

# Divergence Appears as Fresh Lending Rate Rises, Fresh Deposit Rate Falls

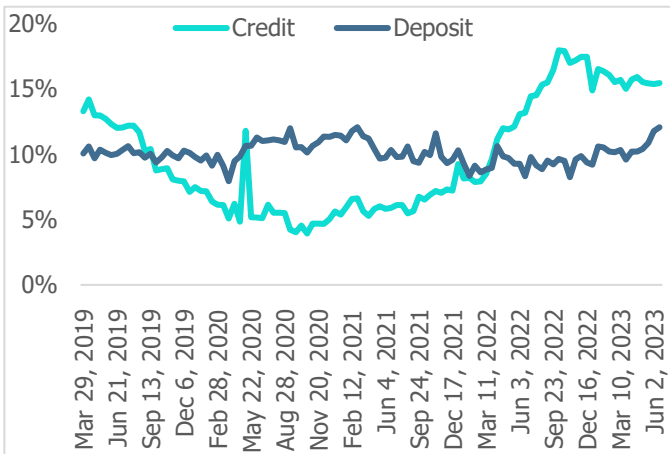
July 10, 2023 | BFSI Research

## Overview

- In May 2023, fresh lending rates rose while deposit rates decreased. Meanwhile, rates on outstanding business continued to climb.
  - The weighted average lending rate (WALR) on fresh rupee loans of SCBs increased by 19 basis points (bps) from 9.08% in April 2023 to 9.27% in May 2023 and the WALR on outstanding rupee loans of SCBs increased by 2 bps from 9.76% in April 2023 to 9.78% in May 2023.
  - The weighted average domestic term deposit rate (WADTDR) on fresh rupee term deposits of SCBs decreased by 4 bps from 6.36% in April 2023 to 6.32% in May 2023. Meanwhile, WADTDR on outstanding rupee term deposits of SCBs increased by 9 bps from 6.28% in April 2023 to 6.37% in May 2023.
  - 1-Year median Marginal Cost of Fund based Lending Rate (MCLR) of SCBs increased from 8.60% in May 2023 to 8.65% in June 2023.
- The share of External Benchmark based Lending Rate (EBLR) linked loans in total outstanding floating rate rupee loans of SCBs stood at 49.6% at end-March 2023, while share of MCLR-linked loans was 45.5%.

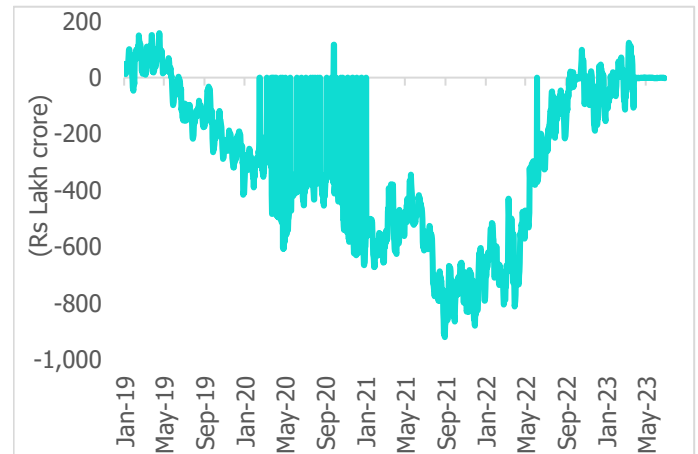
## Continued Large Credit and Deposit Growth Gap Coupled with Lower Liquidity Levels

