

SPECIAL UPDATE

New RBI & Government Measures to Attract FPI Inflows

Jun 08, 2026

Union Mutual Fund - Registration No. MF/066/11/01

The Big Picture: Why did the Government & RBI announce the new measures?

India's economy is relatively stable as compared to the other emerging markets. We had over **\$94.5 Billion** in corporate long-term investments (FDI) in FY26 and a **\$682.3 Billion** foreign exchange cushion to back us up as of June'26. However, due to global market shifts, short-term foreign investors recently pulled out around **\$14 Billion** over the last few quarters, mostly from Indian stocks.

To counteract these outflows, the Indian Government and the RBI launched a coordinated series of policy updates. By targeting global inflows directly into government bonds and fixed deposits, these measures aim to stabilize the rupee, bring in fresh US dollars, and help India's entry into top global bond indexes.

Key Changes Made by the Government & RBI

- 1. Total Tax Overhaul & BIS Inclusion:** Through the Income-tax (Amendment) Ordinance, 2026, the Government has removed all income taxes (the 20% interest withholding tax and the 12.5% long-term capital gains tax) for foreign portfolio investors buying Indian Government Securities (G-Secs). This zero-tax status is fully extended to the Bank for International Settlements (BIS)—the global institution owned by central banks—opening a direct track for global central bank reserve portfolios into Indian debt.
- 2. Fully Unlocked Long-Term Bonds (FAR Route):** Foreign funds can now buy new 15-year, 30-year, and 40-year Indian Government Bonds through the Fully Accessible Route (FAR). There are no upper limits or caps on these specific long-term options.
- 3. No More Strict Investment Restrictions:** The RBI completely removed old rules that limited how much a foreign fund could invest in short-term bonds or hold in a single type of government debt. Foreign asset managers now have full freedom to invest at scale.
- 4. Easier Investing for Individual Foreign Citizens:** Previously, only Non-Resident Indians (NRIs) and Overseas Citizens of India (OCIs) enjoyed a simple setup to buy stocks. Now, any individual foreign citizen anywhere in the world can invest easily without going through complicated regulatory registration processes.
- 5. PSU Benefit & Freeing Up Domestic INR Liquidity:** The RBI provides a concessional foreign exchange swap window to Public Sector Undertakings (PSUs), drastically slashing the cost of currency hedging. This makes borrowing via External Commercial Borrowings (ECBs) significantly cheaper. PSUs are likely to raise capital from abroad, thereby reducing the borrowing from domestic markets to that extent.
- 6. FCNR Deposits:** The RBI is absorbing 100% of the currency hedging costs for banks mobilizing 3-to-5-year Foreign Currency Non-Resident (FCNR) deposits until September 30, 2026. Unlike the partial hedge provided in 2013, this full hedge entirely removes rupee depreciation risk for depositors. Supported by India's much stronger macroeconomic fundamentals today as against the conditions in 2013, this configuration has the potential to deliver better returns for non-resident investors. The anticipated increase in FCNR deposits with banks will consequently ease pressure on both liquidity and short-term rates.
- 7. The RBI also ordered exporters to bring their overseas sales money back into India within 9 months instead of 14 months, prompting an influx of US dollars into the banking system.**

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How This Impacts the Markets (Why it Matters)

- **Global Bond Indices:** Tax hurdles previously were the operational friction delaying entry into major benchmarks like the Bloomberg Global Aggregate Index and restricting optimal positioning in the JPMorgan EM Index. The elimination of taxes removes the bottleneck, clearing a path for passive international institutional flows tracking into Indian sovereign debt. This might act as a catalyst for inclusion of Indian bonds in the upcoming rebalancing of the Bloomberg Index.
- **Structural Net Return Boost for FPIs:** Eliminating capital gains and interest withholding taxes automatically elevates net dollar-equivalent returns for foreign institutions. This positions Indian sovereign debt as a highly competitive yield opportunity among major emerging markets, anchoring long-term global institutional demand.
- **Help in Stabilizing the Bond Market & FII Confidence:** The steady, organic influx of foreign capital would stabilize the rupee. Lower currency volatility removes a primary risk factor for Foreign Institutional Investors (FIIs), fundamentally boosting their confidence in holding Indian bonds.
- **Preserving Domestic Liquidity via Reduced Intervention:** Since these policies are expected to naturally draw in dollars and support the currency, the need for intervention is expected to drop. This will reduce drainage of systemic liquidity and therefore it's a positive for debt markets.

Source: RBI, Ministry of Finance, Money Control, Internal Research

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