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Banks hike deposit rates ahead of festive season

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Mumbai: Most banks are increasing their deposit rates for boosting deposit to support rising credit off-take as liquidity in the banking system has narrowed.

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The hike in deposit rates are in line with the Reserve Bank of India's (RBI) 50 basis points hike in repo rate in the August monetary policy.

The rise in deposit will help banks fund the demand for loans during the festive season.

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"Going forward, banks are expected to raise deposit rates for boosting deposits to support this rising credit offtake given that liquidity is narrowing in the banking system. Selectively, banks have already been raising rates across certain tenures and categories," said Sanjay Agarwal, Senior Director,

CareEdge.

Banks' credit growth has remained in double-digits, handily outpacing the deposit growth. Whereas, credit growth continues to be driven by a low base effect, small ticket size loans, higher working capital requirements due to elevated inflation, and a shift to bank borrowings on account of high yields in the capital market.

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According to the data compiled by CareEdge, the largest state-owned bank, State Bank of India, increased its deposit rate by 15 basis points on deposit maturing between 180 days and 210 days from 4.40 per cent to 4.55 per cent.

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For all other tenures, the SBI FD interest rates have also been hiked by 15 basis points. Bulk deposit rates have been increased by 25-50 basis points for period up to one year. For more than one year, the rates have been hiked ranging from 75-125 basis points.

Indian Overseas Bank increased deposit rates by 10 basis points for 444 days

and three years and above periods for the retail term deposits.

Indian Bank and Punjab National Bank have also hiked their deposit rates by 5-15 basis points.

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On the other, in the private sector, HDFC Bank has increased interest rates by around 15 basis points on fixed deposits greater than Rs 5 crore in August.

ICICI Bank increased interest rates on fixed deposits of Rs 2 crore to Rs 5 crore in August.

Kotak Mahindra Bank has also increased rates by 15 basis points for select tenures for deposits up to Rs 2 crore, CareEdge data showed.