SCB Fresh Spreads Hit a Ten-Month High in August 2026

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Synopsis

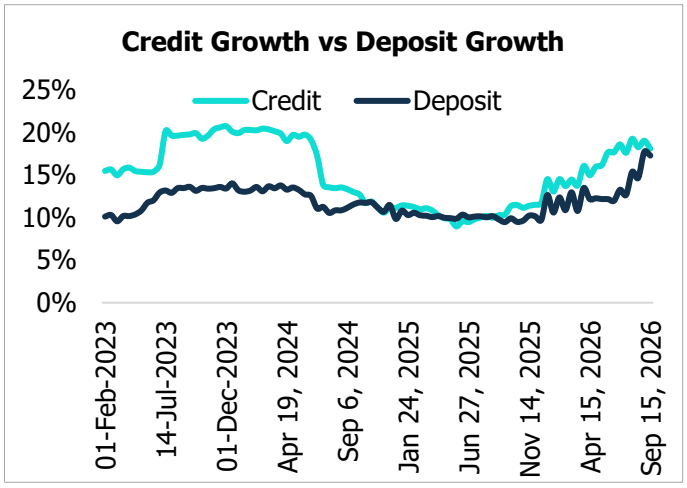
- The fresh spread for scheduled commercial banks (SCBs) widened 27 bps m-o-m to 2.94% in August 2026, the highest since November 2025, as fresh lending rates rose 9 bps to 8.61% and fresh deposit rates fell 18 bps to 5.67%. The y-o-y gap narrowed to 22 bps in August 2026 from 53 bps in July 2026.
- The fall in fresh deposit rates reflects a change in the mix of deposits banks raised. The US$133.0 billion mobilised under the Foreign Currency Non-Resident (Bank) [FCNR(B)] swap window replaced costly rupee wholesale funding, and deposit growth reached a 15-year high of 17.8% at end-August.
- The rise in lending rates came from private banks, where fresh lending rates rose 10 bps to 9.19%. The mix of lending also helped, as personal loans were the largest contributor to credit growth in FY27 through August 31, at 39.7% of credit added, led by gold loans.
- The existing loan and deposit book moved little, with the outstanding spread up 1 bp to 2.40%. Banks now pay 89 bps less on new deposits than the average on their existing book, which should lower funding costs gradually as old deposits mature and renew through the December quarter.
- The funding benefit is unlikely to extend. The swap window closed on August 31, system liquidity has fallen back to Rs 4.9 lakh crore as on September 30, and longer-tenor CD rates have stayed high, so banks will have to pay more for funds beyond the very short end. Conversely, a repo rate increase at the October review, which the market is pricing in, would lift externally benchmarked loans within a quarter. We expect the fresh WALR at 8.50%-8.65% and the fresh WADTDR at 5.55%-5.75% in September.

"Bank spreads improved in August 2026, but the gain largely came from cheaper deposits rather than better pricing on advances. New loans were priced a little higher, and new deposits cost less, so the spread on fresh business widened to its best level in ten months. The main driver was the FCNR(B) swap window, which gave banks a large pool of cheaper foreign-currency funding and let them cut back on costly short-term borrowing in the rupee market. Private banks saw the biggest improvement in spreads, as they were the only group to also raise lending rates, while every group benefited mainly from cheaper deposits. With the window now closed, how much of this benefit banks keep will depend on what they have to pay for funding in the coming months." - Vineet Jain, Senior Director, CareEdge Ratings

