on. The trade-off is the impossible trinity, sometimes called the Mundell-Fleming trilemma after the economists who formalised it: a country can have at most two of open capital markets, an independent monetary policy, and a stable exchange rate. It cannot durably have all three.



India's declared position is an inflation-targeting central bank operating a market-determined rupee with a capital account that has been opening gradually for three decades. On paper, that combination should mean the exchange rate does the adjusting when a shock hits, while the RBI keeps its policy rate free to manage inflation and the capital account stays open. In practice, no central bank whose banks, importers and government carry meaningful foreign-currency exposure finds it easy to watch its currency swing freely. This reluctance to let go of the exchange rate even under a formally flexible regime is well documented in the economics literature as the fear of floating, and 2026 is a clean example of it.

Because India will not sacrifice monetary independence, the inflation mandate is not up for negotiation, and will not close the capital account outright, the SRVA and FCNR(B) expansions described elsewhere in this paper show the opposite direction of travel, every attempt to hold the rupee steady has to borrow, temporarily, against one of the other two corners.

The RBI has used four distinct tools to manage pressure on the rupee. Each works through a different channel and carries a different cost: reserves, future obligations, market restrictions or the RBI's own balance sheet.

Route 1: Spot intervention, selling reserves today

Spot intervention is the oldest and most direct tool: the central bank's dealing desk buys or sells dollars against rupees at the prevailing market rate, using its own foreign currency reserves. It works through two channels that the academic literature on intervention, notably Dominguez and Frankel's work on the subject, treats as distinct. Selling dollars directly increases the supply of dollars in the market, while the RBI's visible presence can also influence expectations about how far it will allow the rupee to fall. Whether the intervention is sterilised decides whether it also tightens domestic monetary conditions: when the RBI sells dollars and receives rupees in exchange, it withdraws rupee liquidity from the banking system one for one, unless it separately injects liquidity elsewhere to offset that effect.

Through 2026, market participants describe the RBI's own pattern shifting from smoothing occasional bouts of volatility to showing up whenever the rupee weakens meaningfully, a more active posture than its historical practice. Reserves fell from a pre-shock record of \$728.5 billion in late February to a lower level through March and May, as the RBI sold dollars through the worst of the Hormuz disruption, before recovering to a new record of \$740.8 billion by late August as separate inflows took over. The RBI does not publish a daily split between dollar sales and valuation change, so no single week's move in reserves should be read as intervention. It does publish the split quarterly in the balance of payments release: in Q1 FY27, reserves fell \$8.1bn on a BoP basis against \$22.5bn including valuation, a \$14.4bn valuation loss on lower gold prices and a stronger dollar. Spot intervention is therefore measurable at quarterly frequency, and the annual figure is not an estimate.

It is the most transparent form of defence because the cost shows up immediately in reserves.

Route 2: Forward market intervention, borrowing against tomorrow

Forward intervention allows the RBI to support the rupee without immediately exchanging cash. Instead of selling dollars today, the RBI enters into a contract to deliver or receive dollars at a specified rate at a future date.

This makes forward intervention different from spot intervention in one important respect: **the reserve impact is delayed**. The RBI can influence expectations and the availability of future dollar supply without immediately reducing its stock of cash reserves.

But the cost has not disappeared. It has been shifted into the future.

When the forward contract matures, the RBI must either deliver the dollars from its reserves or other inflows or roll the position into a new contract. The eventual cost therefore depends on the exchange rate, interest-rate differential and market conditions at the time of settlement.

The forward book tells the story of the whole defence in a single series. It reached what was then a record short position of \$106.6bn at end-May. It then *fell* to \$103.33bn by end-June, as the RBI used the first tranche of FCNR(B) dollars to retire near-dated forward obligations. And it then rose to a fresh record of **\$136.77 billion** by end-July, data published on 31 August, a jump of \$33.44 billion in a single month.

That dip-then-record pattern is the mechanism of this paper in one line. The two instruments are not independent: the deposit scheme funded a temporary unwind of forward exposure, which was then rebuilt on a larger base. The RBI did not use the inflow to reduce its deferred obligations. It used it to refinance them and then added to them.

The maturity structure matters as much as the level. At July-end the gross short positions were \$15.59 billion falling due within one month, \$7.32 billion at one to three months, \$24.75 billion at three to twelve months and \$91.54 billion beyond a year, a gross total of \$139.20 billion. Against that the RBI held a \$2.43 billion long position in one-month contracts, netting the book to \$136.77 billion. Short positions falling due inside twelve months therefore rose to \$47.66 billion at July-end from \$40.33 billion at June-end. The near-dated portion is a claim on reserves within the current financial year; the long-dated portion has grown by nearly half in a month and now sits alongside the FCNR(B) redemptions discussed below.

One qualification belongs with every forward-book figure in this paper. The \$136.77 billion is the position at end-July, when only about a third of the FCNR(B) money had arrived. Some \$61.8 billion landed between 21 and 31 August. The end-August position, when the RBI publishes it, will be materially higher. Every net reserve calculation in this paper is therefore conservative, and deliberately so.

Unlike a drawdown in spot reserves, none of this appears in the headline reserve number. India's reserves reached a record \$740.8bn in the week ended 28 August. Its net short forward position reached a record in the same window. Both statements are true, and they are the same fact told twice.

Route 3: Administrative curbs, tightening the capital account at the edges

The third route works on the capital-mobility leg of the trilemma directly, through what the IMF's own taxonomy calls capital flow management measures: targeted restrictions on a specific market segment rather than the price of the currency itself. India used two such measures in quick succession. On 27 March 2026, the RBI capped each bank's net open position in the onshore market at \$100 million across spot, forwards and options combined, replacing a looser rule that had let banks carry positions worth a quarter of their capital. Days later, on 1 April, it barred banks from offering rupee non-deliverable forwards to residents and non-residents and from rebooking cancelled contracts, a measure aimed squarely at the offshore market.