**Fig 1: Growth in Credit Continues to Outpace Deposit**



Source: CMIE, RBI

**Fig 2: Bank System Liquidity (Net Liquidity Injected)**

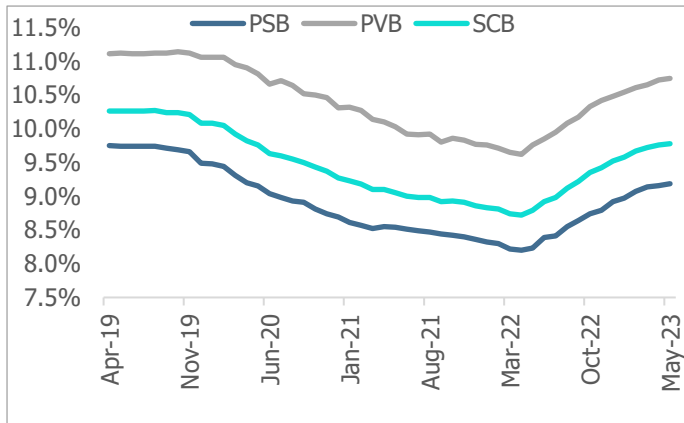


Source: RBI, CEIC

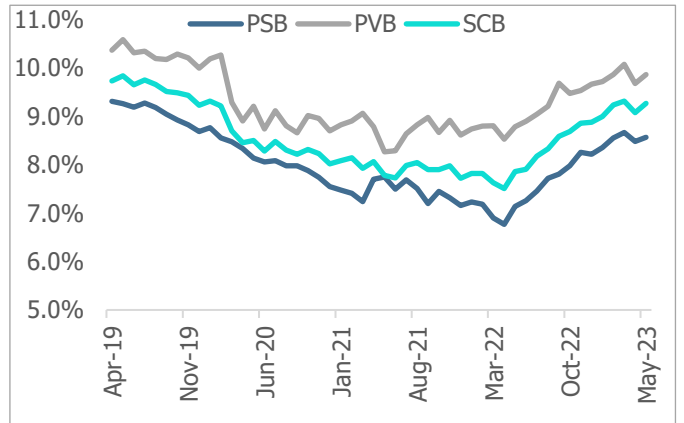
Credit demand has been recording double-digit growth driven by personal loans, increased working capital requirements, and NBFCs. Meanwhile, comparatively lower deposit mobilisation and pick-up in credit offtake have pushed the credit deposit ratio to nearly 75.5% as of June 16, 2023. The banking system liquidity surplus has narrowed from Rs 6.3 lakh crore at the start of FY23, turned into a shortfall near the end of FY23 and subsequently improved in the beginning of FY24. The Short-term Weighted Average Call Rate (WACR) stood at 6.1% as of June 16, 2023, as compared with 4.51% as of June 17, 2022.

**Lending Rates on Outstanding Portfolio Continue to Rise, while Fresh Rates Decline**

**Figure 3: Evolution of WALR O/s (Lending) Loans**



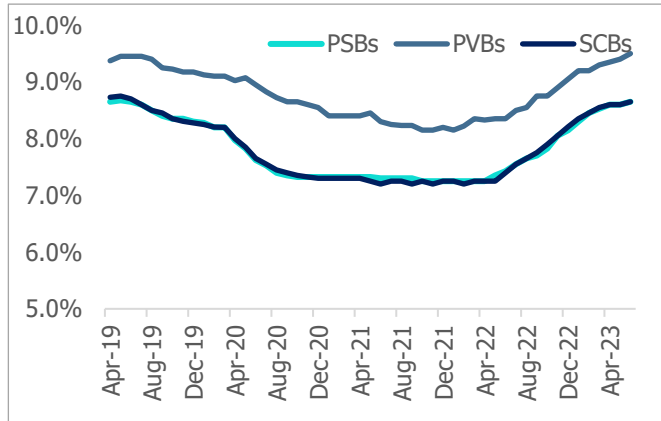
**Figure 4: Evolution of WALR Fresh Loans**



