

Banking Interest Rates: Fresh Lending Rates Rise marginally

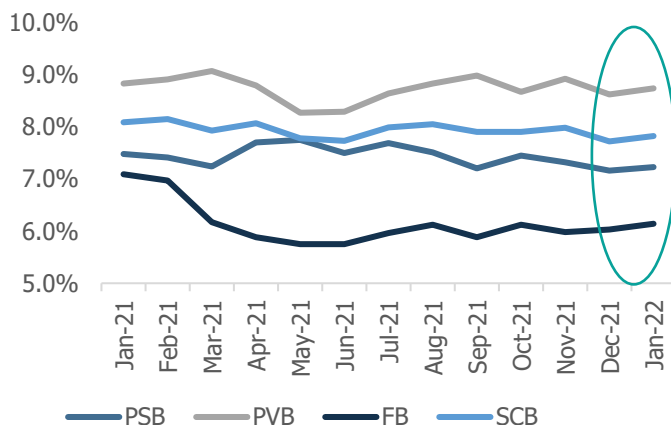
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Banking interest rates seem to have bottomed out and look to be on an increasing path

The credit growth had been muted from February 2020 to July 2021 due to the Covid-19 outbreak and deleveraging of balance sheet by large corporates. As a part of policy support, RBI had reduced policy rates in the earlier part of the pandemic and consequently, interest rates in the banking system have generally trended lower. However, the interest rate transmission has been uneven with PSBs passing the rate cuts quicker than the PVBs. The credit offtake seems to have improved recently as business activities are picking up and corporates are showing interest for re-leveraging. Credit growth has been buttressed by retail and MSME loans. The lending rates on outstanding loans has continued to dip, but the lending rate on fresh loans has increased indicating that the rates have bottomed out. Further despite the m-o-m dip in deposit rates, the banks are starting to bump up deposit rates.

Movement in Lending Rates - (Weighted Average Lending Rate - WALR)

Figure 1: WALR Fresh Loans Evolution

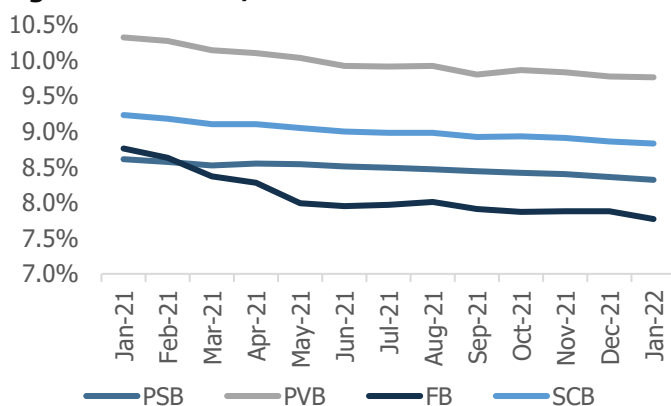


The Interest rate have generally trended lower when compared to January 2021 even as the bank rate has held steady. The decline in PSBs has been more than PVBs, and PVB rates continue to be significantly higher compared to the PSB rates. **However, on a m-o-m basis, all the categories have witnessed an increase of 7 bps, 12 bps, 11 bps, and 10 bps, respectively for PSB, PVB, FB and SCB respectively.** The spread between the 10-year Gsec yield and the lending rates have been declining due to rising Gsec yields. PVBs have a higher spread compared to PSBs. Further, lending rates for PVBs continues to remain higher as compared to others.