The offshore NDF market matters because the rupee is not freely convertible on the capital account for most residents, so foreign investors who want a rupee view without holding actual rupees trade a cash-settled forward contract abroad instead. That market had grown to roughly \$150 billion a day, more than double the onshore market's turnover of under \$72 billion, large enough that offshore pricing could plausibly lead the spot rate rather than follow it, a feedback loops a central bank cannot directly intervene against because the market sits outside its jurisdiction. Closing that market to new positions was a way of reasserting control over price discovery, at the cost of the liquidity and hedging function the market had been providing.

By 10 April, roughly \$40 billion of speculative positions had been unwound and the rupee had recovered off its low. On 20 April the RBI reversed the ban entirely, restoring banks' ability to offer NDFs and rebook contracts, while keeping the smaller onshore cap in place. The rupee then set a fresh, higher record low a month later, after the ban had already been lifted, on renewed conflict risk rather than any gap the ban had left open. MUFG Research described the March and April measures at the time as "driving a wedge" between onshore and offshore pricing rather than a durable fix, and the sequence below supports that reading better than a simpler story of the RBI closing a loophole and stabilising the currency.

Table 3.1: The administrative curbs, in sequence

Date	Action
27-03-2026	Net open position capped at \$100mn, onshore market
01-04-2026	Rupee NDF contracts and rebooking banned
10-04-2026	~\$40bn of positions unwound; rupee recovers off its low
20-04-2026	NDF ban reversed; onshore cap retained
20-05-2026	Rupee sets a new, higher record low, after the ban was lifted

Source: RBI circulars; 5paisa (21 Apr 2026); MUFG Research (2 Apr 2026).

The curbs had a fast, real cost. Estimates of the mark-to-market hit to banks range from roughly ₹3,000 crore to ₹5,000 crore across contemporary coverage (Business Standard; Finnovate), with no single figure standing as consensus. We use the lower end as conservative; a reader with a treasury desk may quote higher. The onshore-offshore spread, normally one to five paise, blew out to more than a rupee at its peak during the ban. Unlike the first two routes, this one cost no reserves at all, but it distorted a market and was withdrawn almost as quickly as it arrived.

Route 4: FCNR(B), buying inflows with the central bank's own balance sheet

FCNR(B) took the opposite approach to the administrative restrictions. Rather than restricting foreign-currency flows, the RBI sought to **encourage them**.

The mechanism was designed to make foreign-currency deposits more attractive to non-residents. Banks were permitted to offer FCNR(B) rates of up to **7.4%**, while the RBI provided currency cover through a swap at par. Fresh deposits also received exemption from CRR and SLR requirements.

The result was a rapid increase in foreign-currency mobilisation.

The scheme opened on 8 June, with deposits first flowing from 23 June. Mobilisation ran well ahead of expectation throughout, prompting the RBI to advance the closing date from 30 September to 31 August. By 21 August, RBI data showed \$72.85bn across all three routes, of which \$65.4bn was FCNR(B). The final figures, released on 2 September, were far larger: **\$127.23bn through FCNR(B)**, with a further \$5.26bn through overseas foreign currency borrowings and \$3.89bn through external commercial borrowings, for a **total of around \$136bn**. Close to half of the FCNR(B) total arrived in the last ten days before the deadline.

Two things follow that matter more than the headline. First, the RBI had sized the exercise at around \$80bn; it overshot its own estimate by roughly 60%. An instrument that works substantially better than intended is a policy problem as well as a policy success, because the balance-sheet consequences scale with the overshoot rather than with the design. Second, the ECB and OFCB windows remain open until 31 December 2026, so the final obligation is not yet closed.

A definitional point the coverage generally blurs, and which this paper will state plainly: \$127.23bn is a gross inflow over roughly ten weeks, not the change in India's non-resident deposit stock. FCNR(B) balances stood at \$34.04bn at end-May. Total NRI deposits across all categories were around \$168bn at end-June. A meaningful share of the FCNR(B) inflow is NRE money switched into FCNR(B) for the better hedged return, and some is rollover of maturing deposits, neither of which is new external capital. The honest statement is that gross FCNR(B) mobilisation was \$127.23bn, that the net addition to India's external liabilities is smaller, and that the RBI has not published the split.

The strength of the mobilisation led the RBI to close the window one month earlier than initially planned.

Unlike the first three routes, FCNR(B) brings foreign currency into the system rather than directly selling existing reserves or restricting market activity. But the inflow is not equivalent to a permanent increase in India's external wealth.

The foreign currency comes with a corresponding liability. The RBI's swap arrangement and the underlying deposits create future obligations, while the interest incentive represents a cost of attracting the funds.

This makes FCNR(B) best understood as a **liquidity and timing mechanism**: it brings foreign currency into the system when it is needed most, but part of the cost appears later.

Table 3.2: FCNR(B), 2013 versus 2026

Metric	2013	2026
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Swap terms	Fixed 3.5% rate, 3-year minimum	Swap at par, CRR/SLR exemption, rates up to 7.4%
Window	Sept–Nov 2013	8 June – 31 Aug 2026 (closed one month early)
Gross FCNR(B) mobilised	~\$26bn (of ~\$34bn across schemes)	\$127.23bn (of \$136.38bn across schemes)
Reserves at mobilisation	~\$275bn (Sept 2013)	\$740.8bn (28 Aug 2026, record)
Rupee response over the window	Appreciated ~8.8% by March 2014	Roughly flat (~95.7 to ~95.6, 8 Jun–17 Aug)
Redemption	Managed smoothly, 2016	Due FY30–FY32, concentrated FY32

Source: Business Standard archives (2016–17); Outlook Business (9 Jun 2026); Capital Quill analysis (Aug 2026).

