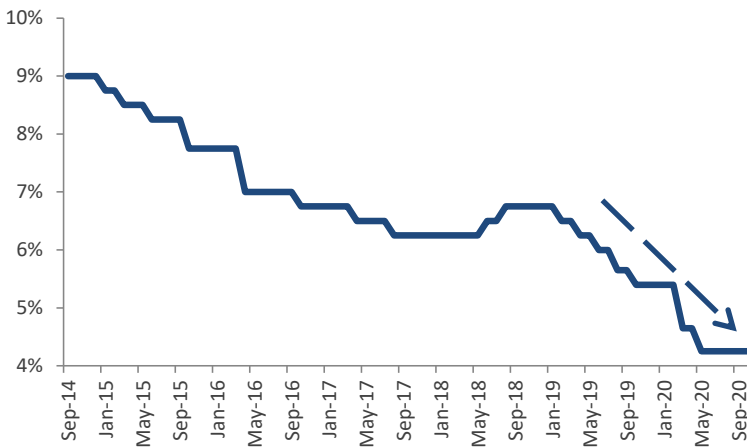


Private Sector Bank Spreads at elevated levels

Bank Rate has trended down significantly in 2020

Figure 1: Bank Rate

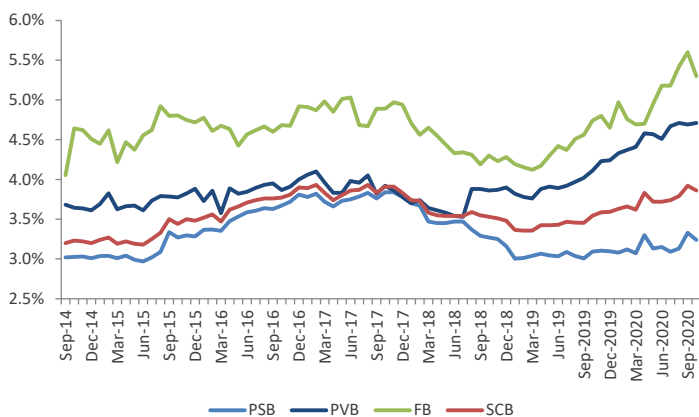


The impact of the Covid-19 pandemic has been rampant globally negatively affecting lives and livelihood across the board. Global economic growth has been disrupted. The RBI has taken several measures to support the economy and unlock credit delivery, including rate cuts. Figure 1 captures movement in 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. The interest rate transmission has been uneven, with the 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 FBs and private banks (PVBs) have not passed on the policy rate cuts as aggressively as the public sector banks (PSBs).

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Movement in Spread between WALR and WADTDR

Figure 2: 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.
- As per RBI data, 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 277 bps for PSBs, 204 bps for PVBs, 289 bps for FBs and 238 bps for SCBs between Sept. 2014 and October 2020.

Movement of Spread between WALR and Bank Rate

Figure 3: Movement of Spread between WALR (o/s loans) and Bank Rate

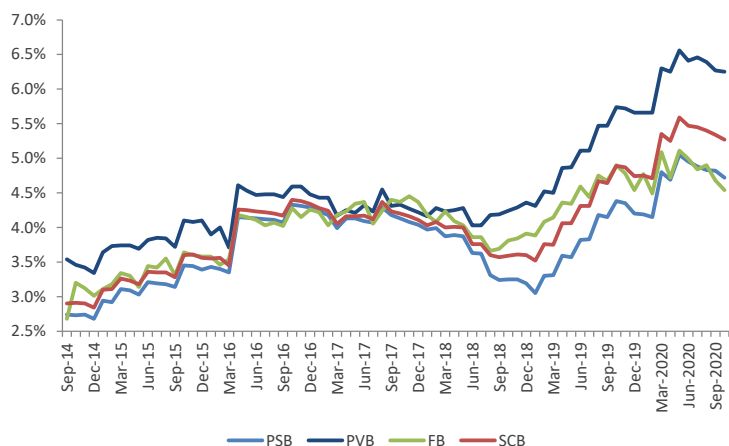
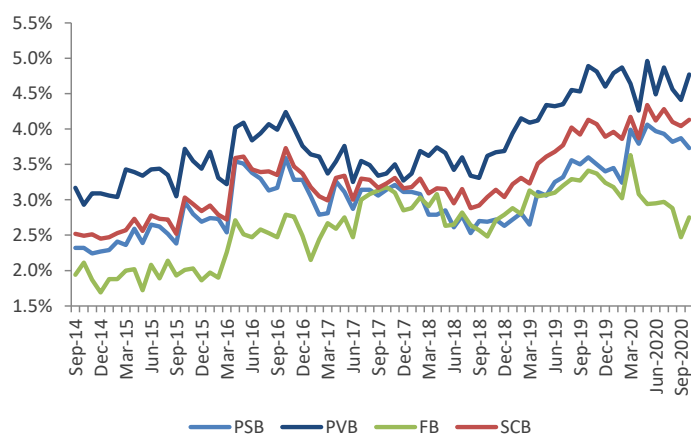


