

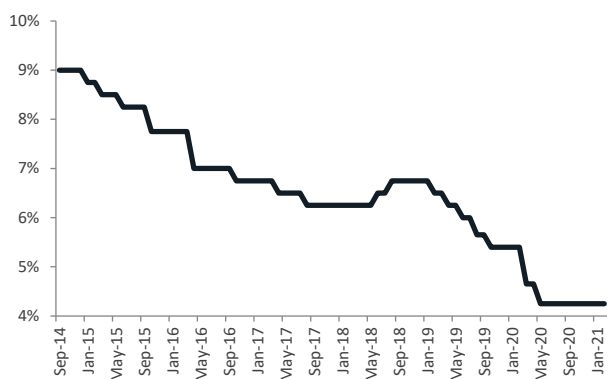
# Overall banking system interest rates continue to remain at low levels. Private bank spreads stay elevated

March 02, 2021 | BFSI Research

## Banking interest rates have continued to trend down significantly

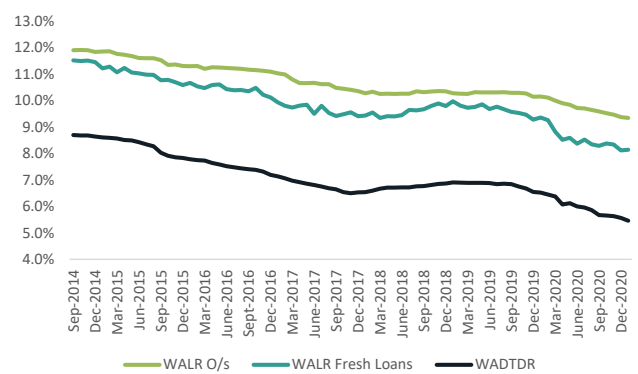
The impact of Covid-19 pandemic has been rampant globally, affecting the lives and livelihood negatively across the board with global economic growth being disrupted; however, the vaccination program has created a hope for a quicker return to normal. The RBI has taken several measures to support the economy and unlock credit delivery, including rate cuts. Figure 1 captures movement in RBI's bank rate. The overall credit growth in the banking sector has continued to moderate due to the rise in risk aversion in the banking system and continued parking of excess liquidity with RBI.

**Figure 1: Bank rate**



Source: RBI, CMIE

**Figure 2: Movement in Banking System Interest Rates**

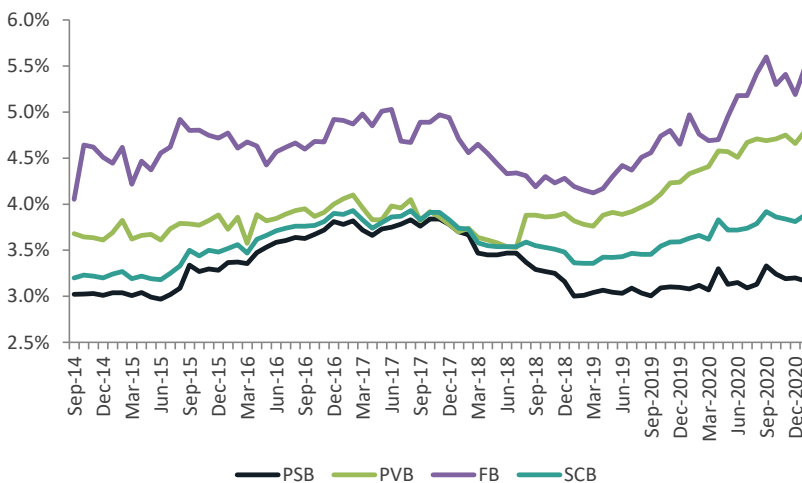


Source: RBI, CMIE

Interest rates in the banking system have generally trended lower. However, the interest rate transmission has been uneven, with maximum pass-through recorded in the weighted average lending rate (WALR) on fresh rupee loans, while transmission on outstanding loans has been slower. Additionally, both foreign banks (FBs) and private banks (PVBs) have not passed on the policy rate cuts as aggressively as the public sector banks (PSBs).

