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7 banks hike interest rate in range of 15-50 basis points to boost liquidity

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7 banks hike interest rate in range of 15-50 basis points to boost liquidity | Photo credit: Reuters

Taking cue from the Reserve Bank of India's (RBI) latest revision in the benchmark lending rates, most commercial banks are increasing their interest rates on fixed deposits in view of the festive season credit off-take. Sources said this will help banks fund the demand for loans expected in the next couple of months.

At least seven banks, including SBI, HDFC Bank, ICICI Bank, Indian Overseas Bank, Punjab National Bank, Indian Bank and Kotak Mahindra Bank, have

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announced the revised deposit rates in the range of 15 to 50 basis points.



In the August monetary policy meeting, the RBI had raised the prime lending rate by 50 basis points, which prompted the banks to revise their lending rates last week. However, the liquidity in the banking system has narrowed down in the last few quarters owing to low interest rates on deposits.

Bank 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.

Senior director at rating agency CareEdge, Sanjay Agarwal said, "Going forward, banks are expected to raise deposit rates to support this rising credit off-take, given that liquidity is narrowing in the banking system. Selectively, banks have already been raising rates across certain tenures and categories."

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