Money & Banking

Lending: Banks respond with alacrity to 160 bps repo rate-cut in FY20: CARE Ratings

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Banks have responded with a good deal of alacrity on the lending side to the cumulative 160 basis points repo rate-cut in FY20, according to CARE Ratings. Though deposit rates also moved down, it was not to the same extent, it added.

In the first period of FY20 (up to March 26), the weighted average lending rate (WALR) on fresh loans came down by 94 bps, which is more than the 85 bps decline in repo rate during this period, the credit rating agency said in a research report.

As per the report, this trend has been observed across all bank categories, with the response rate (change in interest variable to change in repo rate expressed as per cent) of public sector banks (PSBs) being around 85 per cent and that of private and foreign banks more than 120 per cent.

Subsequently, the 75-bps repo rate cut (on March 27) led to a 28 bps fall for all banks. Foreign banks had a response rate of over 100 per cent, while private banks did not witness a significant change in WALR. The response of PSBs was around 60 per cent.

Hence, in response to the 160 bps repo rate cut cut in 14 months, the WALR came down by 122 bps. This is quite significant, with the response of WALR on fresh loans being above 75 per cent, CARE said.

MCLR

Going by the one-year median marginal cost of funds based lending rate (MCLR) across different bank groups based on data available up to June, the response of the median MCLR was less significant with the 85b bps repo rate cut being associated with just 54 bps, which is less than 65 per cent.

However, the median of 8.20 per cent in March was associated with a minimum of 5.44 per cent and maximum of 10.55 per cent.

The response was even smaller post March (26th) as 115 bps cut in repo rate (March 27: 75 bps and May 22: 40 bps) led to just 50 bps in median MCLR till June, with the response rate being a little over 40 per cent

The agency, however, emphasised that using a median MCLR for any bank group has the limitation of being an average of a rather varied minimum and maximum rates.

It reasoned that median MCLR may not be an effective measure of comparison relative to WALR, which is the actual average that considers the size of loans too.

For the entire period, the MCLR for one year was down by 104 bps in response to the 200 bps cut in repo rate (160 bps in FY20 and 40 bps on May 22).

Deposit rates

In the first stage of FY20 when the repo rate was lowered by 85 bps, the weighted average term deposit rate for all banks came down by around 50 bps, with foreign banks (139 bps decline) and private banks (69 bps) being more aggressive in lowering these rates vis-a-vis PSBs (39 bps).

These rates have been computed on outstanding deposits for the month. The response rate has been around 60 per cent.

A subsequent reduction in repo rate by 75 bps led to a decline of 26 bps for the system in May (response rate of around 35 per cent), bringing a total of 77 bps decline in deposit rates against the 160 bps cut in repo rate during this 14-month period.

CARE said there has, hence, been a transmission rate of just about 50 per cent in average deposit rates.

In fact, post May 22, the average deposit rate on one-year deposits of the banking system based on five large banks came down from a mid-value of 5.7 per cent to 5.375 per cent, a reduction of 32.5 bps. With the repo rate being lowered by 40 bps (on May 22), the response was close to 80 per cent reduction in the one-year deposit rate.

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