Figure 4: Movement of Spread between WALR (fresh loans) and Bank Rate

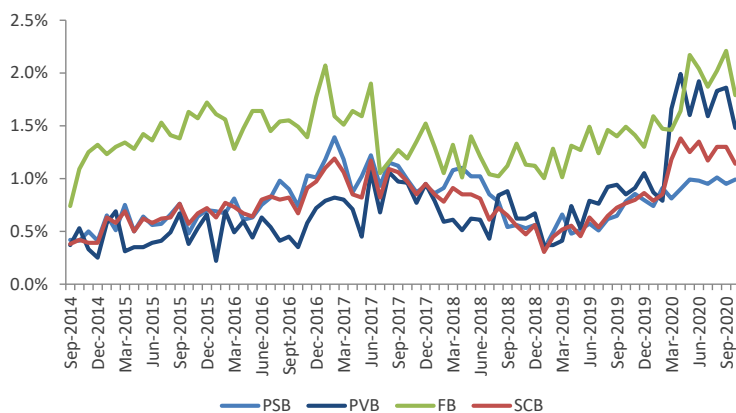


Source: RBI

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. WALR on outstanding rupee loans declined by 277 bps for PSBs, 204 bps for PVBs, 289 bps for FBs and 238 bps for SCBs between September 2014 and March 2020, compared with the 475 bps reduction in the bank rate for the similar period. WALR on fresh loans has been more pronounced for the same period, with the decline being 334 bps for PSBs, 315 bps for PVBs, 394 for FBs and 314 bps for SCBs. As can be seen, decline in the spread has generally been higher for PSBs as compared with their private as well as foreign counterparts; however, it has also to be noted that the lending rates for the private banks were higher and continue to be higher than those charged by the PSBs as well as FBs.

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

Figure 5: : Movement in Spread between WALR (o/s loans) and WALR (fresh loans)

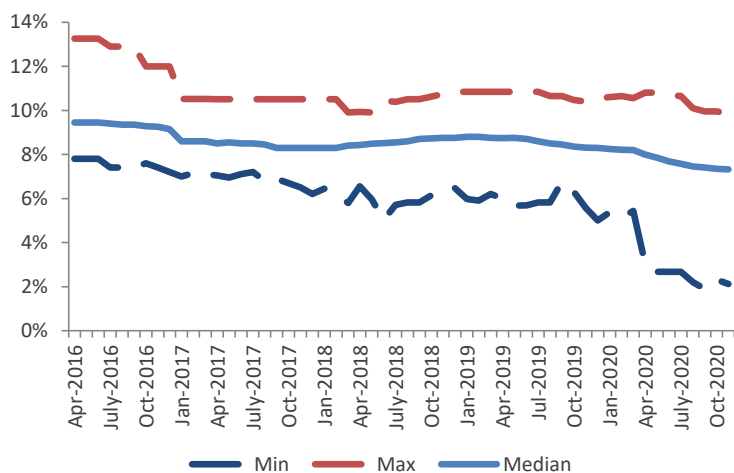


Source: RBI

- The WALR for all segments has generally been on a reducing trend. In October 2020, the difference between, WALR on fresh loans and WALR on outstanding loans narrowed for PVBs, FBs, and SCBs, while it remained stable for PSBs. The average difference between the two WALRs has remained at 0.8% for PSBs, 0.7% for PVBs, 1.4% for FBs and 0.8% for SCBs, for the period between September 2014 and October 2020.