The comparison suggests that FCNR(B) has been highly effective at mobilising foreign currency, but less powerful in moving the exchange rate in 2026 than it was in 2013.

The likely explanation is not that the instrument failed. Rather, the rupee is facing a broader set of pressures in 2026, including oil, dollar strength, West Asia risk, US monetary policy and foreign portfolio selling. A single inflow, however large, cannot necessarily offset all of these forces.

There is also a timing issue. FCNR(B) deposits carry three-to-five-year tenors, with most of the 2026 money at five years. The redemption profile is set out in §4.2; it falls between FY30 and FY32 and is concentrated in FY32. This maturity profile needs to be considered alongside the RBI's forward obligations from Route 2.

Bringing the four routes together

The four instruments should not be judged simply by whether they supported the rupee. They should be assessed by where the cost of that support ultimately falls.

Table 3.3: Summary of all four routes

	Spot intervention	Forward intervention	Administrative curbs	FCNR(B)
What RBI does	Sells dollars today	Commits to future dollar transactions	Restricts FX positions	Attracts foreign-currency inflows
Immediate effect	Supports INR	Supports INR	Reduces market pressure	Adds FX liquidity
Primary cost	Reserve use	Future settlement obligation	Market disruption	Interest and future repayment

Seen through the trilemma, the four routes split neatly into two families. Routes 1 and 2 try to hold the exchange rate steady while pretending the other two corners are untouched, spot intervention pays for this now, in reserves, and forward intervention pays for it later, in a delivery or rollover obligation. Route 3 pays for exchange rate stability by temporarily tightening capital mobility, cheaply and quickly, but at the cost of a distorted market that has to be unwound almost as fast as it was imposed. Route 4 does not defend the exchange rate at all in the conventional sense; it leans further into open capital markets and lets the central bank's own balance sheet absorb the currency risk that would otherwise choke off the inflow, buying stability indirectly through a fresh liability rather than directly through market operations. None of the four routes lets India keep all three corners of the trilemma at once. Each one simply chooses which corner bears the cost, and for how long.

Table 3.4: Cost ledger across the four routes

Route	Reserve impact	Future obligation	Market distortion	Interest/swap cost
1: Spot intervention	High	Low	Low	None
2: Forward intervention	Low	High	Low	Low
3: NOP cap / NDF ban	None	Low	High	None
4: FCNR(B)	None	Medium	Low	High

Selling dollars and building the forward book both defer cost rather than remove it. The administrative curbs cost banks real money fast and were largely reversed within three weeks, right before the rupee's next record low. FCNR(B) is the most successful route by its own metric, mobilisation, but converts today's pressure into a liability concentrated in FY32, at a cost this paper could not fully price. None of this means the defence was wrong; a crisis avoided by buying time is still a crisis avoided. But it should be described as exactly that, time bought for the real economy to adjust, rather than as the RBI having stabilised the rupee.

The trilemma explains why the defence had to be paid for somewhere. It does not explain why this particular defence was chosen, and it is worth being explicit that alternatives existed. The RBI could have allowed a faster adjustment, in which case the rupee might have found a level in the high nineties, with a larger immediate inflation pass-through and a smaller deferred obligation. It could have used the policy rate, at a cost to growth the MPC evidently judged unacceptable. It could have done materially less, on the argument that a currency its own REER calls undervalued does not require defending. Each of those costs something too, and we do not claim the choice made was wrong.

The Fifth Cost: Sterilisation

When a bank sells dollars to the RBI under the FCNR(B) swap, the RBI pays rupees. Roughly \$136bn swapped at the prevailing rate is of the order of ₹12.9 lakh crore of rupee liquidity created, of which the FCNR(B)-linked share is the bulk. Banking system surplus liquidity crossed **₹11 lakh crore** in early September — a record — against a central bank that has held the repo rate at 5.25% since December 2025 precisely because it is not comfortable with the inflation outlook.

The consequence is already visible in the price of money. The weighted average call rate is running near 4.93%, about 32 basis points below the policy rate. The operating target of monetary policy has drifted below the rate the Monetary Policy Committee set, not because the MPC decided anything, but because the currency desk succeeded.

The RBI is fighting it. It conducted 32 variable rate reverse repo auctions between August and early September, lengthening tenors from overnight out to fourteen days, and absorbed ₹6.02 lakh crore in two auctions on 4 September alone at a 5.24% cut-off. The more telling detail is that in the larger of those two auctions, banks placed ₹5.42 lakh crore against a notified ₹7 lakh crore, and a subsequent thirty-day operation drew weak demand. Banks are declining to lock money up for a month at a rate barely above what they can earn overnight. The absorption tools

are being tested against a surplus that may be larger than they were designed for, and at least one major house expects the excess to persist through March 2027.

There is a version of this cost that never appears in any budget line. A swap at par is a subsidy: the RBI forgoes the forward premium it would ordinarily charge, at an opportunity cost of the order of ₹30,000 crore a year on \$127bn swapped, on an assumed forward premium of about 2.5 per cent. That cost sits on the central bank's balance sheet, which reduces the surplus transferable to the government, which makes it a fiscal cost carried outside the fiscal accounts. We cannot size the net effect precisely from public data, because the RBI does not disclose the composition of the swap book or the return on the assets acquired against it. We note that it exists, that it is material, and that the disclosure would be a reasonable thing for the central bank to publish.