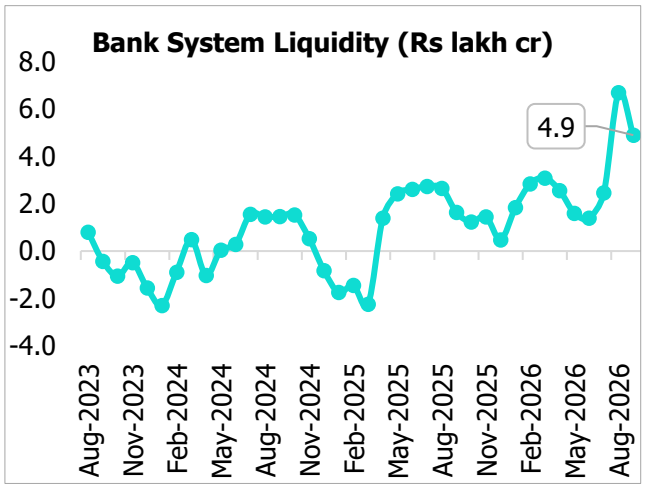
2.94%	5.67%	8.61%	2.40%	~80 bps
FRESH SCB SPREAD	**FRESH DEPOSIT RATE**	**FRESH LENDING RATE**	**O/S SCB SPREAD**	**CREDIT-DEPOSIT GAP**
+27 bps m-o-m, highest since Nov-25	−18 bps m-o-m, sharpest fall since April	+9 bps m-o-m, −11 bps y-o-y	+1 bp m-o-m, −5 bps y-o-y	from ~495 bps in mid-July

Credit-Deposit Gap Narrows as Deposit Growth Touches a 15-Year High

Bank credit grew 18.1% y-o-y as of September 15, 2026, and deposits grew 17.3%, narrowing the gap to around 80 bps from roughly 495 bps in mid-July, driven by faster deposits rather than slower lending. The improvement in deposit mobilisation came mainly from the RBI's special swap window for FCNR(B) deposits, which brought in US$133.0 billion between June 8 and August 31.



Source: RBI, CareEdge Calculations.

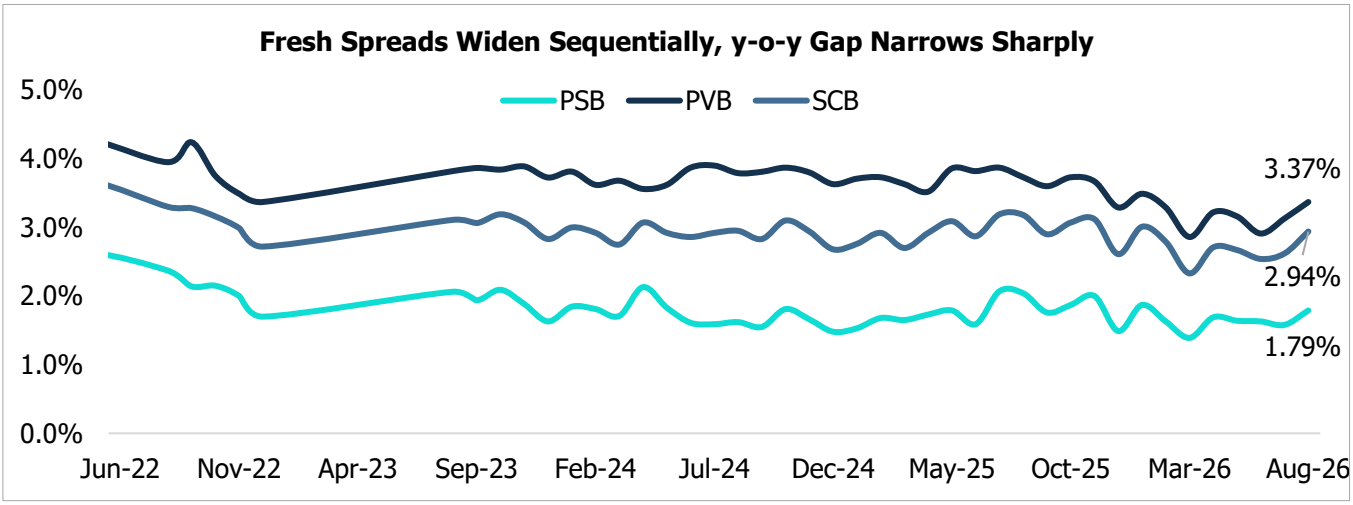


Source: RBI, CMIE (Data as of September 30, 2026)

System liquidity peaked above Rs 11 lakh crore in early September and pulled down the weighted average call rate (WACR) to 5.03%, below the 5.25% repo rate. The RBI used outright sales of Rs 1 lakh crore of government securities (G-sec), which cut the surplus to Rs 4.9 lakh crore by end-September. Banks also added to their government securities holdings while waiting to lend the money out, with investments growing 6.8% y-o-y as of September 15. The 10-year G-sec yield rose to 6.95% at end-August from 6.84% a month earlier, on higher crude prices, rising US Treasury yields, and added supply.

