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# Bank deposits to rise, as credit growing, liquidity narrowing; RBI will likely continue rate hikes in FY23

*Care Ratings in a report said that it expects an uptick in deposit rate to pick up as the credit growth has remained high and the liquidity has been narrowing in the banking system.*

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September 11, 2022 9:24:29 am


The G-sec yields could be impacted by issuances, global market developments such as US Federal Reserve's rate hikes, inflation, and supply chain disruptions," Care Rating said.

India's banking system is seeing a healthy recovery in loan growth, led by a revival in the corporate segment, while growth in retail and SME also remains robust. Deposit growth remains modest. However, analysts expect to see some uptick in deposits in the current rising interest rate regime. Care Ratings in a report said that it expects an uptick in deposit rate to pick up as the credit growth has remained high and the liquidity has been narrowing in the banking system. The rating agency noted that lending rates on fresh loans witnessed a rise in tandem with the repo rate, while deposit rates' rise albeit slower has also started to pick up.

### RBI likely to continue with rate hikes in FY23

According to the Care Rating report, credit offtake, which showed an improving trend in the latter half of FY22, has continued in the current financial year. Further, the Reserve Bank of India (RBI) has been working on reducing the liquidity surplus in the banking system which has been consistently reducing from Rs 7 lakh crore at the beginning of this year. Additionally, the Russia-Ukraine conflict disrupted global supply chains, which along with high food, fuel, and commodity prices aggravated the existing inflationary trends. Hence, the central bank has already increased the repo rate by 140 bps and additional hikes are anticipated in the current fiscal.

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## Rising policy rates impacting on fresh loans' lending rate

Rate hikes and expectations for further rises have prompted lenders to raise rates. According to analysts at Care Ratings, the rising policy rate also has had a faster impact on the lending rate of fresh loans as new loans are being priced at newer rates, while older loans are re-priced based on repricing dates for specific loans. "Consequently, the spread between Weighted Average Lending Rate (WALR) of outstanding loans and WALR fresh loans is narrowing in the near term and is expected to stabilise over the medium term," they said. WALR is the aggregate rate of interest paid on all debt. It is essentially an average that is adjusted to reflect the contribution of each loan to the total debt.

## Shrinking liquidity, rising credit offtake creates demand for deposits

In July, deposit rates for Public Sector Banks (PSBs), Private Sector Banks (PSBs), Scheduled Commercial Banks (SCBs) also witnessed a rise by 10 bps, 5 bps, and 9 bps month-on-month respectively. “Generally, the repricing of liabilities usually happens after a lag compared to the repricing of assets. Further, assets are largely priced on variable rates while interest rates on deposits are largely fixed for the tenure of the deposit. Hence the rise in deposit rates has been slower than the increase in repo rate,” Care Ratings noted. Shrinking liquidity and rising credit offtake have already created demand for deposits, which have prompted banks to further raise rates across both retail as well as bulk categories and tenures.

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### G-sec yields may be impacted by rate hikes, inflation, and supply chain disruption

According to the research report, the spread between India’s 10-year G-sec yield and the lending rates for SCBs expanded to 1.6% in July, rising by 13 bps month-on-month whereas PSBs and PVBs rose by 10 bps and 15 bps, respectively, in the same period. “This spread is likely to sustain as both bank lending rates and the 10-year G-sec would rise. The G-sec yields could be impacted by issuances, global market developments such as US Federal Reserve’s rate hikes, inflation, and supply chain disruptions,” Care Rating said.

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