Rupee-dollar swap could boost foreign fund flows under voluntary retention route-

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Less uncertainties for FPIs under VRR; RBI providing three-year forward cover

- The RBI's decision to infuse rupee liquidity through long term foreign exchange swap, a first of its kind in liquidity management policy, is likely to boost investments by foreign portfolio investors under the voluntary retention route (VRR).
- Such a swap route has been explored by various emerging market economies as an effective tool to manage liquidity.
- Apart from liquidity infusion, the move will boost the country's foreign exchange reserves and is likely to support the exchange rate.
- The VRR for investments by foreign portfolio investors (FPIs) is subject to a minimum retention period of three years from the date of allotment.

Lower premium

- Three-year forward cover is not easily available in the market and here, RBI is providing that cover and the premium could be lower again which will be market determined.
- There will be less uncertainties for the FPIs who want to take the VRR route.
- Investments under VRR (by all FPIs taken together) are capped at Rs.40,000 crore for government securities and Rs.35,000 crore for corporate debt securities.

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