Source: RBI

Movement in Lending Rates - (WALR)

Figure 2: WALR O/s Loans Evolution

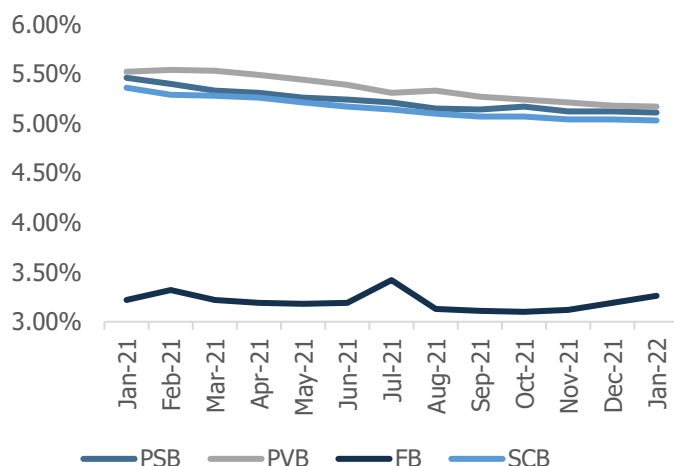


Interest rate transmission continued between January 2021 and January 2022 as lending rates declined. WALR on outstanding loans declined by 29 bps, 56 bps, 99 bps, and 40 bps for PSB, PVB, FBs, and SCB, respectively, between January 2021 and January 2022. The decline in PSBs has been lower as compared to PVBs, but the absolute PVB rates continue to be significantly higher compared to the PSB rates.

Source: RBI

Movement in Deposit Rates - Weighted Average Domestic Term Deposit Rates (WADTDR)

Figure 3: WADTDR Evolution

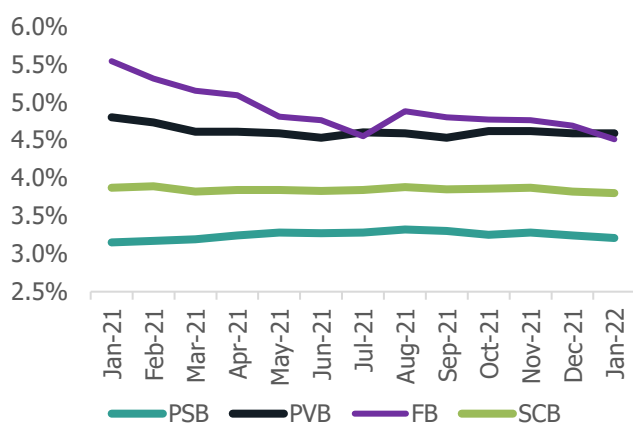


Source: RBI

As can be seen in figure 3, the deposit rate has been on a general downtrend and has declined by 35 bps, 35 bps, and 33 bps for PSB, PVB, and SCB, respectively, between January 2021 and January 2022, the rate for FB increased by 4 bps and the bank rate held steady for the similar period. On a m-o-m basis, rates declined by 1 bps for PSB, PVB and SCB, while FBs witnessed a 7bps increase. However, the rates for FBs continue to be significantly lower than the other categories.

Movement in Spread between Lending and Deposit Rates

Figure 4: Movement in spread between WALR and WADTDR



Note: Difference between Outstanding Rupee Term Deposits and Outstanding Rupee Loans; Source: RBI

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 lending rates and deposit rates has been the highest for FBs, followed by PVBs, while PSBs have had the least spread. However, the difference between PSBs and FBs spreads has reduced. Both PSBs and PVBs pay deposit holders at similar rates, however, PVBs charge a higher lending rate resulting in larger spreads.

