



BANKING **MONTHLY**

SEPTEMBER 2026

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Prevailing Rates

I. Policy Rates

Repo Rate	5.25%
Reverse Repo Rate	3.35%
Standing Deposit Facility Rate	5.00%
Marginal Standing Facility Rate	5.50%
Bank Rate	5.50%

II. Lending/Deposit Rates

Base Rate	8.40% -10.0%
MCLR Rate (Overnight)	7.80% -8.00%
Savings Deposit Rate	2.50%
Term Deposit Rate > 1 Year	6.00% -6.75%

III. Reserve Ratio

CRR	3.00%
SLR	18.00%

Global Banking:

US Federal Reserve hikes interest rates by 25bps; first time since 2023

The Federal Reserve raised its benchmark interest rate for the first time since 2023 in an effort to quell stubbornly-high inflation, a move that could spur a sharp response from the White House. The quarter-point increase lifts the Fed's key rate to about 3.9% and, over time, could result in higher borrowing costs for mortgages, auto loans, and credit cards. The move comes as Americans are already struggling with high costs for groceries, gas, and housing. Affordability has taken on a leading role in the upcoming midterm elections, just seven weeks away.

Our Comments:

The US Federal Reserve is unlikely to embark on an aggressive tightening cycle with only one additional rate hike projected, even as energy prices remain key risk to the inflation outlook and potential new tariffs could renew price pressures. Fed's latest economic projections also revised both growth and inflation estimates higher. While financial conditions have tightened since March 2026, they remain supportive of growth.

Japan raises interest rate to new 31-year high to curb rising prices

Japan's central bank has raised its main interest rate to a fresh 31-year high as it continues to move away from decades of ultra-low borrowing costs and as the country faces increasing economic pressures. In a widely expected move, the Bank of Japan (BOJ) increased the rate from 1% to 1.25%; a level not seen since 1995. It comes as major central banks around the world are hiking rates as higher energy prices caused by the Iran war are helping to push up inflation.

Our Comments:

The BOJ has been raising the rate since 2024, when it stood at minus 0.1%. It has now hiked rates six times in the last two and a half years. Since then, the bank has been steadily putting up the rate as it tries to reach a level similar to other major economies. When a central bank raises rates, known as tightening monetary policy, the country's currency usually becomes stronger as it makes it more attractive to traders. While Japan's inflation rate is not high by international standards, rising prices are a relatively new development in the economy.

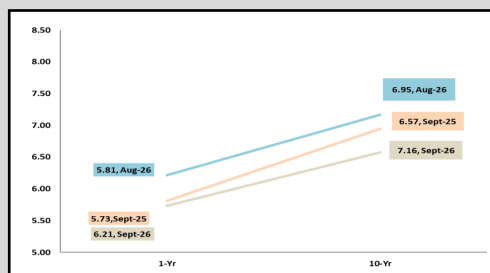
China inflation accelerates as food, energy costs rise; factory prices beat forecast

China's August CPI rose 0.8% y/y and PPI rose 3.8% y/y, both above forecasts and July's prior readings, with the NBS citing rising energy prices, even as economists caution the rebound masks a domestic economy still stuck in a housing-led slump. China's consumer and factory-gate inflation accelerated in August, driven by rising global energy and commodity prices. China's inflation data beat forecasts in August, but the rebound looks like a cost-side story rather than a genuine turn in domestic demand.

Our Comments:

The composition of the beat is the more important story for the demand debate than the headline numbers themselves. With NBS pointing to energy prices as the driver rather than food or core consumption categories, economists have cautioned the rebound doesn't change the underlying picture of a domestic economy still working through a housing-led slowdown. That commentary describes China's economy as caught in a negative feedback loop of falling home prices, elevated household savings, weak employment and soft consumer spending, and expects household confidence to remain subdued until the property market shows a genuine, rather than tentative, recovery.