Chapter 4: From External Shock to Corporate P&L

4.1 How the shock travels through a business

- Oil moves first: a higher landed cost for crude and crude derivatives.
- Inflation follows transport, food and manufacturing input costs rise.
- The rupee weakens on the current-account and dollar-demand channels.
- Financing costs rise for any business with unhedged dollar borrowing or import payables.
- Margins compress wherever pricing power cannot keep pace with input and financing cost increases.
- Demand softens last, as higher prices and tighter credit conditions work through to consumers and B2B customers.

Table 4.1: Sector exposure matrix.

Sector	Oil	Currency	Tariff	CBAM	Sanctions / supply chain
Chemicals & fertilisers	High	Medium	Low	High	Medium
Aluminium	Medium	Medium	High	High	Low
Cement & steel	Medium	Low	High	High	Low
Electronics assembly	Low	High	Medium	Low	Medium
Pharmaceuticals	Low	High	Low	Low	Low
Aviation	High	High	Low	Low	Medium
Shipping & logistics	High	Medium	Low	Low	High
Paints & tyres	High	Low	Low	Low	Low
Refining & OMCs	High	Medium	Low	Low	High
IT services	Low	Medium	Low	Low	Low
Auto components	Medium	Medium	Medium	Low	Low
Textiles & apparel	Low	Medium	Medium	Low	Low

Cement, steel and aluminium now carry both the highest tariff exposure and the highest CBAM exposure, which is the single most concentrated risk position in the table; refining and shipping compound oil with sanctions exposure given the 50.8% Russian crude share; aviation remains the clean oil-plus-currency case; and IT services remains the one directionally favourable sector.

4.2 How Resilient Is India's External Position?

India's external position needs to be assessed through four simple questions: What buffers does India have? What is putting pressure on those buffers? What obligations have been pushed into the future? And how much policy room remains to respond?

Table 4.2: India's External Resilience in 2026

Dimension	Key indicators	What it tells us	Assessment
Buffers	FX reserves, services exports, remittances	How much protection India has	Strong. Reserves remain at record levels, while services exports and remittances provide important foreign-exchange inflows.
Current pressures	Oil bill, merchandise deficit, FPI outflows	What is currently putting pressure on the external account	Elevated. Higher oil costs and sustained portfolio outflows are the main sources of pressure.
Future obligations	RBI forward book, FCNR(B) maturities, short-term external debt	What pressures may emerge later	Higher than before. Some of the pressure has been shifted into future foreign-currency obligations.
Policy room	Reserves, interest rates, FX intervention capacity, fiscal space	How much room policymakers have to respond	Still meaningful, but not unlimited. India retains substantial buffers, although continued intervention reduces the room available over time.

India's external debt was \$762.8bn at end-March 2026, equal to 20.8% of GDP, the highest level in five years. This was up from 19.8% a year earlier. Short-term debt due within a year, measured on residual maturity, was already relatively high at 42.9 per cent of total external debt and 47.3 per cent of foreign exchange reserves, both higher than the previous year. On the narrower original-maturity basis the ratio is considerably lower, and the two measures should not be compared with one another. This was the starting position before the developments discussed in this paper.

This year's defence mobilisation adds to that external debt burden, though by less than the headline mobilisation implies. FCNR(B) deposits are counted as external debt. Adding the full gross \$127.23 billion to the existing stock would take external debt to roughly \$890 billion, or about 24 per cent of GDP. That is an upper bound rather than an estimate, because a meaningful share of the gross figure is NRE money switched into FCNR(B) and rollovers of maturing deposits, both of which already sit inside the \$762.8 billion stock and cannot be counted twice. The RBI has not published the split. The honest statement is that external debt rises from a level that was already a five-year high, that the true increase lies somewhere between a modest addition and the full \$127.23 billion, and that the position will be visible in the end-September external debt release.

There is also a near-term reserve claim from the RBI's forward book. Around \$47.66bn falls due within the next 12 months. This is not deducted from the headline reserve figure of \$740.8bn, meaning reserves available to meet other external obligations are closer to \$693bn.

There is a broader version of the same adjustment, and it is the number this paper would put beside the headline. India's reserves are a record \$740.8bn. The RBI's net short forward position is a record around \$136.77 billion at end-July. Those two records are the same fact stated twice, and netting one against the other gives a buffer closer to **\$604bn** — some 18 per cent below the headline. On the narrower adjustment, counting only the \$47.66bn that falls due within twelve months, the figure is roughly \$693bn.

We publish all three because each answers a different question. \$740.8bn is what India owns. \$693bn is what is uncommitted this year. \$604bn is what is uncommitted once every existing forward obligation is honoured. A reader planning against India's external buffer should know which of the three they are using. Nobody currently publishes the third.

The timing of the FCNR(B) repayments also matters. Deposits raised between 23 June and 31 August 2026 have three-to-five-year maturities, with most concentrated at five years. They are therefore due roughly between mid-2029 and late 2031, corresponding to FY30 to FY32 in India's fiscal calendar. The bulk is concentrated in FY32, rather than FY29 to FY31 as is often reported. This means the repayment pressure is both later and more concentrated than the broader framing suggests.

4.3 What the rating agencies say

Table 4.3: India's sovereign credit ratings

Agency	Rating	Outlook	Latest action
S&P Global Ratings	BBB	Stable	Upgraded from BBB- in August 2025
Fitch Ratings	BBB-	Stable	Affirmed 11 August 2026
Moody's Ratings	Baa3 (equivalent to BBB-)	Stable	Affirmed 31 March 2026 (published 6 April 2026)

Source: S&P Global Ratings (Aug 2025 action, widely reported); Fitch Ratings rating action commentary (11 Aug 2026); Moody's Ratings commentary (2026), as reported by Business Standard, Outlook Business and Multibagg market coverage.