## Movement in spread between lending and deposit rates

**Figure 3: Movement in spread between WALR and WADTDR**



Note: Difference between Outstanding Rupee Term Deposits and Outstanding Rupee Loans, Source: RBI, Scheduled Commercial Banks (SCBs) (All Banks)

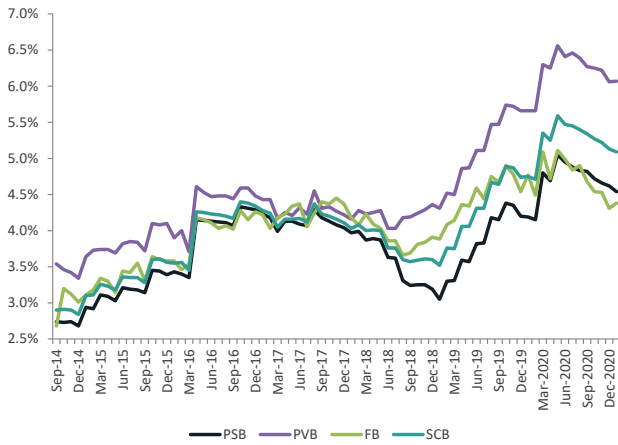
The net interest rate spread is the difference between the average lending rate and the deposit rate. The net interest rate spread is a key determinant of a financial institution's profitability. The lending rates of FBs are generally lower than the PVBs and the PSBs; the spread for these banks is higher as FBs pay even lower rates to deposit holders when compared with PSBs and PVBs. The spread between the Weighted Average Lending Rates (WALR) on outstanding loans and Weighted Average Domestic Term Deposit Rates (WADTDR) on outstanding term deposits has been the highest for

FBs, followed by PVBs, while PSBs have had the least spread. Both PSBs and PVBs pay deposit holders at similar rates, however, PVBs charge a higher WALR resulting in larger spreads.

- WADTDR on outstanding term deposits declined by 310 bps for PSBs, 333 bps for PVBs, 448 bps for FBs and 324 bps for SCBs between September 2014 and January 2021.
- Since March 2020, WADTDR on outstanding term deposits has declined by 76 bps for PSBs, 101 bps for PVBs, 190 bps for FBs and 92 bps for SCBs.

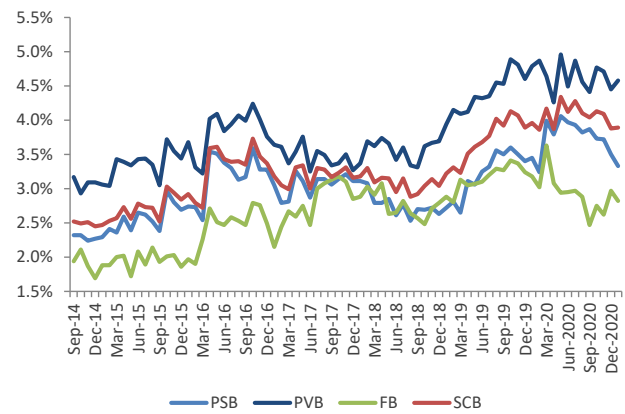
**Movement of spread between lending rates and bank rate**

**Figure 4: Movement of spread between WALR (o/s loans) and bank rate**



Source: RBI, CMIE

**Figure 5: Movement of spread between WALR (fresh loans) and bank rate**

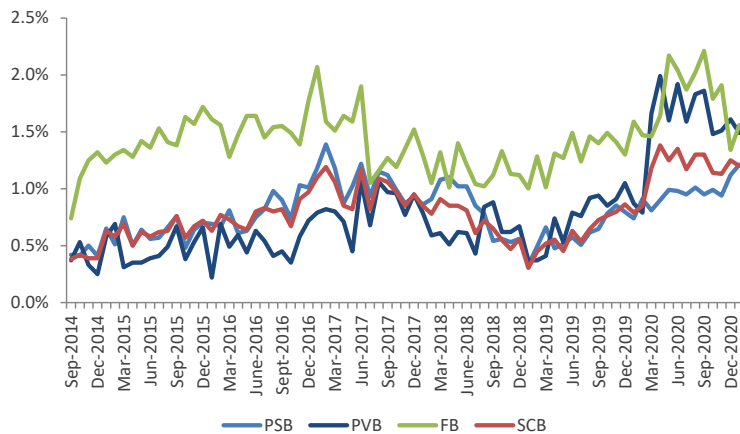


Source: RBI, CMIE

- WALR on fresh rupee loans declined by 374 bps for PSBs, 334 bps for PVBs, 387 bps for FBs and 338 bps for SCBs between September 2014 and January 2021, compared with the 475-bps reduction in the bank rate for the similar period.
- Decline in the WALR on outstanding loans has been less pronounced for the same period, with the decline being 295 bps for PSBs, 222 bps for PVBs, 305 for FBs and 256 bps for SCBs.

