

FCNR(B) Inflows to Support Deposit Growth and Credit Deployment in FY27

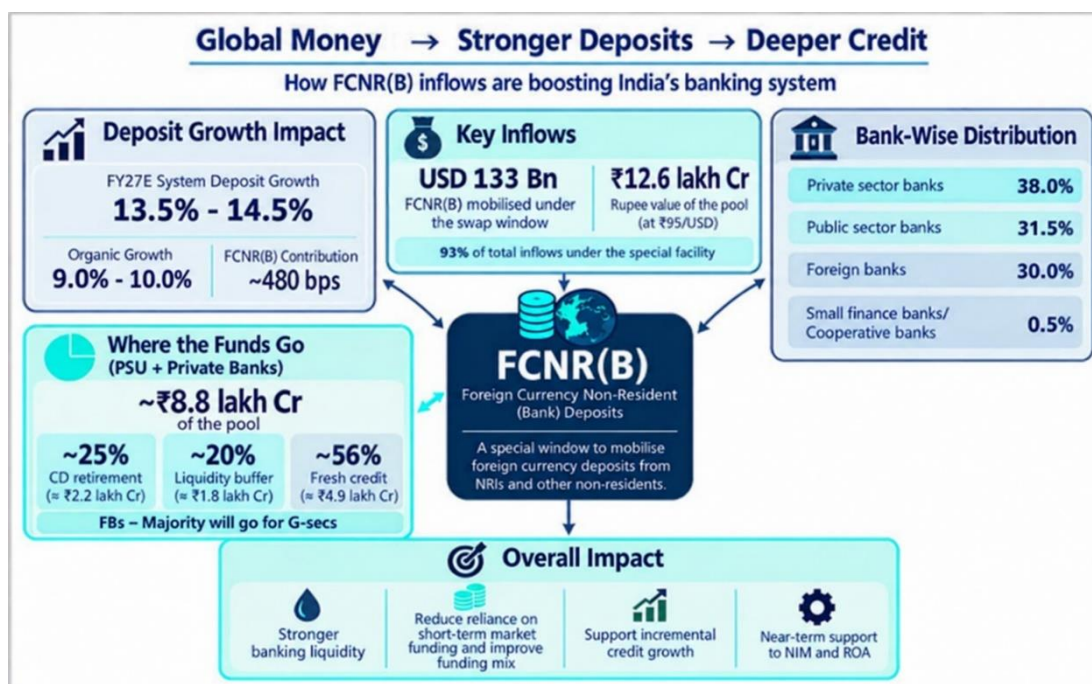


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Synopsis

The RBI's FCNR(B) swap window mobilised USD 133 billion (around Rs 12.6 lakh crore) before its closure on August 31, accounting for 93% of total inflows under the special facility and about 77% of FY27 deposit accretion through August. We estimate that private banks (PVBs) received the largest share at 38%, followed by public sector banks (PSBs) at 31.5%, foreign banks (FBs) at 30% and small finance banks (SFBs) and cooperative banks (CBs) at 0.5%. The high estimated share of FBs, despite their much smaller deposit base, suggests that a larger portion of their inflows could be invested in G-securities and other liquid assets rather than deployed as loans. Excluding FCNR(B), we assume organic deposit growth of 9.0%–10.0%, while FCNR(B) inflows could add around 480 basis points (bps). Of the roughly Rs 8.8 lakh crore received by PSU and private banks, our base case assumes that around a quarter could be used to repay certificates of deposit (CDs), a fifth retained as a liquidity buffer, and just over half could potentially be deployed towards fresh credit. Overall, FCNR(B) inflows should strengthen banks' funding and liquidity positions, with benefits to credit growth likely to emerge.

