PSU banks ahead of private peers in raising loan rates

By Saloni Shukla, ET Bureau Last Updated: Jul 15, 2022, 06:15 AM IST

Synopsis
In May 2022, average lending rates on fresh loans taken from PSBs increased by 37 basis points while private sector banks increased rates on fresh loans by 26 bps. For the entire banking system, rates rose by 35 bps. Although PSBs hiked average lending rates on existing loans by 3 bps, private banks stepped up rates by 14 bps.

Across the board, deposit rates rose by 4 bps. While public sector banks repriced deposits higher by 2 bps, private sector banks raised rates by 6 bps. The rise in deposit rates, however, was slower than the increase in repo rate.

Mumbai: Public sector banks have taken the lead in passing on the rate hike to new customers, data with the Reserve Bank of India (RBI) showed.

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One basis point is 0.01%.

"The rising policy rate is expected to have a faster impact on the lending rate of fresh loans as new loans can be priced at newer rates, while older loans are re-priced over the year based on repricing dates for specific loans," said Sanjay Agarwal, senior director, CARE Ratings. "The spread is likely to narrow in the near term and then stabilise over the medium term."

The RBI increased the repo rate twice by 40 basis points to 4.40% in May 2022 and 50 bps to 4.9% in June 2022 and additional rate hikes are anticipated throughout FY23. As per Fitch Ratings, rates could reach 5.90% by end-2022 and 6.15% by end-2023, then remaining at this level through 2024.

In view of this tightening interest rate scenario, many banks have raised their lending rates.

"Banks have been quick to pass on higher rates through loan portfolios, which are mainly floating in nature, but have been slower in raising deposit rates," said Saswata Guha, senior director - banks, Fitch Ratings. "This trend should support higher NIM, but the lack of competition for deposits may point to relatively muted demand for new credit. Generally, asset-quality risks from the rate hikes should be manageable for most banks."

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"Repricing of liabilities usually happens after a lag, compared to the repricing of assets, also because fixed deposits generally do not have floating rates," Agarwal of CARE said.

"At present, liquidity with banks is high, hence there is not enough reason to substantially increase deposit rates. It will take three-six months for deposit rates to catch up with lending rates. The deposit rates are expected to increase in the next three-six months as the credit growth picks up and excess liquidity gets absorbed."