Exhibit 1: 1 Year Yield v/s 10 Year Yield



Source: Investing.com, Progressive Research

Indian Economy:

Moody's raises India FY27 growth forecast to 7% from 6% on resilient economy, stronger investment

Moody's has raised India's GDP growth forecast to 7% for 2026-27. Strong private consumption and robust investment are driving this optimistic economic outlook. This revised forecast surpasses projections from the IMF and S&P Global Ratings. However, elevated energy prices and potential El Nino disruptions remain key risks. Fiscal consolidation is expected to continue gradually over the next few years. India's real GDP growth accelerated to 8.2% year-on-year in the first six months of calendar 2026, compared with 7.3% for the full year in 2025.

Our Comments:

India's economy has proved more resilient to the shock from the Middle East conflict than Moody's Ratings had expected. The upgrade, announced was driven by stronger private consumption, robust gross fixed capital formation, continued public infrastructure spending, signs of a revival in private investment and sustained strength in services. The revised forecast puts Moody's significantly above the projections issued by other major institutions earlier this year. The International Monetary Fund had forecast 6.4% growth for FY27 in its July World Economic Outlook update, while S&P Global Ratings had projected 6.6% growth in June. The RBI had also cut its FY27 growth forecast to 6.6% in June from 6.9%.

India must move from 'Made in India' to 'Imagined in India': FM Sitharaman

The Finance Minister urged Indian firms to focus on quality, innovation, and greater investment in R&D as the country seeks to move from being a manufacturing base to a source of globally competitive products and technologies. Sitharaman said resilience should not mean economic isolationism, but building sufficient domestic capacity to absorb global shocks without disrupting national development. She noted that while global growth has slowed below 3%, India's GDP growth is approaching 8%, with the latest quarter performing stronger than most forecasts.

Our Comments:

India is at a "structural inflection point" as rising incomes and upward mobility are set to reshape the country's next phase of consumption. Businesses need to look beyond affluent urban consumers and tap demand emerging from working families across rural and semi-urban India.

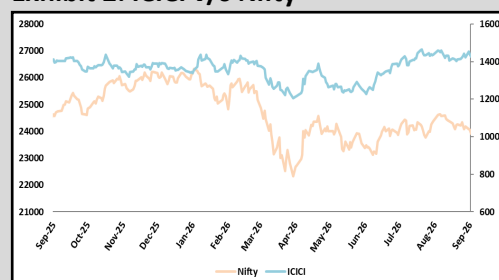
IIP growth surges to 8% in August

India's industrial production growth increased to 8% in August from 6.7% in the previous month, according to the Ministry of Statistics & Programme Implementation. The rise was led by stronger growth in manufacturing, electricity and several goods categories. However, mining output declined sharply during the month. The August data shows broad-based improvement in manufacturing, electricity and most goods segments. The sharp fall in mining output remains a key area of concern and could affect the supply of raw materials to industry. Industrial growth was supported by broad-based expansion within manufacturing. Nineteen of the 23 manufacturing industry groups recorded positive year-on-year growth during June.

Our Comments:

Overall, the increase in industrial production suggests that factory activity and demand for investment-related goods strengthened during the month.

Exhibit 2: ICICI v/s Nifty



Source: Ace Equity, Progressive Research

Indian Economy:

RBI completes Rs1trn net debt sale for first time in a decade

India's central bank has net sold bonds worth Rs1trn this financial year, its biggest annual net bond sale in more than a decade, treasury officials said, with market participants expecting the total to double by December. The RBI is withdrawing liquidity from a banking system flush with cash after it allowed lenders to raise dollars via a special window. While the inflow helped protect the nation's FX reserves and support the rupee as oil prices rose, it pushed overnight rates below the RBI policy rate.

Our Comments:

According to RBI data available since FY15, the previous record was in FY18 when the central bank net sold Rs900bn to deal with the fallout of the government's decision to abruptly demonetise 500 and 1,000 denominated currency notes.

Coverage News:

HSBC, ICICI Bank lead GIFT City NRI lending boom at USD19.3bn

HSBC and ICICI Bank have emerged as the largest lenders to India's overseas diaspora through GIFT City, disbursing a combined USD19.3bn under the Reserve Bank of India's concessional foreign-currency non-resident deposit swap programme. HSBC led the lending activity with USD10.9bn in disbursements, while ICICI Bank extended USD8.4bn. Other lenders participating in the programme included Bank of Baroda, State Bank of India and Canara Bank. The RBI's swap facility was designed to encourage banks to mobilise FCNR(B) deposits by reducing the currency-hedging costs associated with foreign-currency funding.