Fresh Spread Widens 27 bps to 2.94%, the Highest Since November 2025

The spread on fresh loans and deposits for SCBs widened 27 bps m-o-m to 2.94% in August, the highest since November 2025 and the largest monthly widening since April 2026, though still 22 bps below the year-ago level of 3.16%. The y-o-y gap has narrowed sharply from 53 bps in July, so the spread is closing back towards where it stood a year ago. The weighted average lending rate (WALR) on fresh rupee loans rose 9 bps to 8.61%, while the weighted average domestic term deposit rate (WADTDR) on fresh deposits fell 18 bps to 5.67%.



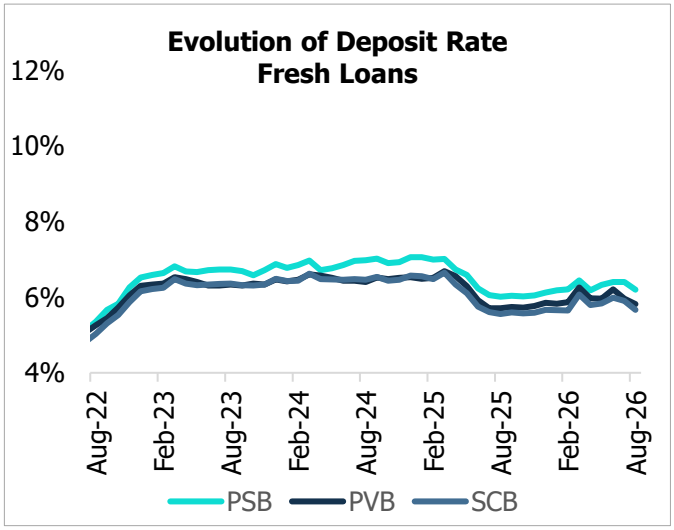
Source: RBI

All bank groups saw a higher spread, but cheaper deposits did most of the work everywhere. At private banks (PVBs), the spread rose 24 bps to 3.37%, as lending rates rose 10 bps and deposit rates fell 14 bps. At public sector banks (PSBs), it rose 16 bps to 1.79%. At foreign banks (FBs), it rose 12 bps to 3.28%, almost entirely

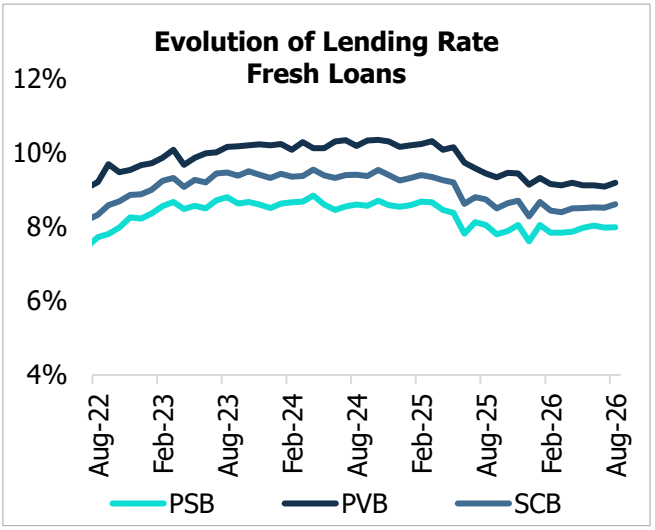
through a fall in their deposit rates. PVBs were the only group to raise lending rates. This matters for how long the improvement lasts, because the fall in deposit costs is tied to the swap window, which has closed. The wider position is also unchanged, as credit is still growing faster than domestic deposits and the credit-deposit ratio has eased to 80.3% from 82.2% in March because of the one-off foreign currency inflow. We expect the fresh WALR to be 8.50%-8.65% and the fresh WADTDR to be 5.55%-5.75% in September.

