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Hike in deposit rates have lagged behind lending rate increase

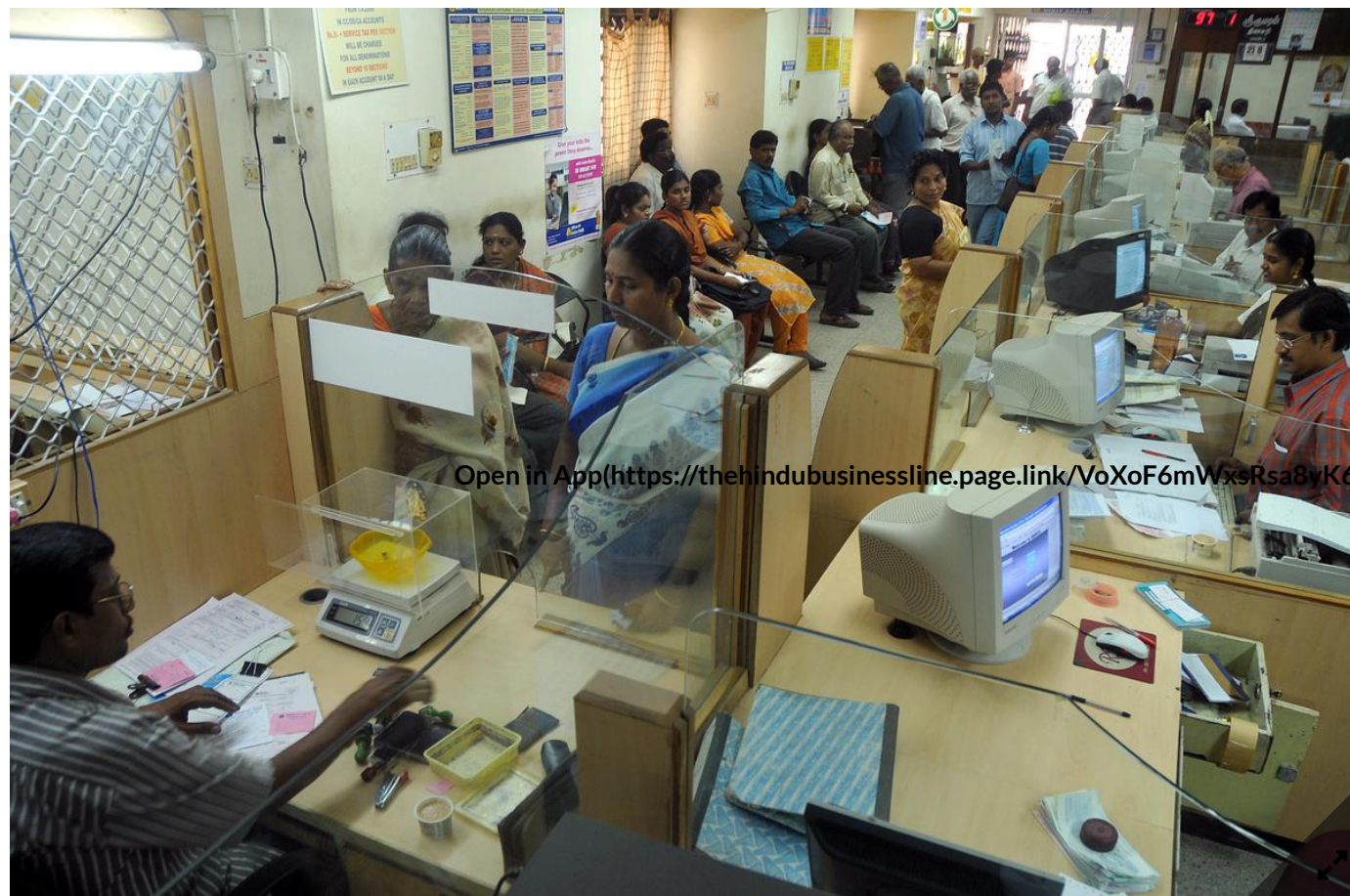
Surabhi(https://www.thehindubusinessline.com/profile/author/Surabhi-8993/) | Mumbai, July 7 | Updated On: Jul 07, 2022



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Small savers hoping for higher interest on their deposits may have to wait a bit longer. | Photo Credit: SRIDHARAN N

Lending rates have increased in line with the repo rate hike, while deposit rates have not been hiked in tandem

Small savers hoping for higher interest on their deposits may have to wait a bit longer. With banks sitting on comfortable liquidity, deposit rates are likely to be hiked gradually, even though the transmission of lending rates has been faster.

While banks have increased lending rates largely in line with the repo rate hikes, deposit rates have not been hiked in tandem by most banks.

A report by ICICI Securities noted that post the 90 basis points repo rate hike, the rise in retail deposit rates has lagged the lending (EBLR, as well as MCLR) rate hike.

“MCLR was hiked by 25 to 65 basis points, with private banks being more aggressive, followed by the State Bank of India,” it said, adding that retail term deposit rates have risen across the board, but have not been commensurate with the repo hike.

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Sharp hike in wholesale term deposit rates

The wholesale term deposit rates have witnessed the sharpest spike of 100–170 basis points in the one-year bucket, the report further said, adding that the savings rate was hiked by Kotak Mahindra Bank, IDFC First Bank, Bandhan Bank, and Federal Bank.

Interestingly, YES Bank recently launched a Floating Rate Fixed Deposit for domestic customers, linking the rate of interest to the prevailing repo rate.

Sanjay Agarwal, Senior Director, CARE Edge, said this is normally how the business

works.

“Repricing of liabilities usually happens after a lag, compared to repricing of assets. At present, liquidity with banks is high and so, for most of them, there is not enough reason to substantially increase deposit rates. It will take three to six months for deposit rates to catch up with lending rates,” he said.

According to data from CARE Edge, the weighted average lending rates for fresh loans have increased by 0.64 per cent to 7.86 per cent on a year-on-year basis for scheduled commercial banks by May 2022. In contrast, the weighted average domestic term deposit rates increased by 1.05 per cent to 5.07 per cent by May 2022 on a year-on-year basis.

Banks sitting on reasonable liquidity

“Today, banks are sitting on reasonable liquidity, and there is no pressing need for them to increase rates and attract deposits. It is quite likely that an increase in interest rates on these products will be gradual. Our advice at this stage is to go for shorter maturity on debt options as interest rates are expected to rise in the future and will impact the portfolio value,” said Harshad Chetanwala, co-founder, MyWealthGrow.

Significantly, a report by Macquarie Research had highlighted the widening gap between deposit and loan growth, which was at a three-year high.

“While loan growth, at about 12 per cent year-on-year, is also at a three-year high, we remain concerned about weak deposit growth, at about nine per cent, and the current gap being about 300 basis points; we think deposit growth will be the biggest constraint for loan growth,” it said.

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