4.3.1 What the agencies agree on

- India's growth outlook is robust relative to peers; Fitch's 11 August action explicitly cites a "robust growth outlook" even while flagging near-term headwinds from the energy shock.
- External buffers, reserves and import cover, are a credit strength, not a weakness, across all three agencies' commentary.
- Macroeconomic stability and policy credibility have improved over time; a point Fitch specifically frames as underpinning continued resilience.

4.3.2 Where the agencies disagree, or at least emphasise differently

- S&P's August 2025 upgrade to BBB puts India one notch above Fitch's BBB- and Moody's Baa3, with the divergence reflecting differences in the weight assigned to debt and per-capita income relative to the growth outlook.
- Fitch is explicit that lagging structural metrics, including governance indicators and GDP per capita, constrain the rating, a structural constraint that no currency-cycle outcome will shift, and which therefore caps the upside from this year's external management. Its 11 August affirmation also flagged fiscal risks arising from youth protests over jobs, a political-economy channel that sits outside the external story this paper tells but bears on the same rating.
- Moody's 31 March affirmation focused on fiscal deficit trajectory (citing the central government's own target path, 4.4 per cent in FY26 to 4.3 per cent in FY27) as the swing factor for any future move, rather than on the currency or the West Asia shock specifically. Those are central government numbers. Fitch's 11 August commentary puts the general government deficit, central plus states, at 7.3 per cent of GDP and calls the consolidation pace slow. Both figures are correct and they measure different things. A board planning against the first while the rating agencies price the second is working from the wrong number, which is why we state both. Moody's is the most cautious of the three on growth. It forecasts FY27 growth of 6.0%, against the RBI's 6.7%, India Ratings' 6.8% and Fitch's 6.4% and it gets there on an assumption of oil averaging above \$95, which the September price has now validated. It projects FY28 growth recovering to 6.2% and FY27

inflation at 4.8%, and it flags that West Asia accounts for close to 40% of India's inward remittances, making a prolonged Gulf disruption a household-income channel as well as an energy one.

4.4 Beyond Defence: Reducing External Vulnerability

The analysis so far shows that India's external position is resilient enough to absorb a significant shock, but resilience should not be confused with the absence of vulnerability. The RBI can smooth exchange-rate volatility, attract foreign-currency liquidity and restrict destabilising positions, but none of these measures changes the underlying sources of external pressure.

The longer-term objective is therefore not to eliminate India's exposure to the global economy. It is to reduce the extent to which a single external shock can simultaneously weaken the current account, increase dollar demand, raise inflation and compress corporate margins.

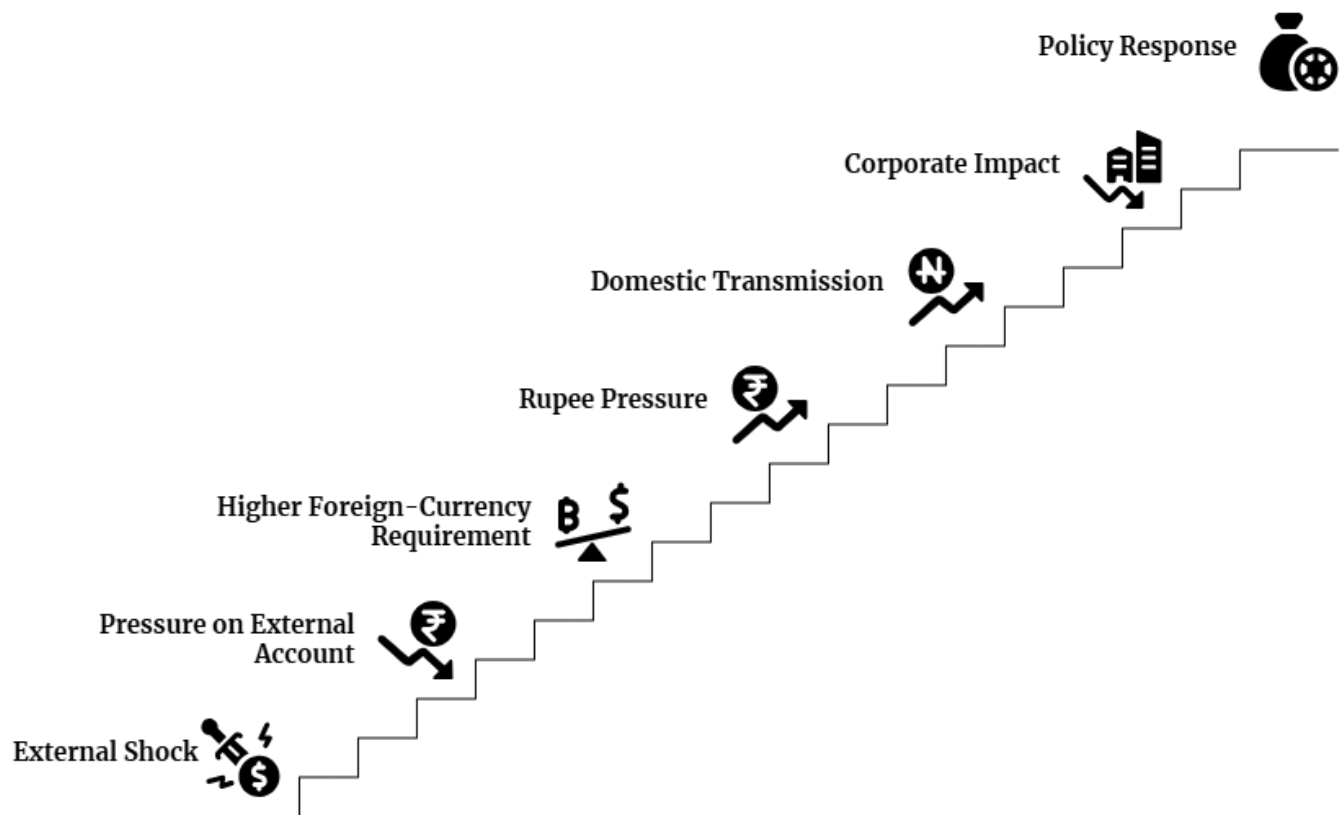
Four areas matter most:

