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Banks increase interest rates on bulk deposits as liquidity tightens

Loan, deposit growth gap at 10-year high

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Rates on three-month corporate deposits are in the range of 6.30-6.50 per cent, up 30-35 bps from a week ago, market participants said.

With surplus liquidity in the system shrinking and deposit growth trailing credit growth by a large margin, banks have hiked interest rates on bulk deposits, suggesting that they are looking for such deposits to meet the credit demand.

Rates on three-month corporate deposits are in the range of 6.30-6.50 per cent, up 30-35 bps from a week ago, market participants said. With liquidity tightening in the system, banks have turned to certificate of deposits (CDs), resulting in outstanding CDs at Rs 2.44 trillion as of September 9, 2022, compared with Rs 0.7 trillion a year ago, registering a growth of over 250 per cent YoY.

According to the latest Reserve Bank of India (RBI) data, credit growth in the economy is at a 9-year high of 16.2 per cent, and deposits are growing at 9.5 per cent, resulting in a widening of the credit-deposit growth gap and exacerbating concerns that slow deposit growth could emerge as one of the biggest constraints for loan growth in the system.

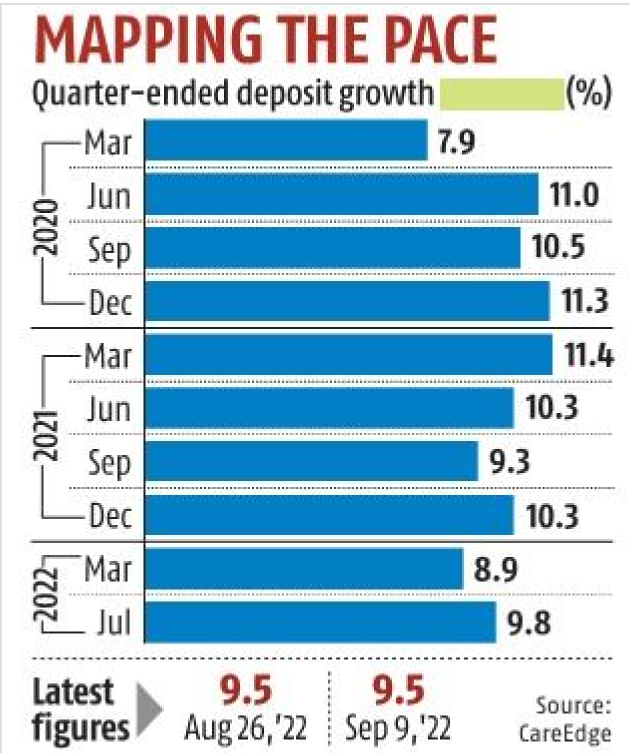
“With loan growth at Rs 16.2 per cent and deposit growth at 9.5 per cent, the gap at 650-700 basis points (bps) is now close to a 10-year high,” said Suresh Ganapathy, Associate Director, Macquarie Capital.

Many banks have announced special deposit schemes over the past month, offering over 6 per cent interest on fixed deposits, to garner durable liquidity. The banking system liquidity surplus was more than Rs 8 trillion in early April 2022. Liquidity in the system has come down. Last week, liquidity in the banking system slipped into a deficit mode for the first time in over three years, signalling a structural shift away from loose financial conditions in the economy.

“Liquidity will continue to remain under pressure. As of now, the core liquidity (which includes the government’s cash balance) is still positive, but by December, that core liquidity will also turn neutral. Interbank liquidity will continue to remain tight,” said a senior trader handling asset-liability management at a private bank.

“From now on CD rates will be in tandem with repo rate hikes. Money markets are now factoring in a 50-bps hike at both this policy and the next,” the person quoted above said.

“The banking system used to have Rs 6-7 trillion of liquidity and now it’s dying down. There is a demand-supply mismatch but credit cannot wait. So, most banks, including our bank, have realigned their deposit pricing. We came out with a special scheme on deposits for 444 days and mopped a sizable amount from it. The obvious impact will be on deposit rates and eventually it could lead to higher interest outgo and some sort of pressure on NIMs. But that pressure could be offset by the concomitant repricing of assets,” said A K Das, MD & CEO, Bank of India.



RBI’s six-member monetary policy committee (MPC) have raised the benchmark policy repo rate by 140 basis points since May. Consequently, the lending rates of banks have risen in tandem with the repo rate, especially the external benchmarked linked loan rates (EBLR).

According to Care Edge, the widening gap between credit growth and deposit growth may lead to supply-side issues, thereby eventually constraining credit growth.

S K Khatanhar Suresh, deputy managing director, IDBI Bank, said with elevated credit growth, the pressure on liquidity will continue and interest rates on liability (short tenure deposits and term deposits) will rise. By current assessment, deposit rates could rise by 25 bps.