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Movement of commercial lending and G-Sec rates 'not in sync': CARE Ratings

OUR BUREAU

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The movement of commercial lending and Government Security (G-Sec) rates is not in sync, according to CARE Ratings.

The credit rating agency, in a report, said the Weighted Average Lending Rate (WALR) on fresh loans declined from 9.26 per cent in February 2020 to 8.82 per cent in March 2020 to 8.14 per cent in January 2021.

However, (10-year) G-Sec yields, which ranged between 5.8-6 per cent in the second part of the year (July-December 2020), have gone up to the 6.20 per cent mark after the Budget and monetary policy were announced in early February 2021, it added.

"There is surplus liquidity in the system as banks are parking large amounts in the reverse repo auctions.

"Growth in credit is lagging that of deposits and yet there is a tendency for G-Sec yields to increase notwithstanding aggressive meas-

The agency expects the 10-year G-Sec yields to remain stable in the 6.20-6.30 per cent range in FY22 in the absence of a repo rate cut

ures by the Reserve Bank of India (RBI) to keep them down," said the report.

At the same time, banks are lowering their lending rates to garner business, especially on the retail side. Hence, the movement of commercial lending rates and G-Secs are not in consonance, opined the agency.

Bank deposits have increased by ₹12.13-lakh crore between March-end 2020 and February 12, 2021. This is almost 85 per cent more than that of last year when they increased by ₹6.52-lakh crore, CARE said.

Cash reserve ratio

As far as banks are concerned, they get to keep a larger part of these deposits as the CRR (cash reserve ratio) was lowered this year from 4 per cent to 3 per cent, it added.

Bank credit has grown by ₹3.33-lakh crore during the March-end 2020 and February 12, 2021 period against ₹2.71-lakh crore last year.

Admittedly, there can be considerable increase during the last fortnight of the financial year in March when the year-end impact pushes up credit as banks seek to meet their targets, emphasised the report.

The net result of the surplus liquidity could be seen in the relentless parking of funds in the overnight reverse repo window and ranged between ₹4-7-lakh crore on a daily basis, with the amount crossing ₹8-lakh crore in May 2020 on a couple of occasions. "It may be expected that the RBI will continue to support the system as stated in the last policy. However, markets will still be influenced by inflation as well as the government borrowing programme, which will start from April for the next financial year," the agency said.

CARE expects demand for private investment to also increase as the economy is expected to grow by 10-10.5 per cent in FY22, which will require support from banks.

Surplus liquidity

It observed that the surplus liquidity, which was in existence throughout FY21, may no longer be available in the same quantum.

The agency expects the 10-year G-Sec yields to remain stable in the 6.20-6.30 per cent range in FY22 in the absence of a repo rate cut. Upward tendency of inflation may come in the way of the Monetary Policy Committee's decision to lower the same, it added.