Our Comments:

The increase in lending is strengthening GIFT City's position as a hub for international banking and wealth management. The financial centre is seeking to compete with established hubs such as Singapore and Hong Kong by attracting global Indian capital.

Non Coverage News:

Bandhan Bank promoter to gradually reduce stake to meet RBI norms

Bandhan Financial Services will reduce its stake in Bandhan Bank gradually. The promoter aims to comply with RBI regulations by 2030. Recent share sales occurred on the open market, lowering holdings. A proposed stock split will divide shares to attract retail investors. Shareholders will review this plan at the upcoming annual general meeting.

Our Comments:

Rather than completing a single bulk or block sale, the promoter has explicitly stated plans to offload the equity in small, gradual bouts via open-market transactions.

J&K Bank signs agreement to sell PNB MetLife stake for Rs1201mn

Jammu and Kashmir Bank has signed a Share Purchase Agreement with MetLife International Holdings, LLC to sell a 0.5% stake in PNB MetLife India Insurance Company. The divestment of over 1.02 crore equity shares is priced at Rs117.2 per share, bringing the total transaction value to Rs1201mn. This transaction aims to unlock value from the bank's non-core holdings and strengthen its capital position.

Our Comments:

Divestment is a positive strategic step to unlock capital from long-held non-core assets. The sale does not impact the management structure or result in a change of control at PNB MetLife. Unlocked proceeds can be reallocated to support the lender's loan book expansion. Investors will likely look favourably on the bank's disciplined approach to balance-sheet optimization ahead.

Non Coverage News:

RBL Bank to raise to USD1bn from overseas investors

RBL Bank's board has given the green light to raise up to USD1bn from foreign investors via a Euro Medium Term Note Programme. The bank's borrowing committee is entrusted with overseeing all vital steps required for this initiative. The board cleared a proposal to enable issuance of foreign currency bonds/notes/ any other debt securities.

Our Comments:

This decision comes on the heels of Emirates NBD Bank acquiring a controlling 60% stake in RBL Bank's enhanced share capital.

IndusInd Bank launches dedicated banking vertical for GCCs in India

IndusInd Bank launched a new banking vertical for Global Capability Centres (GCCs) by bringing together corporate and employee banking capabilities. India now has 2,117 GCCs and the ecosystem has grown 32% since FY21 underscoring the country's growing importance as a global capability hub. IndusInd Bank said that by bringing together corporate and employee banking capabilities under a dedicated GCC relationship model, the bank offers a more integrated and specialised approach to serving the unique requirements of GCCs. This integrated approach enables GCCs to manage their business, workforce and cross-border banking needs more seamlessly.

Our Comments:

India's GCC ecosystem has evolved beyond traditional shared-services operations, with centres increasingly taking on technology, engineering, analytics, finance, research and other strategic functions for global organisations.

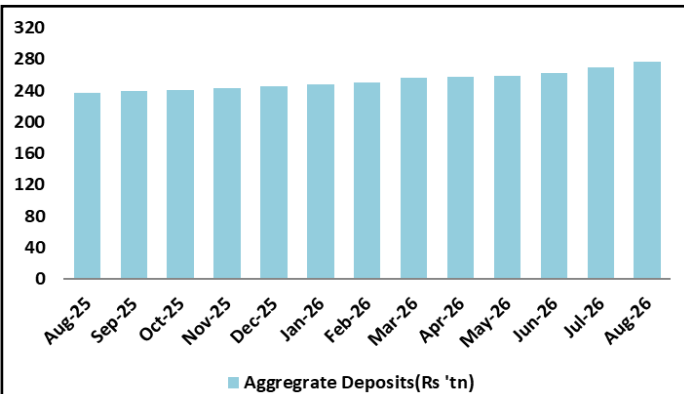
HDFC Bank says all seven Bahrain claims over Credit Suisse AT1 bonds rejected

HDFC Bank has won all seven Bahrain cases filed by Credit Suisse AT1 bond investors, who accused the lender of mis-selling the risky securities. The Bahrain court rejected all allegations, saying investors failed to provide sufficient evidence linking HDFC Bank to their losses.