Source: RBI

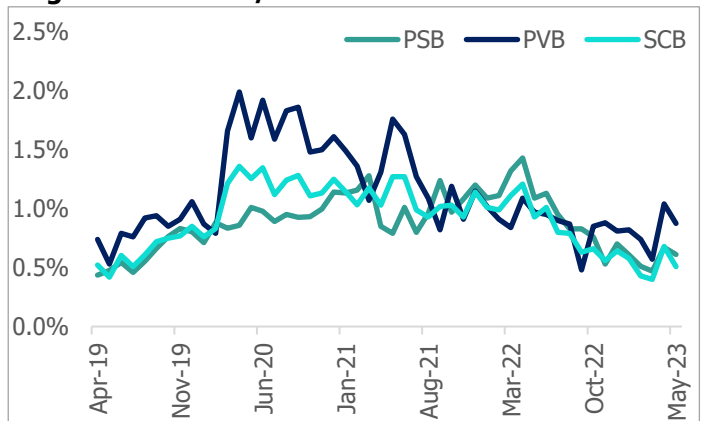
WALR on fresh loans reversed last month’s fall and increased m-o-m for PSBs (8 bps), PVBs (19 bps), and SCBs (19 bps). Meanwhile, WALR on outstanding loans continued to witness a m-o-m increase across all segments, PSBs (3 bps), PVBs (2 bps), and SCBs (2 bps). On m-o-m basis, spread between WALR O/s loans and WALR fresh loans for PSBs, PVBs, and SCBs fell as WALR on fresh loans grew faster compared to WALR on O/s loans.

**Figure 5: Movement in 1-Year MCLR (Median)**



Source: RBI

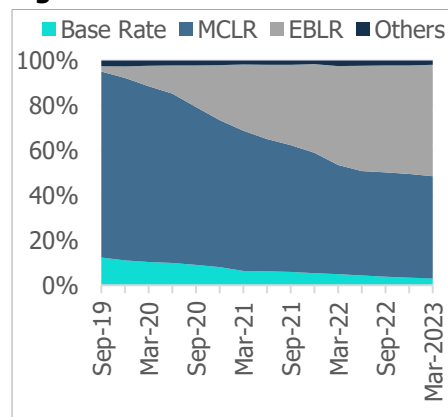
**Figure 6: WALR o/s vs WALR Fresh**



On a m-o-m basis, 1-Year median MCLR of SCBs increased by 5 bps to 8.65% in June 2023 as majority of the PSBs held steady, while the PVBs reported mixed numbers with some holding steady, and others reporting a rise. Despite a pause by the MPC, banks have continued to raise rates on their outstanding portfolio. After the reduction in fresh reduced in April, they have gained ground in May and the spread between WALR O/s loans and WALR fresh loans has narrowed in May 2023.

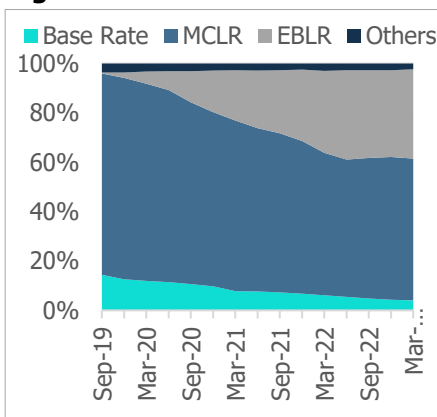
**Outstanding Floating Rate Rupee Loans across Interest Rate Benchmarks - Private Banks Continue to Have a Higher Share of EBLR loans vs. Public Banks**

**Figure 7: SCBs**



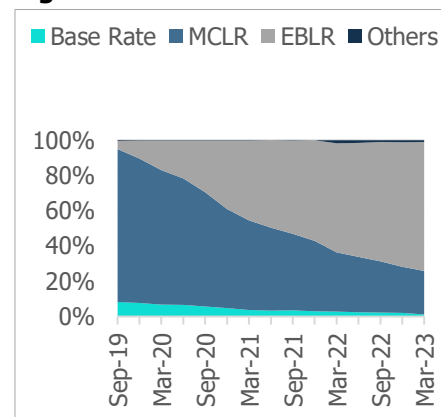
Source: RBI

**Figure 8: PSBs**



Source: RBI

**Figure 9: PVBs**



Source: RBI

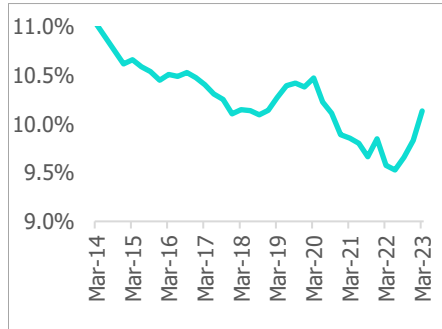
The share of External Benchmark based Lending Rate (EBLR) linked loans in total outstanding floating rate rupee loans of SCBs stood at 49.6% at end-March 2023 (vs. 48.3% in Dec 22), while that of MCLR linked loans was 45.5% (vs 46.1% in Dec 22). Compared with PSBs, PVBs have a higher share of EBLR, consequently, the lending rate transmission is faster in PVBs. PVBs have witnessed an increase in EBLR linked loans. Banks with a higher mix of floating-rate book benefit in a rising rate cycle.