Table 4.4: From External Vulnerability to Structural Resilience

Area	Current vulnerability	Transmission to the economy	Long-term resilience lever
Energy	High dependence on imported crude	Higher oil prices → higher import bill → CAD, inflation and INR pressure	Energy diversification and lower energy intensity
Trade	Persistent merchandise trade deficit	Higher imports → structural demand for foreign currency	Broader export base and greater domestic value addition
Capital	Sensitivity to volatile portfolio flows	FPI outflows → higher dollar demand → INR pressure	Deeper domestic capital markets and more stable foreign capital
Payments & currency	High dependence on USD for international settlement	Greater USD requirement → transaction and FX exposure	Local-currency settlement where commercially viable

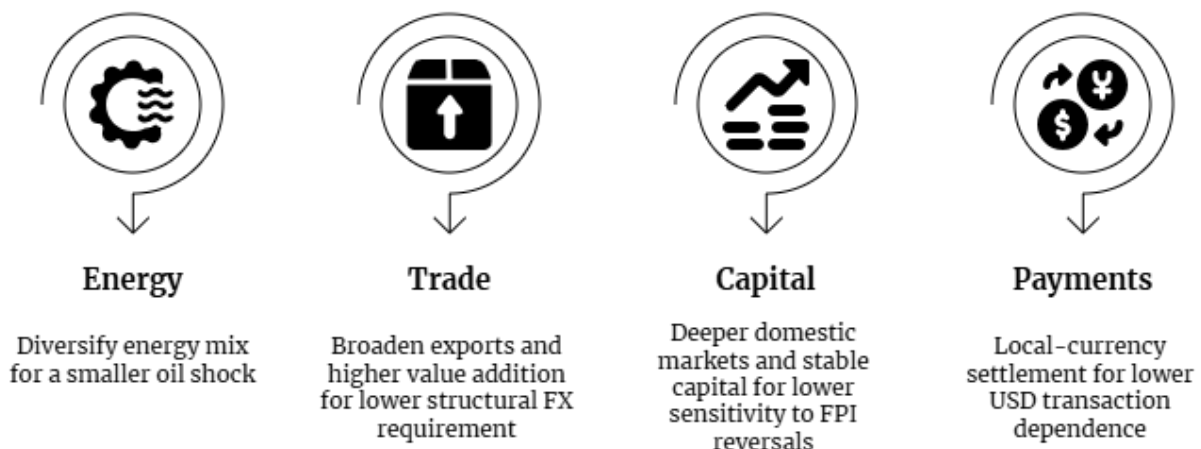
How External Vulnerability Becomes Economic and Corporate Pressure

Figure 4.1: Impact of External Shocks



How to Reduce the Pressure Before it Reaches the RBI

Figure 4.2: Strategic Policy Responses



All four point to:

LOWER EXTERNAL SENSITIVITY



Less frequent / less intensive need for RBI intervention

The implication is not that India can or should eliminate its exposure to global trade and capital. Rather, the objective is to reduce the sensitivity of growth, inflation and corporate profitability to external shocks. RBI intervention remains the first line of defence; diversification and deeper domestic capacity determine how often that defence is required.

4.5 The Payments Question: Transaction Cost, Not De-Dollarisation

Two things happened in the same quarter: India took on \$136bn of dollar-denominated obligations to stabilise its currency, and India chaired a BRICS summit whose declaration endorsed settling trade in local currencies. It is tempting to read the second as a response to the first. It is not, and the framing matters because the lazy version of this story will date badly.

The New Delhi Declaration, adopted by consensus on 12 September, contains no common currency and no de-dollarisation commitment. Clause 90 endorses interoperable payment systems and local-currency settlement on a voluntary basis and extends the mandate of the BRICS Payment Task Force to keep working on the interoperability of cross-border payment and messaging channels. India's own officials were explicit afterwards that no common currency proposal is on the table. What was agreed is infrastructure work, not monetary union.

The correct analytical frame is transaction cost and sanctions resilience, and on that frame the mechanics are more instructive than the communiqué. Rupee invoicing solves a real problem for a counterparty that cannot easily access dollars. It creates a second problem immediately: what the counterparty does with the rupee balances it accumulates. That is precisely why the Russia rupee balances stalled. A settlement currency needs an investment destination before it needs a payment rail and the Special Rupee Vostro Account framework, in place since July 2022 and now spanning arrangements with more than thirty countries, has produced settled volumes that remain small relative to India's trade.

India has, in fairness, been closing the gaps. The permitted investment universe for vostro balances was widened to include corporate debt in October 2025. The DGFT amended the Foreign Trade Policy on 20 August 2026 so that exporters invoicing in rupees retain access to trade policy incentives, closing a disincentive that had quietly suppressed rupee invoicing for years. And the honest evidence base on payment rails is not BRICS at all, it is UPI's international linkages, which are live, measurable, and doing more for cross-border transaction cost than any multilateral declaration.

For a corporate reader the practical position is this: rupee invoicing is now worth evaluating for counterparties in sanctioned or dollar-constrained jurisdictions, because the trade-incentive penalty has been removed. It is not yet worth evaluating as a hedging strategy, because the hedging market for most of these pairs does not exist. Nothing agreed in New Delhi changes the dollar's role in your payables in FY28.