Fresh Deposit Rates Fall 18 bps as Banks Reduce Wholesale Funding

Fresh deposit rates for SCBs fell 18 bps m-o-m to 5.67% in August, the sharpest fall since April, but remained 11 bps above year-ago levels. FCNR(B) inflows temporarily reduced the need for expensive rupee wholesale funding, shrinking the costliest component of fresh deposits. CD issuance fell to Rs 68,130 crore in August from Rs 95,945 crore in July and Rs 1.80 lakh crore in June, and outstanding CDs fell 19% over the two fortnights to September 15, as banks let maturing paper lapse instead of issuing fresh paper. Easing in funding costs has been concentrated at the short end, steepening the CD curve since late May 2026. Three-month CD rates fell from 7.5%-7.6% in May to below 6% in early September before rebounding to ~6.2% by mid-September, while one-month rates also fell below 6%. The 12-month rate was stickier, easing from nearly 7.9% to ~7.5%, with longer tenors at 6.7%-7.5%. The spread between 12-month and three-month CD rates widened from around 40 bps in May to over 130 bps by mid-September. Short-term money is cheap, but banks still have to pay a premium for longer-tenor funds, reflecting uncertainty over where policy rates and funding conditions settle. Term premia in the CD market are therefore likely to persist.



Source: RBI



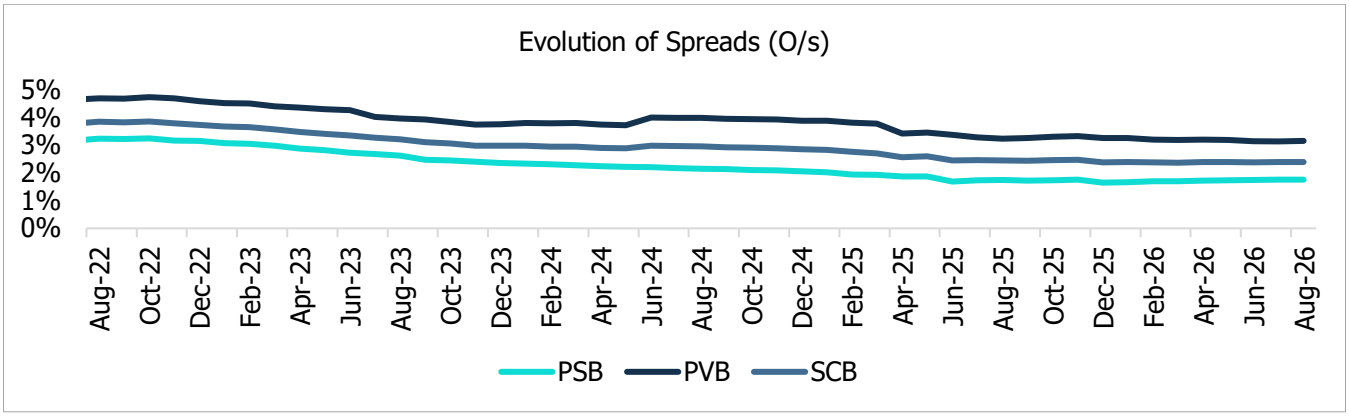
Source: RBI

Fresh lending rates rose 9 bps to 8.61%, the largest monthly rise since April, even though rates fell in seven of eleven lending segments. The rise came from PVBs, which price fresh loans about 120 bps above PSBs, so a larger share of lending written by them lifts the average. The credit mix helped as well. Retail lending has added more credit than any other segment this financial year, and it is priced above corporate lending, with fresh rates on other personal loans at 10.41% in August against 7.48% for large industry.

Outstanding Spread Rises 1 bp to 2.40% as New Deposits Stay Cheaper than Old Ones

The spread on outstanding loans and deposits for SCBs widened 1 bp m-o-m to 2.40% in August and is 5 bps narrower y-o-y. PSBs are the only group whose outstanding spread is wider than a year ago, at 1.76%, up 2 bps y-o-y, while PVBs are 8 bps narrower at 3.16% and FBs 23 bps narrower at 2.94%. The difference follows from benchmark composition. At end-June 2026, 90.8% of the floating-rate loan book at PVBs was linked to the external

benchmark, compared with 53.6% at PSBs, so PVBs passed the repo cuts through to their existing loans faster and therefore saw a larger fall in their outstanding lending rate.