**Figure 10: MCLR Rates (in %): PSBs Broadly Stable, while PVBs Report Mixed Numbers**

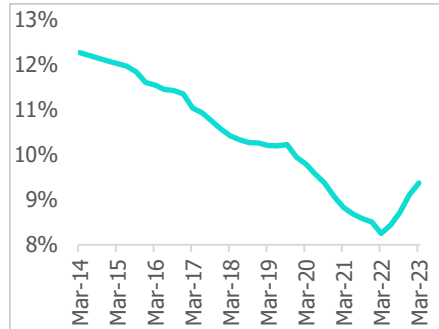
Banks	06/22	07/22	08/22	09/22	10/22	11/22	12/22	01/23	02/23	03/23	04/23	05/23	06/23	YoY
<b>Public Sector Banks</b>														
BoB	7.50	7.65	7.70	7.80	7.95	8.05	8.30	8.50	8.55	8.55	8.60	8.60	8.65	1.15
BoI	7.35	7.50	7.60	7.70	7.80	7.95	8.15	8.30	8.40	8.50	8.60	8.60	8.65	1.30
BoM	7.70	7.50	7.60	7.60	7.80	7.90	7.90	8.20	8.40	8.40	8.50	8.50	8.50	0.80
Canara	7.40	7.50	7.65	7.75	7.90	8.10	8.15	8.35	8.50	8.60	8.65	8.65	8.65	1.25
CBI	7.40	7.45	7.50	7.55	7.60	7.65	7.90	8.15	8.15	8.45	8.45	8.45	8.60	1.20
Indian	7.40	7.55	7.65	7.75	7.85	8.10	8.20	8.30	8.45	8.55	8.60	8.60	8.65	1.25
IOB	7.45	7.55	7.65	7.75	7.90	8.05	8.25	8.30	8.45	8.60	8.60	8.65	8.65	1.20
PSB	7.50	7.55	7.65	7.70	7.80	8.00	8.15	8.30	8.50	8.60	8.65	8.65	8.65	1.15
PNB	7.40	7.55	7.65	7.70	7.75	8.05	8.10	8.30	8.40	8.50	8.50	8.50	8.60	1.20
SBI	7.40	7.50	7.70	7.70	7.95	8.05	8.30	8.40	8.50	8.50	8.50	8.50	8.50	1.10
UCO	7.65	7.65	7.65	7.65	7.70	7.95	8.10	8.25	8.35	8.50	8.60	8.60	8.65	1.00
UBI	7.45	7.55	7.70	7.75	7.90	8.20	8.25	8.40	8.65	8.65	8.65	8.65	8.65	1.20
<b>Private Sector Banks</b>														
HDFC	7.85	8.05	8.10	8.20	8.20	8.55	8.60	8.85	8.90	8.95	8.95	9.05	9.05	1.20
ICICI	7.55	7.75	7.90	8.00	8.10	8.30	8.40	8.65	8.65	8.75	8.75	8.75	8.85	1.30
Axis	7.95	8.00	8.05	8.10	8.35	8.45	8.75	8.80	8.90	8.95	8.95	9.10	9.10	1.15
Indusind	9.00	9.10	9.30	9.40	9.55	9.80	9.95	9.95	10.05	10.15	10.20	10.20	10.20	1.20
Kotak	7.85	8.05	8.10	8.20	8.45	8.55	8.65	8.95	9.00	9.05	9.10	9.20	9.20	1.35
Yes.	8.75	8.95	9.05	9.20	9.60	9.70	9.75	9.85	9.90	10.10	10.15	10.00	10.05	1.30