Chapter 5: Outlook and Closing Thoughts

The analysis so far points to a relatively clear conclusion. India's domestic economy remains resilient, but its external position is facing sustained pressure from energy prices, capital flows and a weaker rupee. The RBI has been able to manage that pressure through a combination of reserves, forward intervention, market restrictions and FCNR(B) mobilisation. These measures have bought time, but some have also created obligations that will matter beyond the immediate episode.

The question for FY28 is therefore not whether India can withstand an external shock. It has demonstrated that it can. The more relevant question is how long the external pressure persists, and how much policy space remains if it does.

5.1 Three paths to FY28

These are scenarios, not forecasts. Each scenario starts with a defined external trigger and estimates the resulting range for growth, inflation, the current account and capital flows using the relationships established earlier in the paper.

Table 5.1: Three scenarios to FY28

Variable	Managed External Stress (base case)	External Normalisation	Persistent External Shock
Assumed Brent path	Settles back to \$90–100 as Gulf flows partially restore	Toward the EIA's ~\$69 2027 case	Sustained above \$110
Real GDP growth, FY28	6.3–6.8%	7.0–7.5%	5.5–6.0%
CPI inflation, FY28 avg	4.5–5.0%	3.5–4.0%	5.5–6.5%
Repo rate, end-FY28	5.25%, held	4.75–5.00% (easing)	5.75–6.25% (hiking)
Current account deficit, % of GDP	1.4–1.7%	0.8–1.0%	2.0–2.5%
Net FPI flows, FY28	Roughly flat	Net positive	Sustained outflow
Key trigger	Hormuz transits recover to a third of pre-war norms and hold for two quarters, and the	Two consecutive EIA downgrades to the Brent forecast, plus a return to net FPI inflows	Hormuz transits stay in single digits per day through Q3 FY27, or Section 301 coverage widens to a

Saudi East-West pipeline
reopens without further attack

country-specific rate above
10%

External Normalisation

Under the first scenario, the West Asia shock continues to fade, Brent moves towards the EIA's ~\$69 2027 case and foreign portfolio flows return to positive territory.

The combination would ease pressure on both sides of India's external account. A lower oil bill would reduce the current account deficit and inflationary pressure, while renewed portfolio inflows would reduce demand for dollar liquidity and allow the rupee to stabilise without the same degree of RBI intervention.

Real GDP growth could return to the 7.0-7.5% range, while CPI inflation could moderate to 3.5-4.0%. The current account deficit would remain contained at around 0.8-1.0% of GDP.

This is the most favourable outcome, but it requires both the energy shock and the capital-flow shock to unwind.

Persistent External Shock

The combination would affect India through several channels simultaneously: higher oil prices would widen the current account deficit and raise inflation, while heightened risk aversion could trigger another round of portfolio outflows.

Real GDP growth could fall to 5.5-6.0%, CPI inflation could rise to 5.5-6.5%, and the current account deficit could widen to 2.0-2.5% of GDP.

In this scenario, the RBI would face a more difficult trade-off. Supporting the rupee through further intervention could protect against imported inflation but would consume reserves or increase future obligations. Tightening monetary policy could support the currency but weaken domestic demand.

The problem would therefore no longer be simply the level of the rupee. It would be the shrinking room to respond to another shock.

Managed External Stress (Base Case)

The middle scenario assumes Brent settles into a \$90–100 band as Gulf flows partially restore, above the EIA's Q4 2026 case, close to the above-\$95 assumption underpinning Moody's 6.0% FY27 growth forecast, and below the sustained \$110 of the adverse case. There is no new disruption to Hormuz, but oil stays materially above pre-shock levels and portfolio flows broadly stabilise rather than returning strongly. This assumption was framed before the Saudi East-West pipeline was shut on 11 September. With the main Hormuz bypass out of service, the base case now requires that closure to be temporary. If the pipeline stays down through the fourth quarter, the adverse case becomes the more probable of the two.

Under this scenario, India continues to grow, but at a slower pace of 6.3-6.8%. CPI inflation remains around 4.5-5.0%, while the current account deficit stays within 1.4-1.7% of GDP.

The rupee remains under pressure, but the pressure is manageable. The RBI continues to intervene selectively to smooth volatility, while the external buffers accumulated over previous years prevent the episode from becoming an external financing crisis.

This is the scenario in which policy management matters most. The economy remains fundamentally resilient, but the cost of maintaining that resilience does not disappear.

What Would Change the Base Case?

The scenarios should not be treated as fixed outcomes. A small number of indicators would provide the earliest evidence that conditions are moving from one scenario towards another.

Table 5.2: Six Numbers to Track

Indicator	Why it matters
USD-INR	Should be assessed against peer currencies rather than in isolation
Brent crude	Affects the current account, inflation and the rupee simultaneously
Net FPI flows	The most important capital-account pressure identified in this paper
FX reserves and RBI intervention pattern	Shows how aggressively the RBI is defending the currency
Current account deficit	A sustained deficit below 1.5% of GDP would indicate meaningful external resilience
RBI net short forward position	The clearest measure of how much pressure has been deferred rather than absorbed. It has already breached its previous record.

The last of these has already fired. The forward book dipped to \$103.33 billion at June-end, the RBI used part of the initial FCNR(B) inflow to retire forward positions, before rising to a new record of around \$136 billion at July-end. The dip-then-record pattern is itself informative: it shows the two instruments are mechanically linked, with the deposit scheme funding a temporary unwind of forward exposure that was then rebuilt on a larger base. A widening of the onshore-offshore spread towards the levels seen during the April episode would suggest renewed stress in FX markets. A CPI reading materially above the RBI's own projected peak of around 5.9% would reduce the central bank's room to prioritise growth while managing the currency.