Our Comments:

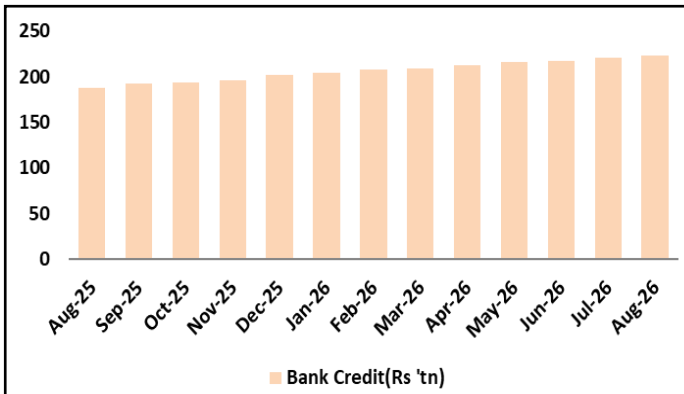
The cases stem from investments in Credit Suisse AT-1 bonds, securities that carry higher risks than conventional debt instruments because of their loss-absorbing features. AT-1 bonds are perpetual instruments and do not have a fixed maturity. Depending on the financial condition of the issuing bank and applicable regulatory triggers, they can be written down or converted into equity.

Exhibit 03: Trend of Aggregate Deposits of SCBs



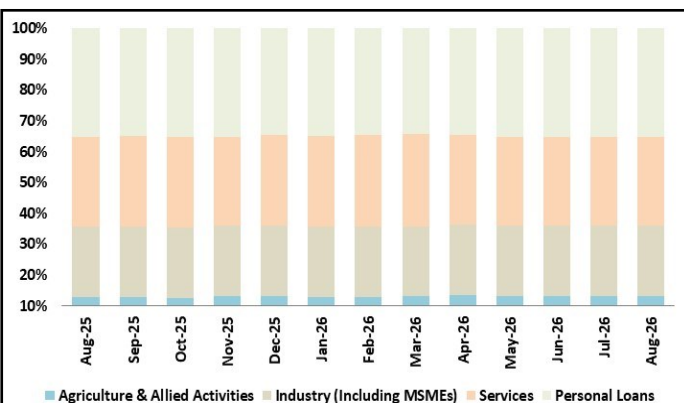
Source: Investing.com, Progressive Research

