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Banks, NBFCs raise lending rates as tighter liquidity, deposit costs pinch

Synopsis
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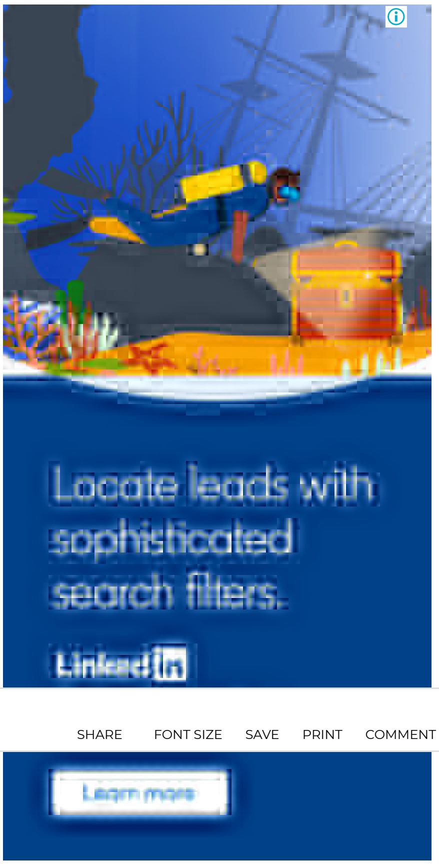

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Banks and non-bank lenders have bumped up lending rates by up to 15 basis points over the past one month on tightening liquidity conditions and higher deposit costs.

A basis point is 0.01 percentage point.

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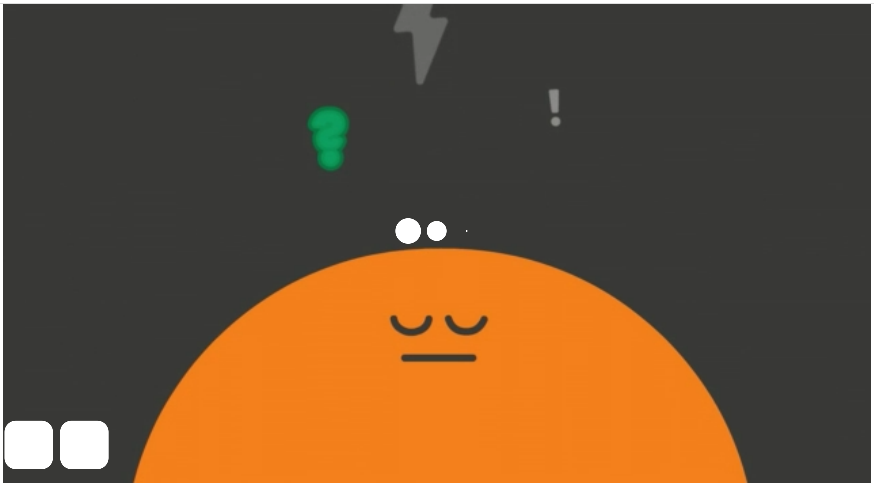

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"Almost all loans have been re-priced upward keeping in mind the imminent change in the interest rate cycle and the increase in deposit rates," said a private sector lender. "Also, with tightening liquidity, the low interest rate cycle has already peaked."

Lending rates on outstanding loans have continued to dip, although the cost of fresh loans has increased, indicating that rates have bottomed out.

An analysis by CARE and central bank data showed that on a month-on-month basis, private sector banks took the lead in bumping up rates by 12 basis points. Private sector banks continued to charge higher premiums compared with their public sector counterparts that increased rates by 7 bps. Foreign banks, too, revised rates upward on fresh rupee loans by 10 basis points.

"Several banks have increased their term deposit rates and, hence, the spreads on outstanding loans have narrowed," said Sanjay Agarwal, senior director, CARE Ratings. "On the other hand, on an M-o-M basis, all bank categories have witnessed an increase in their lending rates on fresh loans. Further, with G-sec yields rising, bond yields would also witness an increase, pushing some corporates to the banking system for their borrowing requirements."

Most banks such as State Bank of India, ICICI, HDFC Bank, Axis and Canara have bumped up deposit rates for savers. The gap between repo and 1-year term deposit rate for SBI increased by nearly 10 bps to 110 bps after SBI raised deposit rates for the 1-year tenor in January.

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"Lending rates on fresh loans have been volatile over the past few months," said MB Mahesh of Kotak Institutional Equities. "In the past six months, PSU banks saw a decline while private banks raised fresh lending rates. The gap between fresh lending rates of private and PSU banks stands at nearly 150 bps. The gap between outstanding and fresh lending rates has declined steadily and now stands at about 100 bps."

The impending rate-cycle turnabout is evident in short-term borrowing rates