"We expect FY27 deposit growth to close in the range of 13.5%-14.5%. The sustainability of deposit growth beyond FY27 will depend on the strength of domestic deposit mobilisation once the temporary FCNR(B)-led boost subsides. The large inflows have also materially strengthened system liquidity, which could keep short-term rates soft and require continued RBI liquidity-absorption operations, with implications for monetary-policy transmission. Under our base case, around 55% of the FCNR(B) funds mobilised by PSUs and PVBs, equivalent to about Rs 4.9 lakh crore, could be deployed towards fresh credit. At the same time, the balance could be used to retire CDs and other wholesale borrowings or retained as liquidity buffers. Given the elevated loan-to-deposit ratio (LDR) of 80.3% as of August 31, 2026, banks are likely to deploy these funds gradually, resulting in a better funding mix and lower reliance on wholesale funding. From a profitability perspective, NIM could remain mildly dilutive in Q2FY27 but broadly flattish for FY27, with the system-level impact estimated at low single-digit basis points in either direction, as the initial liquidity build-up and deployment into liquid assets may offset the benefit of lower marginal funding costs. As funds are progressively deployed into higher-yielding advances, the improved funding mix could provide greater support to NIM and ROA," said Vineet Jain, Senior Director, CareEdge Ratings.



Source: CareEdge Ratings

Strong FCNR(B) Response Accelerated Closure of the Swap Window

The RBI announced a concessional USD-INR swap facility on June 5, 2026 and operationalised it on June 8, covering FCNR(B) deposits, ECBs and OFCBs with maturities of three to five years, with the RBI absorbing the hedging cost and allowing greater pricing flexibility for banks. Eligible FCNR(B) deposits were also exempt from CRR and SLR requirements. The mobilisation was heavily skewed towards FCNR(B), with final inflows of USD 132.98 billion at the close of the window on August 31 (revised from a provisional USD 127.2 billion), compared with around USD 5.3 billion each through OFCBs and ECBs as of September 18. FCNR(B) therefore accounted for about 93% of the USD 143.6 billion mobilised across the three routes as of September 18, equivalent to around Rs 12.6 lakh crore at Rs 95/USD. Strong mobilisation led the RBI to advance the FCNR(B) window closure to August 31, while ECB and OFCB mobilisation remain open until December 31, 2026.

Inflows Under the Special Swap Facility, Cumulative to 31 August 2026

Funding Route	USD bn	Share
FCNR(B) deposits	132.98	92.6%
Overseas foreign currency borrowings	5.32	3.7%
External commercial borrowings	5.29	3.7%
Total swap facility	143.59	100.0%

Source: RBI;

FCNR(B) Accounts for About 77% of FY27 Deposit Accretion as of August 2026

System deposits increased by Rs 16.4 lakh crore during April-August FY27, reaching Rs 278.7 lakh crore by August 31, 2026, from Rs 262.3 lakh crore at end-March 2026. FCNR(B) inflows contributed around Rs 12.6 lakh crore, or about 77% of the total accretion as of end-August 2026, while organic deposit mobilisation accounted for the remaining Rs 3.8 lakh crore. Accordingly, incremental deposit growth during April-August FY27 stood at 6.3% (five months, unannualised), including FCNR(B) inflows, compared with 1.4% excluding FCNR(B), highlighting the special mobilisation's significant contribution to deposit accretion. As a result, headline deposit growth reached 17.8% y-o-y as of August-end 2026, underscoring the strong boost FCNR(B) inflows provided to overall deposit mobilisation during the period.

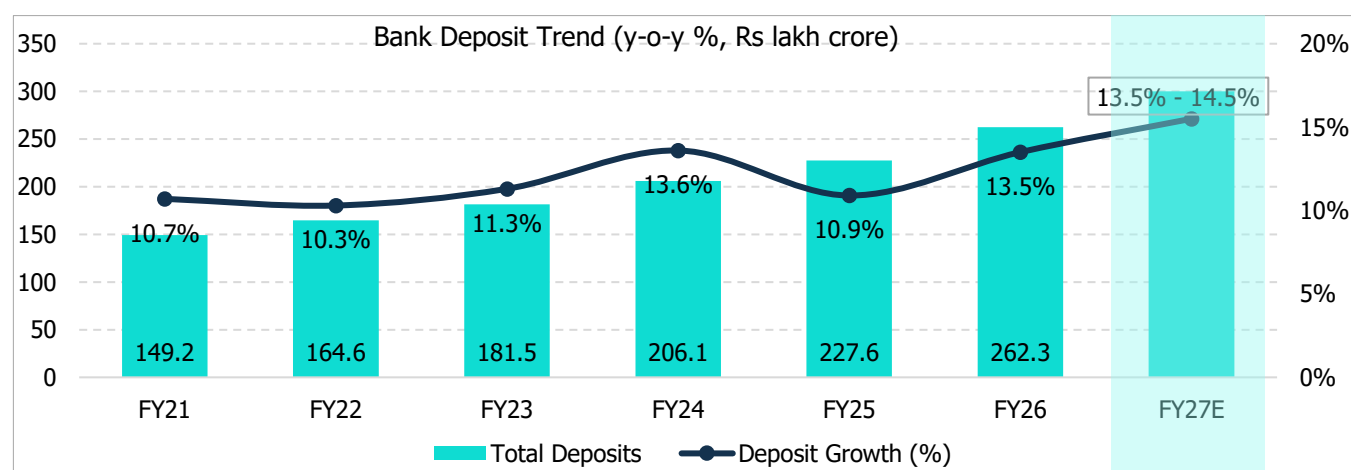
FY27 to date, 1 April to 31 August 2026 (Rs lakh crore, %)