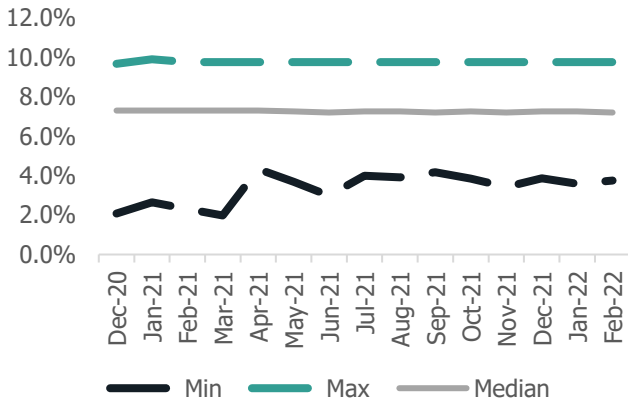
Concluding remarks

If we analyse the spreads of both PVBs and PSBs, we can see that both the groups have high spreads with PVBs continuing to have relatively higher spreads. However, we can see that several banks have increased their Term Deposit rates and hence the spreads on outstanding loans have narrowed. On the other hand, on a m-o-m basis all bank categories have witnessed an increase in their lending rates on fresh loans. Further with G-sec yields rising, bond yields would also witness an increase, pushing some corporates to the banking system for their borrowing requirements.

Annexure

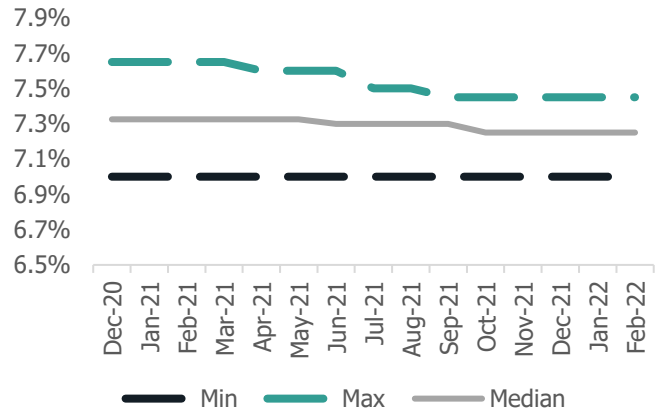
Movement in Bank Group-wise MCLR (1 Year): PSB rates corridor narrows, while PVB continue to travel in a similar corridor. Foreign Banks maintain the highest variation.

Figure 5: Movement in 1 Year MCLR: Scheduled Commercial Banks



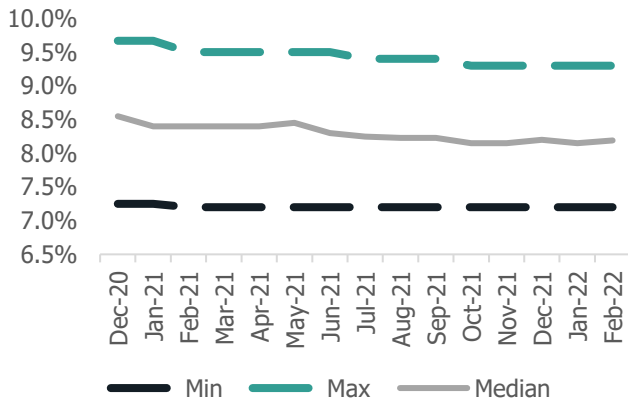
Source: RBI

Figure 6: Movement in 1 Year MCLR: Public Sector Banks



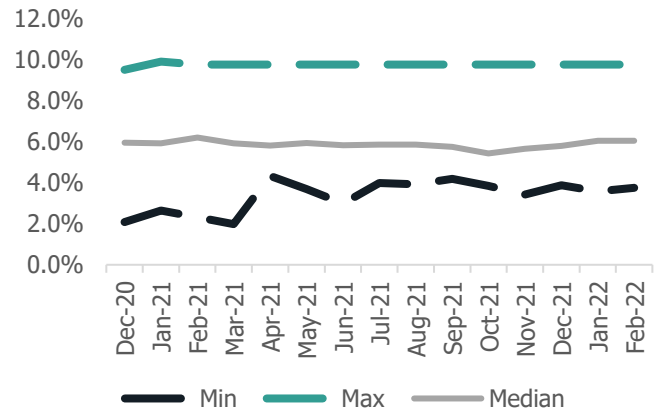
Source: RBI

Figure 7: Movement in 1 Year MCLR: Private Sector Banks



Source: RBI

Figure 8: Movement in 1 Year MCLR: Foreign Banks



Source: RBI

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