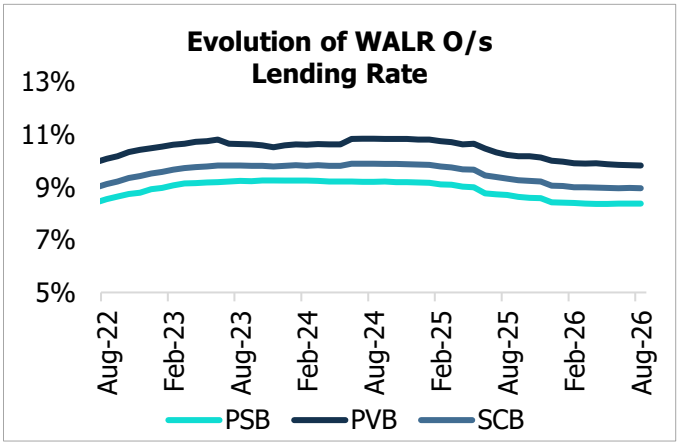


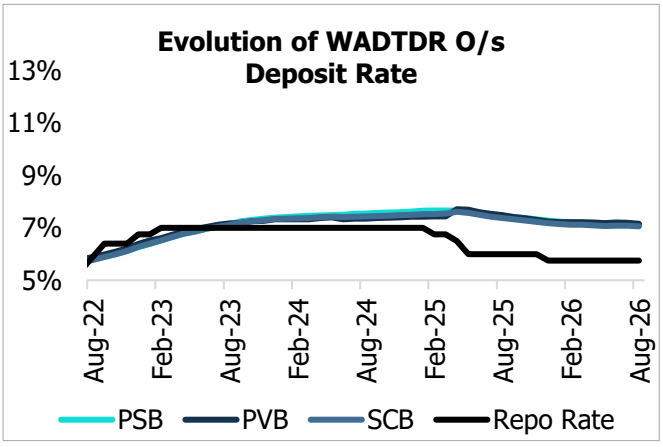
Source: RBI

Banks are paying far less on new deposits than the average rate on the deposits already on their books. That gap was 89 bps in August, against 73 bps in July and 63 bps in June. It matters because deposits reprice only when they mature, so the wider the gap, the more a bank saves each time an old deposit is renewed. The gap therefore indicates which way funding costs on the existing book are heading. It had narrowed to 63 bps in June, which is why outstanding deposit costs stopped falling, and spreads came under pressure in the June quarter, and it widened again in August. That points to outstanding deposit costs drifting lower into the December quarter. We expect the outstanding WALR to be in the range of 8.90%-8.98% and the outstanding WADTDR to be at 6.50%-6.58% in September.

Outstanding Rates Move Little as Transmission Slows

Outstanding lending rates for SCBs fell 1 bp m-o-m to 8.96% and outstanding deposit rates fell 2 bps to 6.56%, both 31 to 36 bps lower y-o-y. The RBI cut the repo rate by 125 bps between February 2025 and December 2025, from 6.50% to 5.25%, and has held it there since. Loans linked to the external benchmark lending rate (EBLR) move with the repo rate, and that part of the book has passed on the full 125 bps. The non-EBLR part of the book has not: the outstanding lending rate has fallen about 90 bps since February 2025 and the one-year median MCLR 40 bps. EBLR loans were 68.2% of the floating rate book at end-June 2026, so the remaining transmission has to come through MCLR revisions and through old loans maturing and being replaced, both of which are slow.