	Amount (Rs lakh crore)
Opening deposits, 31 Mar 2026	262.3
Deposits as of 31 Aug 2026	278.7
Accretion in five months	16.4
of which FCNR(B)	12.6
of which organic	3.8
	%
Incremental growth Excl. FCNR(B) till 31 Aug 2026	1.4
Incremental growth Incl. FCNR(B) till 31 Aug 2026	6.3

Source: RBI, CareEdge Calculations

FCNR(B) Closes the FY27 Deposit-Credit Gap, but the Cushion is One-Off

Deposit growth is expected to benefit from the RBI's special FCNR(B) mobilisation, although the boost is likely to be temporary. As of August 31, 2026, the Rs 12.6 lakh crore FCNR(B) inflow accounted for about 77% of FY27 YTD deposit accretion, while we assume organic deposit growth of 9.0%–10.0% for FY27, given continued competition from market-linked savings and alternative investment avenues. With the FCNR(B) window closed, deposit growth is likely to moderate from September, although the lower base should support some y-o-y growth. We estimate FY27 system deposit growth at 13.5%–14.5%, with FCNR(B) contributing up to around 480 bps. At around 9.5% organic growth (the base end of our range), incremental deposits would have been Rs 24.9 lakh crore against Rs 32.0 lakh crore of incremental credit (assuming credit growth of 15% on the end-March 2026 base of Rs 213.6 lakh crore), implying a net funding requirement of around Rs 7.1 lakh crore. With FCNR(B), incremental deposits could rise to Rs 37.5 lakh crore, more than covering incremental credit requirements and creating a system-level liquidity cushion of around Rs 5.5 lakh crore. This could reduce banks' reliance on wholesale funding and provide greater headroom for liquidity management, CD retirement and selective credit deployment. The key monitorable will be the pace of domestic deposit mobilisation as the FCNR(B)-led support fades.