Exhibit 04: Trend of Bank Credit of SCBs



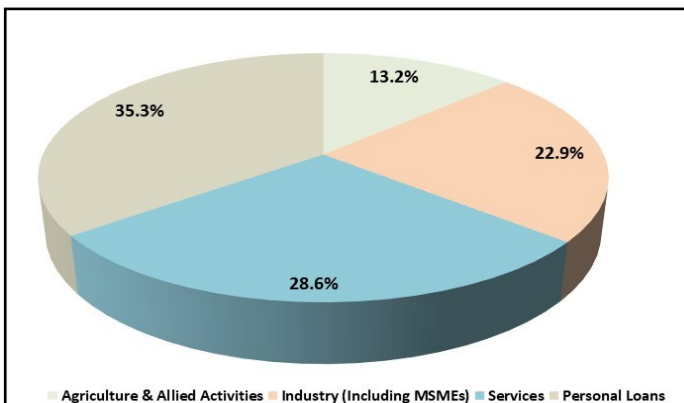
Source: RBI, Progressive Research

Exhibit 05: Deployment of Gross Bank Credit by major sectors



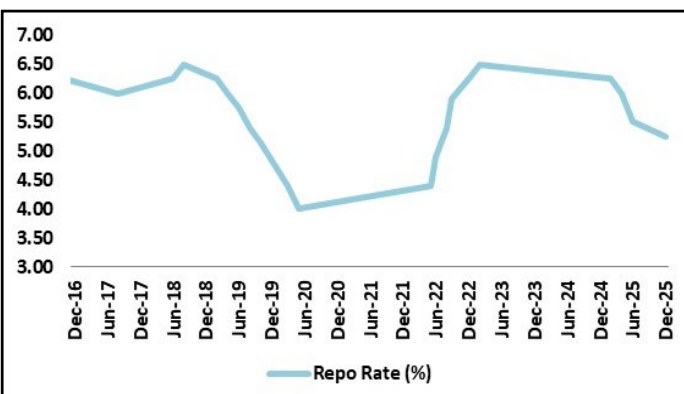
Source: RBI, Progressive Research

Exhibit 06: Sectoral breakup of Gross Bank Credit of the major sectors in August



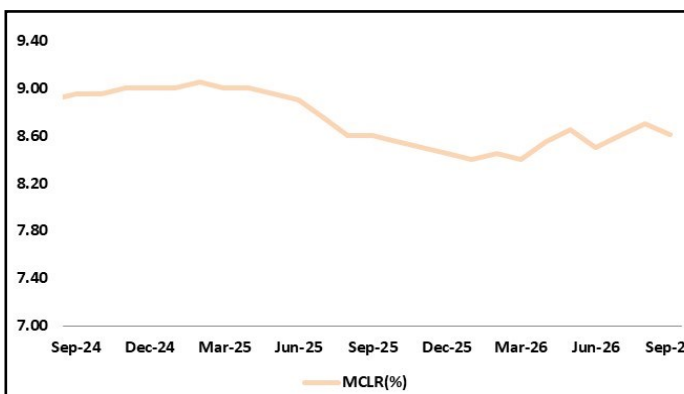
Source: RBI, Progressive Research

Exhibit 07: Repo Rate Trend



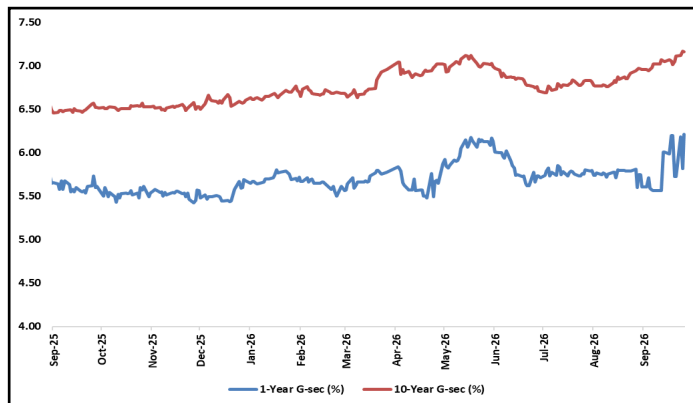
Source: NSE, Progressive Research

Exhibit 08: MCLR trend in the last 3 years



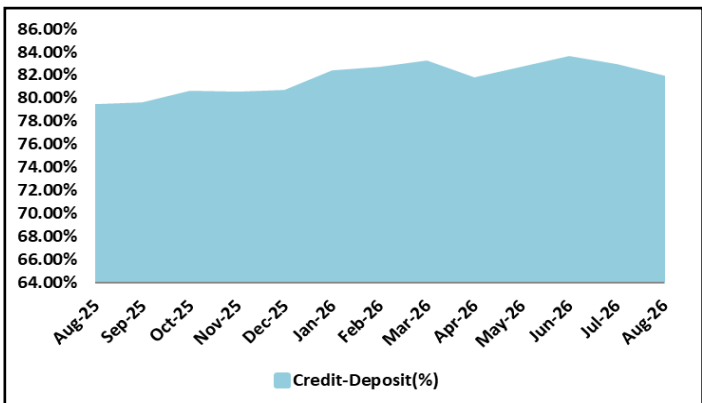
Source: Ace Equity, Progressive Research