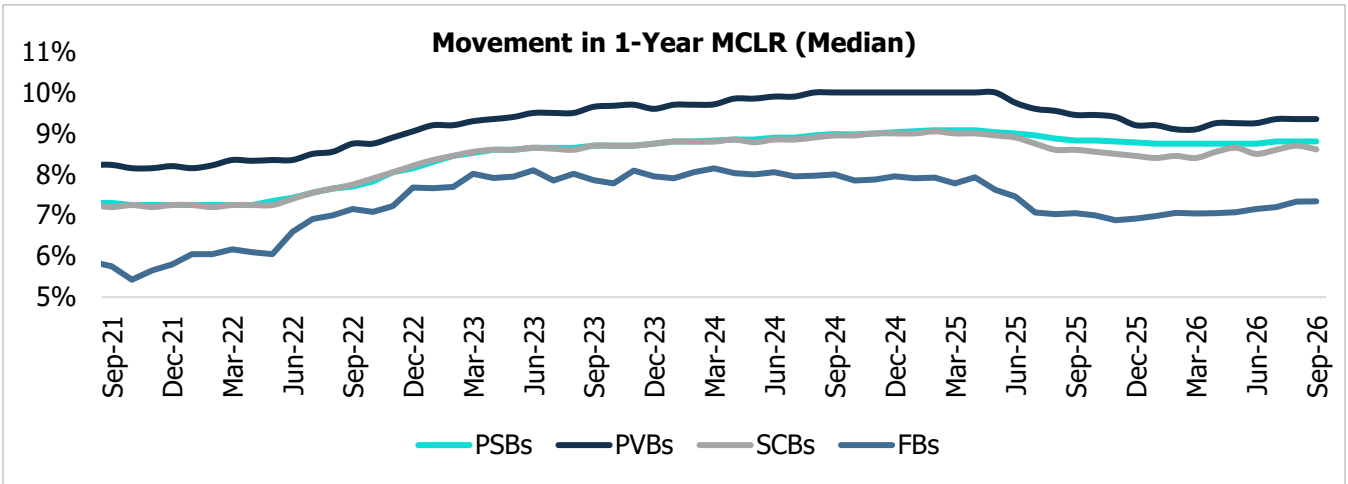




Source: RBI

Median MCLR Falls 9 bps in September, Reversing August's Rise

The median one-year MCLR across SCBs fell 9 bps m-o-m to 8.61% in September 2026, against 8.60% a year earlier. The medians for public and private sector banks were unchanged at 8.80% and 9.35%, and the foreign bank median rose 1 bp to 7.34%, so the fall came from banks priced around the middle of the range rather than from any group moving together. The fall also reverses a 10 bps rise in August. Each bank sets its MCLR based on its own cost of funds, so the rate moves only after funding costs change. The August rise followed a June quarter of strong competition for deposits, and the September fall followed the drop in funding costs during August. From here, lower funding costs point to further small cuts, while a repo rate increase at the October review would work in the opposite direction.



Source: RBI

Bank-wise 1 Year MCLR

Banks	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26	Y-o-Y	M-o-M
PSB															
BoB	8.80	8.75	8.75	8.75	8.75	8.70	8.70	8.70	8.70	8.75	8.75	8.75	8.75	-0.05	0.00
BoI	8.85	8.85	8.85	8.85	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.80	8.80	-0.05	0.00
BoM	8.90	8.90	8.85	8.85	8.85	8.85	8.85	8.85	8.85	8.85	8.95	9.00	9.00	0.10	0.00
Canara	8.75	8.75	8.70	8.70	8.70	8.70	8.70	8.70	8.75	8.75	8.75	8.80	8.80	0.05	0.00
CBI	8.75	8.70	8.70	8.70	8.65	8.65	8.65	8.65	8.65	8.75	8.80	8.80	8.80	0.05	0.00
Indian	8.85	8.85	8.85	8.80	8.75	8.75	8.75	8.75	8.75	8.75	8.85	8.85	8.85	0.00	0.00
IOB	8.85	8.85	8.85	8.80	8.80	8.80	8.80	8.75	8.75	8.80	8.80	8.85	8.85	0.00	0.00
PSB	9.00	8.95	8.95	8.85	8.85	8.85	8.85	8.85	8.85	8.85	8.85	8.85	9.05	0.05	0.20
PNB	8.80	8.80	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.80	8.80	8.80	0.00	0.00
SBI	8.75	8.75	8.75	8.70	8.70	8.70	8.70	8.70	8.70	8.70	8.70	8.70	8.70	-0.05	0.00
UBI	8.60	8.60	8.60	8.60	8.60	8.60	8.60	8.70	8.70	8.75	8.80	8.80	8.80	0.20	0.00
PVB															
HDFC	8.65	8.55	8.50	8.45	8.40	8.40	8.35	8.35	8.35	8.40	8.45	8.40	8.35	-0.30	-0.05
ICICI	8.35	8.35	8.35	8.35	8.35	8.35	8.35	8.40	8.40	8.40	8.40	8.40	8.40	0.05	0.00
Axis	8.75	8.70	8.75	8.70	8.70	8.80	8.80	8.80	8.70	8.75	8.75	8.75	8.65	-0.10	-0.10
IndusInd	10.15	10.10	10.10	10.05	10.00	10.00	10.05	10.00	10.00	10.10	9.90	9.90	9.75	-0.40	-0.15
Kotak	8.55	8.45	8.40	8.40	8.40	8.40	8.40	8.40	8.40	8.40	8.45	8.40	8.30	-0.25	-0.10
Yes	9.80	9.70	9.70	9.70	9.70	9.70	9.80	9.80	9.80	9.80	9.90	9.95	9.90	0.10	-0.05

