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Rate war to mop up deposits may hurt banks' margins, say experts

Net Interest Margin — the amount of money that a bank earns in interest on loans compared to the amount it pays in interest on deposits — is an indicator of profitability and growth. If deposit rates outpace lending rates, then bank NIMs will shrink

Siddhi Nayak

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The aggressive drive for deposits in the backdrop of tight liquidity conditions may have an adverse effect on bank margins next fiscal year, say experts.

Banks have been aggressively accumulating deposits by offering higher, lucrative interest rates to depositors following four consecutive repo rate hikes by the Reserve Bank of India (RBI).

The central bank is fighting a tough battle to contain persistently high retail inflation, which is hitting common households hard.

The impact of aggressive deposit mobilisation is likely to weigh on banks' net interest margins (NIM) in the coming quarters, banking experts and analysts told *Moneycontrol* on October 31. In banking parlance, NIM refers to the amount of money that a bank earns in interest on loans compared to the amount it pays in interest on deposits. It is an indicator of a bank's profitability and growth.

“There are expectations of a rate hike in the next monetary policy, which will still allow banks to pass on the incremental cost to advances linked to the benchmark, and deposit rates will continue to rise with a lag, protecting the NIM for FY23,” said Aditya Acharekar, associate director at CareEdge.

However, some impact on margins may be seen in the first half of FY24,” he added.