Source: RBI, CareEdge Calculations

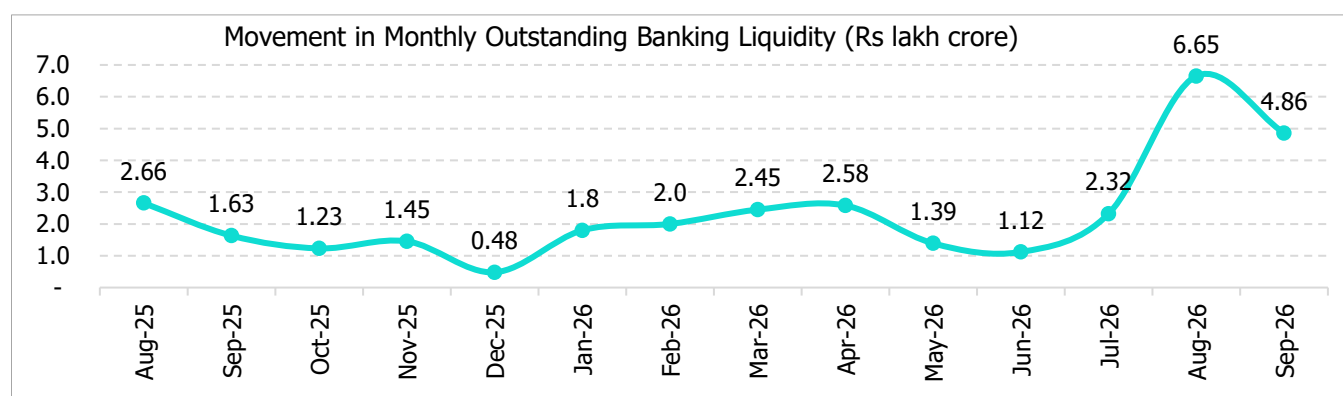
FY27E Deposit Sensitivity

Organic Growth (%)	Total FY27E deposits (incl. FCNR(B) Rs lakh Cr)	FY27E growth incl. FCNR(B) (%)	FY27E growth excl. FCNR(B)
9.0 (Conservative)	298.0	13.6	9.0
9.5 (Base)	299.3	14.1	9.5
10.0	300.6	14.6	10.0
10.5 (Optimistic)	301.9	15.1	10.5
11.0	303.2	15.6	11.0
11.5	304.6	16.1	11.5
12.0	305.9	16.6	12.0

Source: CareEdge Calculations

FCNR(B) Inflows Push Banking-System Liquidity at Four-Year High

The FCNR(B) mobilisation has materially increased banking-system liquidity, with surplus liquidity at Rs 6.65 lakh crore for August 2026 on the monthly series shown below. Daily, the net surplus touched a record Rs 9.71 lakh crore on September 2, surpassing the previous peak of Rs 9.21 lakh crore in September 2021, and peaked at around Rs 11.2 lakh crore in the first week of September before easing to around Rs 6 lakh crore by the third week of the month. By end-September, net banking-system liquidity surplus stood at around Rs 4.86 lakh crore. The elevated liquidity gives banks greater flexibility to manage their funding mix, retain liquidity buffers, and gradually deploy funds towards credit. However, as banks progressively absorb incremental deposits through CD retirement, liquid-asset deployment, and fresh lending, system liquidity is likely to moderate from its current elevated level. The RBI has responded with a range of liquidity-absorption measures: frequent VRRR auctions (around Rs 6 lakh crore was absorbed through two auctions on September 4 alone), short-term sell-buy forex swaps and OMO sales of Rs 1 lakh crore announced for September (Rs 50,000 crore on September 17, followed by Rs 25,000 crore each on September 21 and 28).



Source: RBI. Note: Monthly banking liquidity data is based on month-end levels

Surplus Liquidity Weakens Transmission; Rate Outlook Driven by Inflation and Global Factors

Persistent surplus liquidity is primarily a transmission issue, which the RBI is addressing through liquidity operations rather than the policy rate. Excess funds have at times pulled overnight money-market rates below the repo rate (the weighted average call rate was around 4.9% in early September against the 5.25% repo rate), weakening policy transmission. While abundant liquidity has exerted downward pressure on the shorter end of the yield curve, longer-tenure rates have remained relatively sticky amid expectations of a shift towards tighter monetary conditions. With the benchmark repo rate currently at 5.25%, we expect a possible 25-bps hike in October 2026

(Refer [RBI-MPC Expectations: A Rate Hike Amid Rising Inflation; Liquidity Management Crucial](#)). Independently of liquidity conditions, the case for tighter policy rests on rising domestic inflation, elevated oil prices amid geopolitical risks and resilient economic activity. Further, the recent tightening in global monetary conditions, including rate hikes by the US Fed, alongside higher global rates and currency-related pressures, could reinforce expectations of gradual monetary normalisation and limit the scope for prolonged easing.

FCNR(B) Inflows to Reduce Reliance on Short-Term Market Funding and Improve Funding Mix

The sharp improvement in system liquidity, alongside the moderation in CD borrowings and yields, is consistent with a portion of the FCNR(B) inflows initially being used to optimise banks' funding mix and reduce reliance on short-term market funding. Outstanding CD stock declined to around Rs 6.4 lakh crore as of August 31, 2026, from Rs 7.0 lakh crore at end-July and Rs 6.7 lakh crore at end-June, while fresh CD issuance fell to Rs 0.19 lakh crore in August from Rs 0.69 lakh crore in June. The decline of around Rs 0.6 lakh crore since end-July is so far a small part of the Rs 2.2 lakh crore of CD and bulk-deposit retirement assumed in our base case, and the stock had risen between June and July even as inflows were building. Hence, the pace of CD run-off remains a key monitorable. The CD rate spread also narrowed to around 1.0% from 2.3%, while the upper end of the issuance-rate range eased to 7.2% from 7.6%. CD yields have also moderated, with 3-month and 6-month yields declining from 7.3% and 7.5% at T to 6.1% and 6.8%, respectively, by T+74, consistent with easing short-term funding costs. However, the decline has not been linear (3-month yields fell to around 6.1% by T+17, rebounded to around 7.0% by T+28 and eased again thereafter).