Source: RBI

Segmental Lending Yields

Aug-26	Agri	Ind (Large)	MSMEs	Infra	Trade	Prof Ser	Education	Vehicle	Housing	Other Per Loans	Rup. Exp. Cre.
O/s (%)	9.66	7.68	9.15	8.09	8.22	8.44	9.27	9.57	7.70	10.55	7.50
Fresh (%)	9.69	7.48	8.79	7.61	7.93	8.09	9.30	9.57	7.61	10.41	6.90
Y-o-Y											
O/s (bps)	-0.33	-0.25	-0.26	-0.54	-0.42	-0.35	-0.39	-0.22	-0.32	-0.48	-0.36
Fresh (bps)	0.04	0.27	-0.30	-0.16	-0.24	0.06	-0.57	-0.74	-0.19	-0.37	-1.29
M-o-M											
O/s (bps)	0.00	0.01	-0.01	-0.01	0.03	-0.02	-0.01	0.02	0.00	-0.02	-0.01
Fresh (bps)	0.04	-0.05	-0.03	-0.10	0.14	-0.10	0.16	-0.19	-0.02	0.17	-0.29

Source: RBI

Fresh lending rates fell m-o-m in seven of eleven segments in August and rose in four segments. The largest falls were in rupee export credit at 29 bps, vehicle loans at 19 bps, and infrastructure and professional services at 10 bps each. Other personal loans led the increases at 17 bps, followed by education at 16 bps and trade at 14 bps. The aggregate rate rose 9 bps m-o-m despite segments falling more than rising, reflecting the shift in lending towards PVBs set out earlier rather than any change at the segment level. On a y-o-y basis, rates are lower in eight of eleven segments, with rupee export credit down 129 bps. The exception is large industry, 27 bps higher than a year ago. Credit to large industry grew 14.9% y-o-y in August, slower than 23.0% for micro and small enterprises and 31.8% for medium enterprises.

Conclusion

According to Saurabh Bhalerao, Director, CareEdge Ratings, "The near-term picture for the existing book is more supportive than it may appear. Banks are still paying meaningfully less on new deposits than on their existing book, so funding costs should keep easing over the next couple of quarters as old deposits mature and renew. A policy rate increase, which the market now expects in October, would be supportive because externally benchmarked loans reprice upward more quickly, though deposits take longer to follow. The caution sits on the funding side. The easing in money market rates has been concentrated at the very short end, and banks are being asked to pay a visible premium for anything beyond a few months, which tells us the market is comfortable with today's liquidity but not with what comes after it. We expect margin recovery to be gradual, and to differ widely from one bank to the next."

Contact

Vineet Jain	Senior Director – BFSI	vineet.jain@careedge.in	+91-99876 88674
Saurabh Bhalerao	Director – BFSI Research	saurabh.bhalerao@careedge.in	+91 - 22 - 6754 3519 / +91-90049 52514
Aviral Raghuwanshi	Analyst – BFSI Research	aviral.raghuwanshi@careedge.in	+91 – 22 - 6754 3630 / +91- 73108 23102
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road,
Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456
CIN: L67190MH1993PLC071691

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