**Lending rates (WALR (o/s)) of SCBs according to occupation continue to shift up**

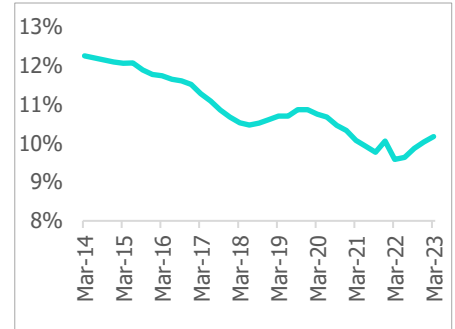
**Figure 11: Agriculture**



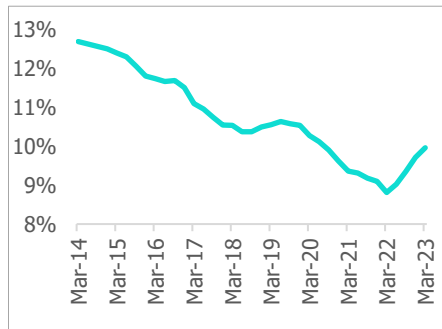
**Figure 12: Industry**



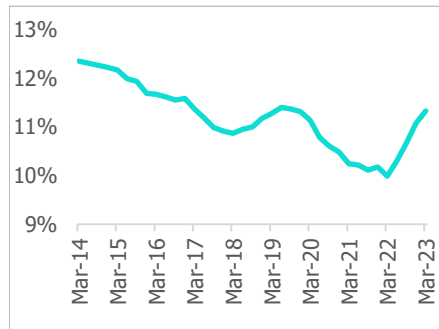
**Figure 13: Transport Operators**



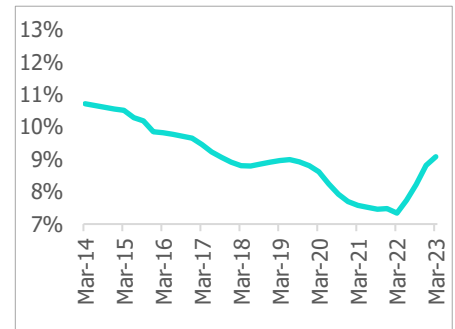
**Figure 14: Prof. & Other Services**



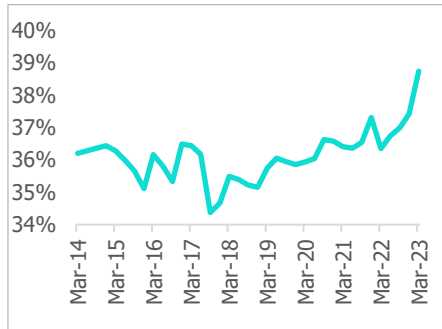
**Figure 15: Personal Loans**



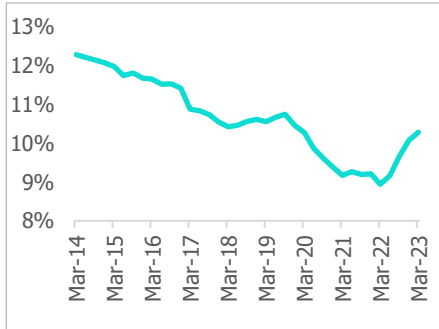
**Figure 16: Personal - Housing**



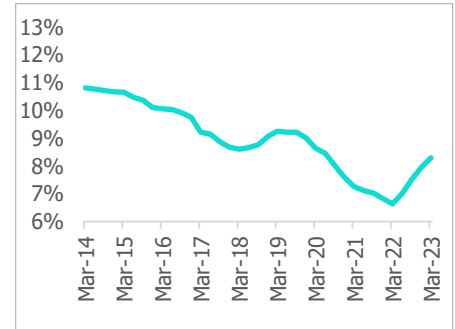
**Figure 17: Personal – Credit Card**



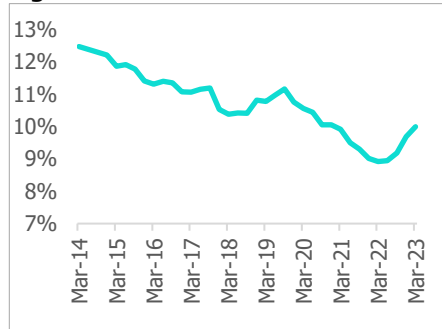