Against this backdrop, our base-case allocation of the Rs 8.8 lakh crore FCNR(B) pool across PSBs and PVBs assumes that around Rs 2.2 lakh crore (25%) could be used for CD and bulk-deposit retirement. In comparison, Rs 1.8 lakh crore (20%) could be retained as a liquidity buffer or deployed into liquid assets. The remaining Rs 4.9 lakh crore (55%) could support fresh credit, allowing banks to gradually shift incremental funds toward higher-yielding assets as loan demand strengthens. Given the large and rapid inflow, banks may initially retain a higher proportion in liquid assets, with credit deployment increasing gradually as loan pipelines strengthen.

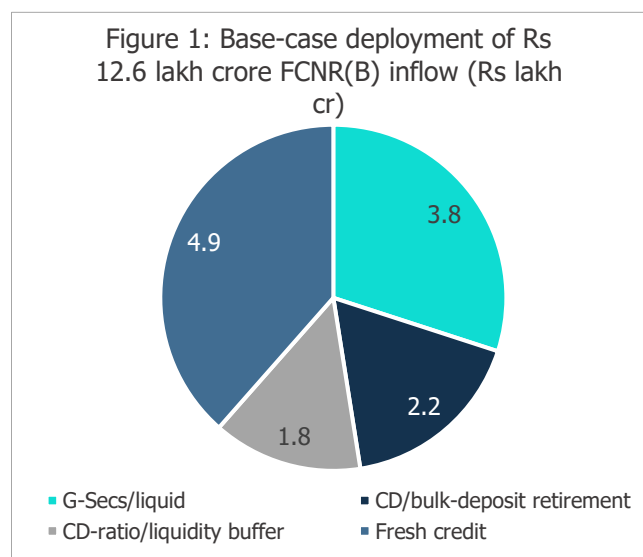


Figure 1: Source: RBI, CareEdge Calculation. Note: Deployment allocation is based on our assumptions and represents the estimated deployment of total FCNR(B) inflows across G-Secs/liquid assets, CD/bulk-deposit retirement, liquidity buffers and fresh credit.

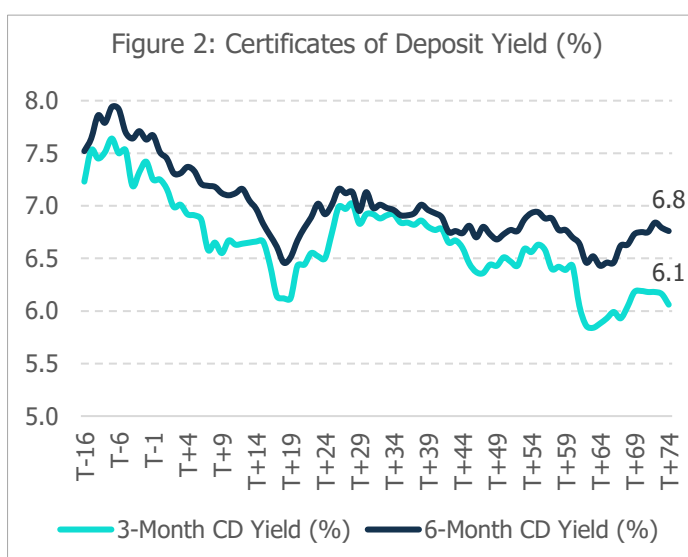


Figure 2: Source: Refinitiv; T refers to the day the FCNR(B) swap window was announced in 2026 (June 5). Note: T+74 represents September 22, 2026, i.e. 74 days from June 5, 2026