These indicators matter because the principal risk is not necessarily a single large shock. It is the possibility that several smaller shocks arrive before the effects of the previous ones have fully unwound.

5.2 What a board should watch

Table 5.3: Areas to watch for Corporate India

Instructions	Why it matters
Stress-test the rupee rather than assume a recovery	Companies with imported inputs, dollar liabilities or foreign-currency payables should assess the effect of a weaker rupee on margins and working capital.
Separate revenue exposure from cost exposure	A weaker rupee can benefit exporters, but the benefit depends on import content, hedging and pricing power. The paper's sector analysis shows

	why companies cannot assume that currency depreciation is automatically positive for export-oriented businesses.
Link oil and FX stress-testing	Oil and the rupee should not be modelled as independent risks. A disruption to energy flows can simultaneously increase the dollar import bill, weaken the currency and raise inflation.
Watch policy signals, not just market prices	For companies with significant FX exposure, the RBI's intervention pattern, forward position and changes in market restrictions can be as important as the USD-INR spot rate itself.

5.3 What Would Make Us Wrong

This paper's argument is that a strong real economy is sitting on an external balance sheet whose stabilisation has been paid for on credit. Four tests would defeat that argument.

Test 1: the rupee is not actually weak. If the real effective exchange rate showed the rupee at or above its long-run average, the depreciation would be a correction rather than a stress. The RBI's 40-currency REER fell from 108.03 in November 2024 to 91.26 in June 2026, from roughly 8% overvalued to roughly 8.7% undervalued and the Governor has said publicly that the rupee can reasonably be considered undervalued. The thesis survives this test and is strengthened by it. It also sharpens the question: the defence was mounted for a currency the central bank's own measure says is cheap.

Test 2: the current account is not under real pressure. If the deficit stays below 1.5% of GDP even at \$90 crude, the services and remittance buffer is doing more work than the pessimistic reading allows. Q1 FY27 came in at 0.5% of GDP. This test currently runs against us. Our answer is that Q1's oil bill was priced before the July spike and the import lag is six to eight weeks, so the quarter is not the year but that is an argument, not a refutation, and the Q2 print will settle it. We will publish the Q2 figure against this test whatever it shows.

Test 3: the deferred obligations are within historical range. Reserves are at a record, the forward book is at a record, external debt to GDP is at a five-year high and will rise further as FCNR(B) enters the stock. Scaled to GDP, the combined position is larger than 2013 and larger than 2018.

Test 4: the FCNR(B) money proves stickier than assumed. The 2016 redemption of the 2013 scheme was managed smoothly and is a fair point for the other side. But the 2026 scheme is roughly five times larger and more concentrated in tenor. This is genuinely open, and we model both.

One of four runs against us today. We publish it because the alternative, setting a test, receiving an inconvenient answer in public data, and staying silent, is the failure that destroys a research franchise

Table 5.4: What a board should decide, and what should prompt it

Decision	Trigger to watch	Threshold	Owner	Review
Review hedge ratio on dollar payables and ECBs against board policy	RBI net short forward position; any new capital flow management measure	Forward book above \$136 bn, or any new CFM measure announced	Group treasurer	Monthly

Add an instrument-availability assumption to treasury policy	Regulatory action on NDFs, NOP limits or rebooking	Any restriction on a hedging instrument currently in use	Treasurer and risk committee	On event; policy review annually
Quantify and file the IEEPA duty refund claim	Entries liquidated under the struck-down reciprocal regime	Any US-bound shipment dutied between Sept 2025 and Feb 2026	CFO with customs broker	Immediate; 180-day protest window from liquidation
Re-plan FY28 working capital and deposit assumptions	Banking system surplus liquidity; WACR–repo spread	Surplus above ₹8 lakh crore, or WACR more than 20bp below repo	Treasurer	Monthly
Model CBAM certificate cost into FY28 EU pricing	EU CBAM definitive-phase obligations	Any exposure in steel, cement, aluminium or fertilisers	Commercial head with finance	Quarterly
Escalate Russian-crude counterparty exposure to board level	Share of Russian crude in the import slate; secondary-sanctions actions	Sustained above 40% of the slate	Procurement and legal, to audit committee	Quarterly
Begin FY30–FY32 refinancing planning	FCNR(B) and forward book redemption profile	Any dollar liability maturing FY30–FY32	CFO	Annually from FY28

5.4 Closing thoughts

India's experience in 2026 does not point to an external crisis. The country retains substantial buffers in the form of foreign-exchange reserves, services exports and remittances, while domestic demand and growth have remained resilient.

But resilience should not be confused with immunity.

The external account has come under pressure from higher energy costs, portfolio outflows and a wider merchandise trade deficit. The RBI has responded with a broader intervention toolkit than a simple reserve drawdown. Spot intervention has used reserves, forward intervention has created future obligations, administrative measures have temporarily constrained market activity, and FCNR(B) has mobilised foreign currency by using the RBI's balance sheet.

The common thread is that the underlying pressure has been managed rather than eliminated.

This distinction matters for FY28. If oil prices normalise and capital flows recover, India's existing buffers should allow the economy to absorb the shock without significant disruption. If the shock persists, however, the question becomes how much policy space remains after repeated intervention and how effectively the economy can adjust through the current account, capital flows and the exchange rate.

The most important variable is therefore not simply the level of the rupee or the size of reserves at any particular point in time. It is the duration of the external pressure relative to India's capacity to absorb it.

India enters FY28 resilient, but under pressure. Its buffers are large enough to buy time. The question is whether that time is enough for the underlying external pressures to ease before the cost of managing them becomes more significant.

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