**Movement of spread between WALR (o/s loans) and WALR (fresh loans)**

**Figure 6: Movement in spread between WALR (o/s loans) and WALR (fresh loans)**

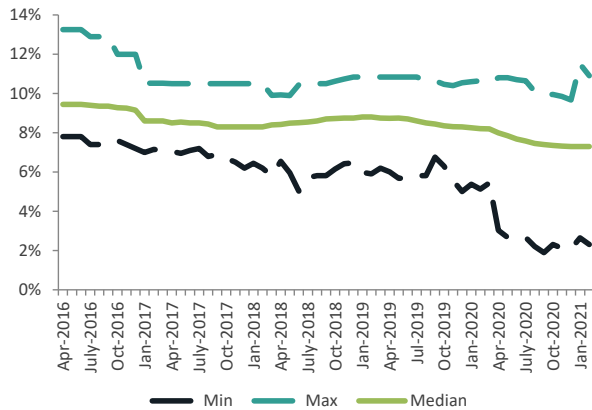


Source: RBI

The WALR for all segments has generally been on a reducing trend. In January 2021, the difference between WALR on fresh loans and WALR on outstanding loans narrowed for PVBs, and SCBs, while it increased for PSBs and FBs. The average difference between the two WALRs has remained at 0.8% for PSBs, 0.8% for PVBs, 1.4% for FBs and 0.8% for SCBs, for the period between September 2014 and January 2021.

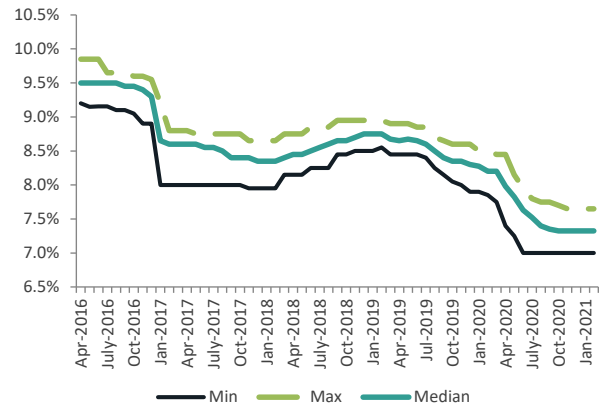
**Movement in Bank Group-wise MCLR (1 Year): Even as PVB corridor narrows, PSB rates continue to travel in the narrowest corridor. Foreign Banks maintain the highest variation.**

**Figure 7: Movement in 1 Year MCLR: Scheduled Commercial Banks**



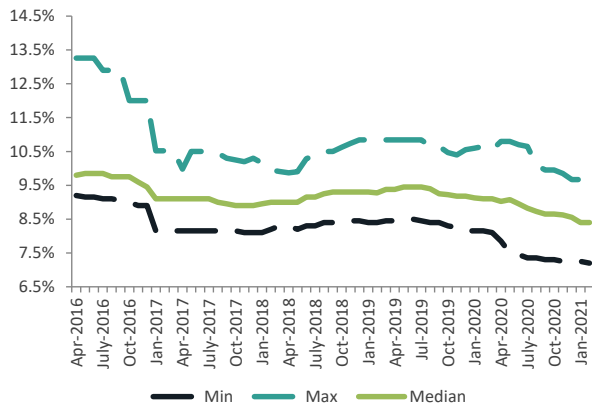
Source: RBI, CMIE

**Figure 8: Movement in 1 Year MCLR: Public Sector Banks**



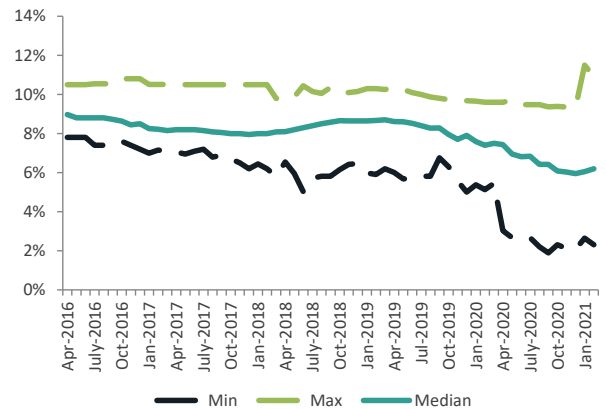
Source: RBI, CMIE

**Figure 9: Movement in 1 Year MCLR: Private Sector Banks**



Source: RBI, CMIE

**Figure 10: Movement in 1 Year MCLR: Foreign Banks**



Source: RBI, CMIE

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