FCNR(B) Inflows to Support Selective Credit Deployment

Following the reduction in wholesale funding requirements, the remaining FCNR(B) funds could provide additional headroom for credit deployment as loan demand strengthens. July 2026 bank credit data indicate healthy momentum across industry and services, with credit growth of 20% and 22.9% y-o-y, respectively, while retail credit grew 16.2%. Within industry, engineering, petroleum-related industries and vehicles recorded strong growth, while power and ports supported infrastructure credit. In services, NBFCs, computer software, commercial real estate, trade, and tourism/hospitality supported credit growth. The ongoing private-sector capex cycle could provide additional avenues for deployment, particularly across power, renewables, manufacturing and digital infrastructure. Increasing cloud adoption and AI-led workloads could further support investment in data-centre capacity and related power and infrastructure. However, actual credit deployment will depend on loan pipelines, pricing and banks' risk appetite.

Deployment is Likely to Differ Across Bank Groups

PVBs, which accounted for an estimated 38% (Rs 4.8 lakh crore) of FCNR(B) inflows, could have relatively greater scope to channel funds towards fresh credit given stronger loan pipelines, while also reducing CDs and other short-term borrowings. PSBs, with 31.5% (Rs 4.0 lakh crore) of inflows and larger balance sheets, could use a greater portion to strengthen liquidity buffers and replace wholesale funding, alongside incremental credit growth. FBs are estimated to have mobilised around 30% (Rs 3.8 lakh crore) of FCNR(B) inflows despite accounting for only around 5% of the domestic deposit base. Given their relatively smaller domestic balance sheets, a significant portion of these funds is likely to be retained in high-quality liquid assets, with the remainder available for selective wholesale credit deployment. SFBs and co-operative banks, which accounted for only 0.5% of mobilisation, are likely to have a limited system-wide impact, with funds primarily supporting lending and liquidity management.

Distribution of FCNR(B) Inflows by Bank Category (CareEdge Estimates)

Category	USD Bn	Share (%)
PVBs	50.5	38.0
PSBs	41.9	31.5
FBs	39.9	30.0
SFBs/CBs	0.7	0.5
Total	133.0	100.0

Source: RBI. Note: The proxy allocation is based on major participating banks. Large PVBs and PSBs together are estimated to have accounted for nearly 70% of total FCNR(B) inflows.

NIM Broadly Flat in FY27; Support Builds as Funds Are Deployed

In the near term, replacing relatively expensive CDs and other wholesale borrowings with FCNR(B)-linked funding could provide some relief to banks' marginal funding costs and support NIM. The impact of FCNR(B) inflows on profitability is likely to be gradual. NIM could remain mildly dilutive in Q2FY27, as the immediate liquidity increase may initially be retained in liquid assets or used to repay CDs and other wholesale borrowings. At the same time, incremental credit deployment may take time. Nevertheless, we expect overall NIMs to remain broadly flattish for FY27, supported by lower marginal funding costs and the gradual improvement in the funding mix. Over subsequent quarters, as a larger portion of the funds is deployed into advances, the benefit to asset yields and the earning-asset mix could become more visible, supporting NIM and ROA.

CareEdge Ratings' View

According to Saurabh Bhalerao, Director, CareEdge Ratings, "The FCNR(B) mobilisation has provided a significant one-off boost to banking system deposits and liquidity, with around Rs 12.6 lakh crore inflow expected to lift FY27 deposit growth. As the inflow was a one-off that ended with the closure of the window on August 31 (the deposits themselves are three-to-five-year funds), we expect system deposit growth to moderate from September as the FCNR(B)-led boost fades, with the lower base providing some support to y-o-y growth. The inflows provide banks with greater balance-sheet flexibility at a time when the loan-to-deposit ratio remains elevated. Banks are likely to initially use a portion of the funds to retire relatively higher-cost CDs and bulk deposits and maintain liquidity buffers. At the same time, the remainder could be progressively deployed towards fresh credit. Our analysis suggests that around 55% of the FCNR(B) pool could potentially be channelled towards fresh credit, with deployment likely to favour sectors where loan demand and the capex cycle remain supportive, including corporate, services, infrastructure and emerging areas such as data centres. However, RBI liquidity absorption and a potential gradual rise in policy rates could moderate the funding benefit. The key monitorable will be whether domestic deposit mobilisation strengthens sufficiently to sustain growth as the FCNR(B)-led boost and the associated base effect fade, potentially bringing deposit growth back towards lower double-digit levels over time."

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