Exhibit 09: RBI trying to keep the gap between short and long term bond in check



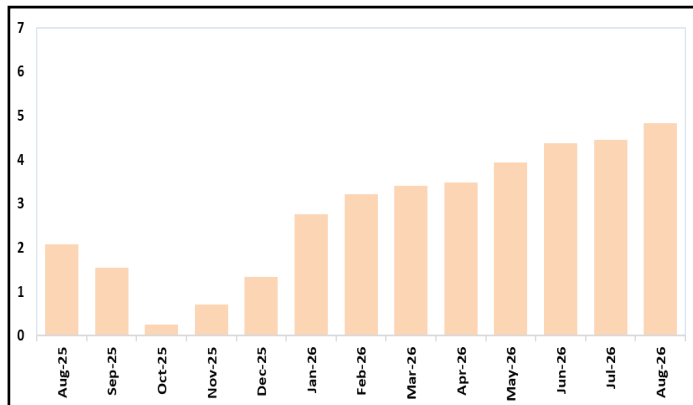
Source: Investing.com, Progressive Research

Exhibit 10: Credit-Deposit ratio of the SCBs in Aug-26



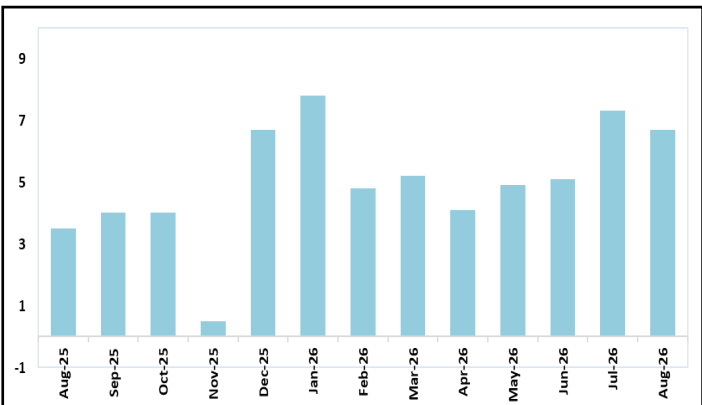
Source: RBI, Progressive Research

Exhibit 11: Retail Inflation Range Bound



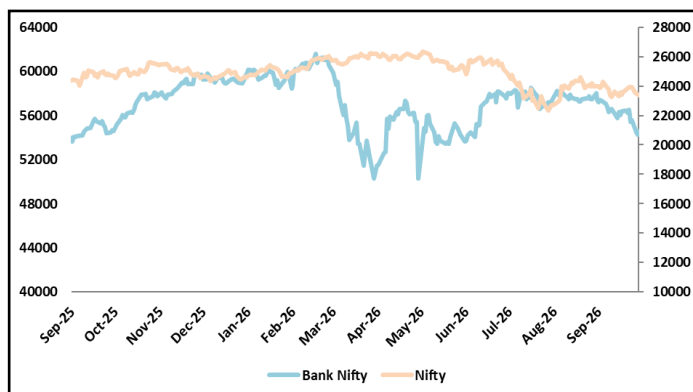
Source: RBI, Progressive Research

Exhibit 12: Change in Y-o-Y IIP data



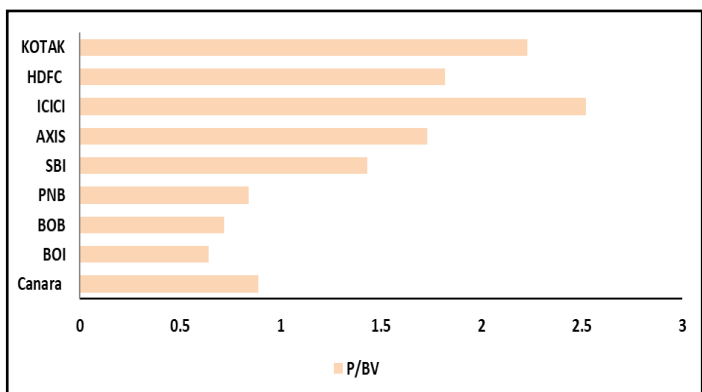
Source: RBI, Progressive Research

Exhibit 13: Bank Index v/s Nifty Index



Source: NSE, Progressive Research

Exhibit 14: Major Banks' Valuation as on 30th Sept, 2026



Source: Ace Equity, Progressive Research

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