Movement in Bank Group-wise MCLR (1 Year): PSB rates travel in the narrowest corridor, while Foreign Banks have the highest variation

Figure 6: Movement in 1 Year MCLR: Scheduled Commercial Banks



Source: RBI

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

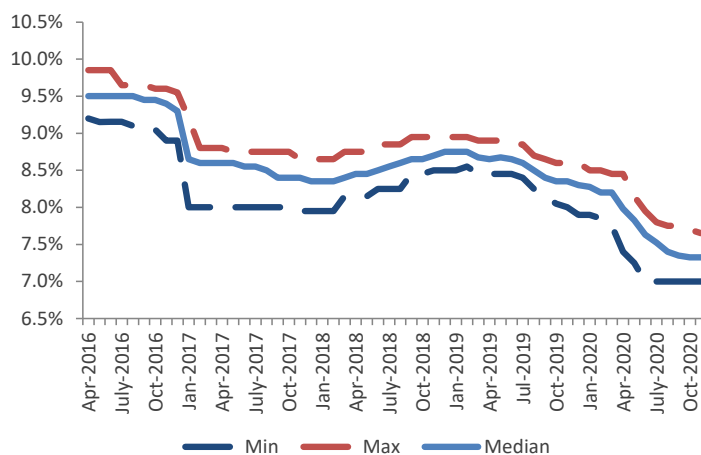
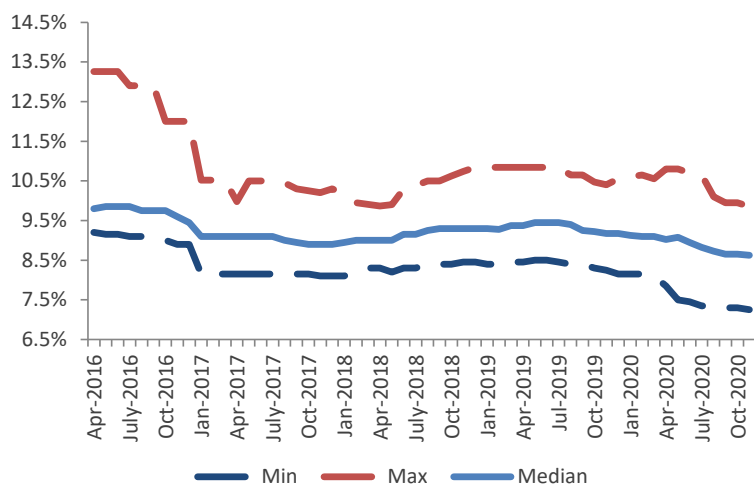
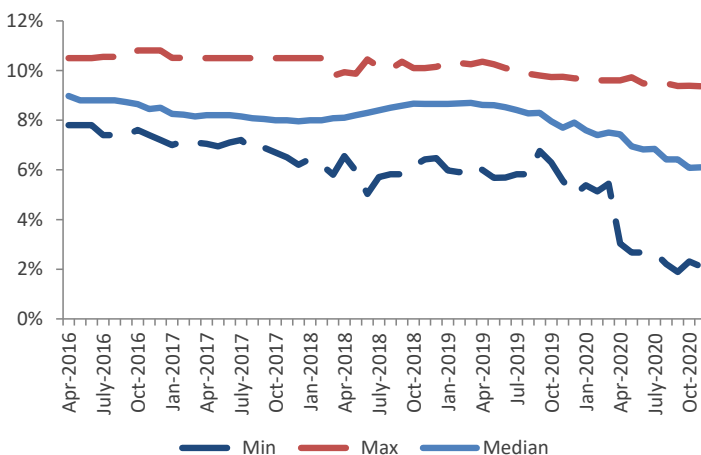


Figure 8: Movement in 1 Year MCLR: Private Sector Banks



Source: RBI

Figure 9: Movement in 1 Year MCLR: Foreign Banks



Contact:

Sanjay Agarwal
Senior Director
sanjay.agarwal@careratings.com
+91-22- 6754 3582
Mob No: +91- 810 800 7676

Saurabh Bhalerao
Associate Director – BFSI Research
saurabh.bhalerao@careratings.com
+91-22-6754 3519
Mob No: +91- 900 495 2514

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-22-6754 3573

CORPORATE OFFICE:

CARE Ratings Ltd.
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road,
Off Eastern Express Highway, Sion (East), Mumbai - 400 022.
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com
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