Deposit rates are up but real returns are still in the negative zone

Inflation as measured by the consumer price index (CPI) came in at 7.04% in May, the fifth straight month above the Reserve Bank of India's (RBI) flexible target of 2-6% **(REUTERS)**

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Despite the recent spate of deposit rate hikes by banks, the real return on deposits or inflation-adjusted return is still in the negative territory, indicating how runaway price rises impact domestic savers.

Inflation as measured by the consumer price index (CPI) came in at 7.04% in May, the fifth straight month above the Reserve Bank of India's (RBI) flexible target of 2-6%. Meanwhile, State Bank of India's (SBI) one-two year fixed deposit -- typically used as a proxy for bank deposits -- offers a return of 5.3%, pushing the real rate or the inflation-adjusted return to -1.74%.

Going by RBI's internal projections, CPI is expected to stay above the central bank's target range of 2-6% for three quarters of the current financial year, which could further curtail real returns on deposits, unless banks substantially hike deposit rates. To be sure, the inflation projection of the monetary policy committee (MPC) of the central bank -- at 6.7% in FY23 – does not take into account the repo rate hike of 50 basis points (bps) on 8 June.