**Figure 18: Trade**



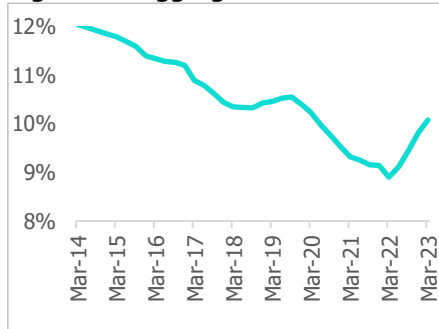
**Figure 19: Finance**



**Figure 20: All Others**



**Figure 21: Aggregate**

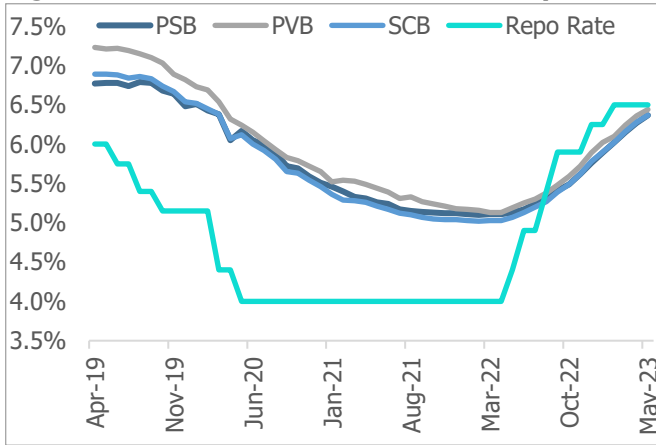


Source: RBI

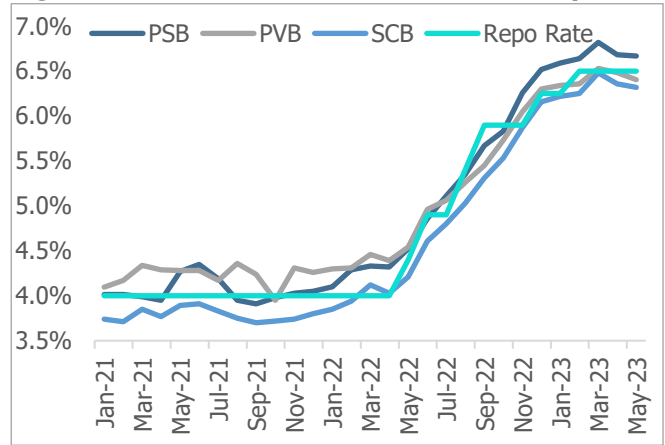
The figures on interest rates and borrower mix continue to show that the loan portfolio is moving to higher interest rate buckets compared to the rates that prevailed during the Covid pandemic. In the personal loans categories, lending rates have broadly caught up with the pre-pandemic levels, while the rates in other categories are yet to catch up with pre-Covid levels.

**Deposit Rates: Fresh Rates Continue Fall, while O/s Rates Sustain Upward March**

**Figure 22: Evolution of WADTDR O/s Deposits**



**Figure 23: Evolution of WADTDR Fresh Deposits**



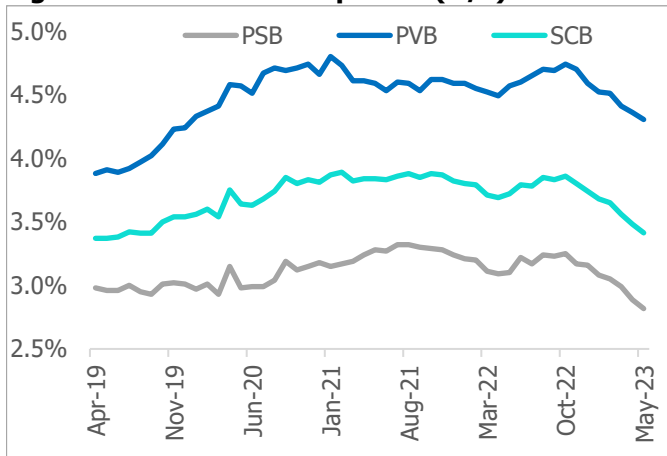
Source: RBI

Fresh deposit rates for PSBs, PVBs and SCBs fell m-o-m by 1 bps, 8 bps and 4 bps, respectively, in May 2023 and continue to remain above their pre-pandemic levels (as of March 2020). PSBs have been more aggressive when compared with PVBs as the reduction has been higher. Further, with over 70% of the withdrawn Rs.2,000 banknotes coming back into the system, short-term liquidity has improved in the banking sector thereby reducing the pressure on deposit rates.

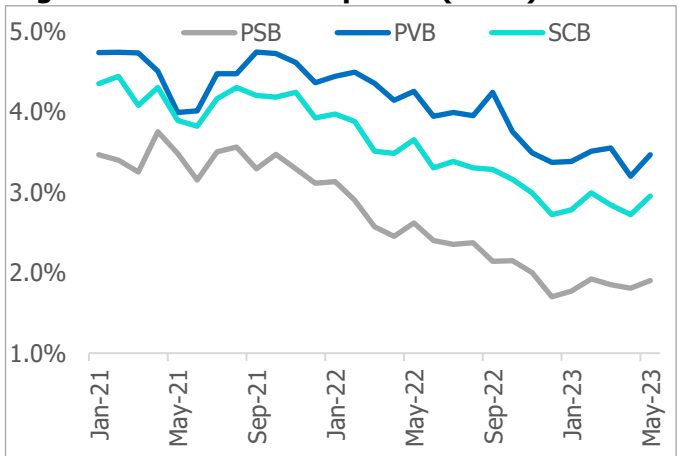
On the other hand, outstanding deposit rates for PSBs, PVBs and SCBs rose m-o-m by 10 bps, 8 bps and 9bps, respectively in May 2023, however, they continue to be marginally lower than their pre-pandemic levels (as of March 2020), indicating the short distance the deposit rates have yet to traverse to reach the repo rate as well as their pre-pandemic levels, let alone move past the same and this gap has been reducing (it was around 40 bps in February 2023).

**Movement in Spread between Lending and Deposit Rates**

**Figure 24: Evolution of Spreads (O/s)**



**Figure 25: Evolution of Spreads (Fresh)**



Source: RBI

The spread of SCBs between WALR and WADTDR (the net interest rate spread) stood at 3.41% and 2.95% for Outstanding and Fresh rates, respectively in May 2023. The spread broadly narrowed in May 2023 as fresh lending

rates rose while fresh deposit rates fell, while o/s deposit rates rose faster than o/s lending rates. On a y-o-y basis, PSB and PVB spreads narrowed, while the spreads of both PSB and PVBs have continued to remain elevated compared to the pre-pandemic levels. Additionally, the spread between Fresh WALR and WADTDR continues to be lower than the spread between Outstanding WALR and WADTDR. PVBs continue to maintain a higher spread given that they charge more as compared to PSBs.

### **Conclusion**

In May 2023, fresh lending rose, while fresh deposit rates fell. On the other hand, interest rates on outstanding business continued to rise. The trajectory of rates on the deposit side will be shaped by the pace of credit offtake, hence we would need to observe the rates movement over the coming months to conclude if the rates have peaked or if further increases would continue.

Private Sector Banks (PVB) and Public Sector Banks (PSB) have maintained high spreads between lending and deposit rates, with PVBs seeing higher spreads, as banks raised rates amid RBI's tightening moves. Rate hikes and subsequent resets in lending rates vs. deposit rates have led to NIM expansion in the near term which was expected to be followed by NIMs staying stable with deposit rates climbing faster as lending rates stayed stable. The withdrawal of Rs. 2,000 banknotes is likely to boost short-term liquidity in the banking sector thereby reducing the pressure on deposit rates. The banks may use incremental deposits to increase credit growth. This is likely to reduce the pressure on NIMs in the near term, while pressure is likely to increase in the longer term.

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