

Spread Compression on O/s Business of SCBs Continues

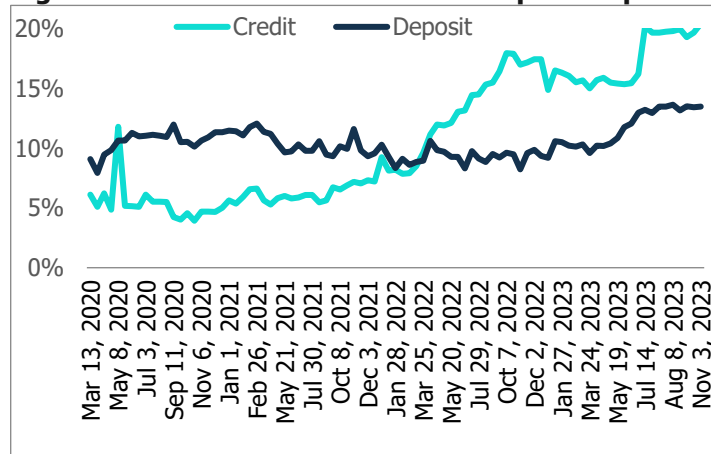
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Overview

- In October 2023, outstanding deposit and lending rates reported growth. Meanwhile, rates on fresh business reported differing developments with lending rates rising and deposit rates reducing.
 - The spread of SCBs between weighted average lending rate (WALR) and weighted average domestic term deposit rate (WADTDR) (the net interest rate spread) stood at 3.19% and 3.06% for Fresh and Outstanding rates, respectively in October 2023. The Outstanding SCB spread has been compressing over the last year. PVBs continue to maintain a higher spread as compared to PSBs.
 - The WALR on outstanding rupee loans of scheduled commercial banks (SCBs) increased marginally by 1 bps sequentially to 9.84%, while WADTDR on o/s rupee term deposits increased by 6 bps to 6.75% in October 2023.
 - One-year median Marginal Cost of fund-based Lending Rate (MCLR) of SCBs stood at a similar level of 8.70% in November 2023 from October 2023 and September 2023.
 - The WALR on fresh rupee loans of SCBs rose sequentially by 12 basis points (bps) to 9.50% in October 2023, while WADTDR (Fresh) SCBs fell by 1 bps to 6.31% in October 2023.

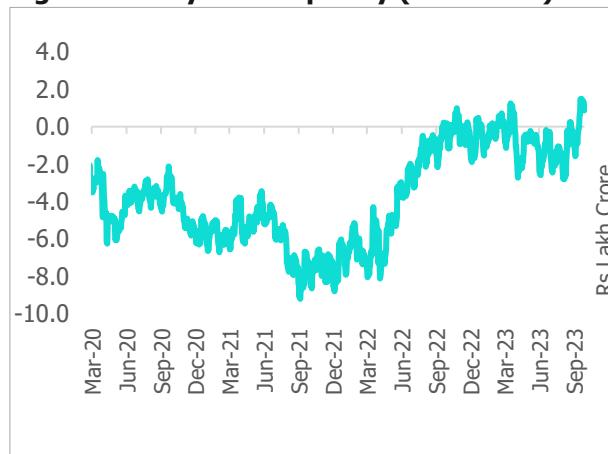
Large Gap Between Credit and Deposit Growth Persists, while Liquidity Remains in Deficit

Fig 1: Credit Growth Continues to Outpace Deposit



Source: CMIE, RBI; Note: Data post HDFC Merger in July

Fig 2: Bank System Liquidity (Rs lakh cr)



Source: RBI, CEIC

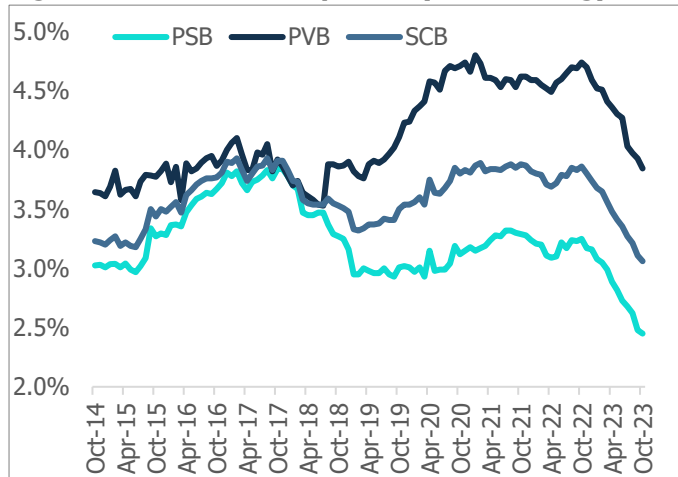
Credit offtake increased by 20.4% year on year (y-o-y) for the fortnight ended November 3, 2023. It is important to note that the y-o-y figures are not directly comparable, as the data reported by the RBI as of November 3, 2023, includes the impact of the merger of HDFC with HDFC Bank. Excluding the impact of the merger, the growth stood at 15.9% y-o-y for the fortnight, lower than last year's 17.0%. This growth continues to be primarily driven by continued demand for personal loans and NBFCs.

Deposits rose at 13.5% y-o-y for the fortnight (reported November 3, 2023). Without considering the merger, deposits rose by 12.7% y-o-y, compared to last year, which saw a growth of 8.2%.

According to CareEdge Economics in [The Economic Pathway](#), liquidity conditions remained tight due to higher currency demand during festival season along with FX intervention and OMO sales. Tight liquidity conditions weighed on short-term yields while long-term yields tracked fall in UST yields.

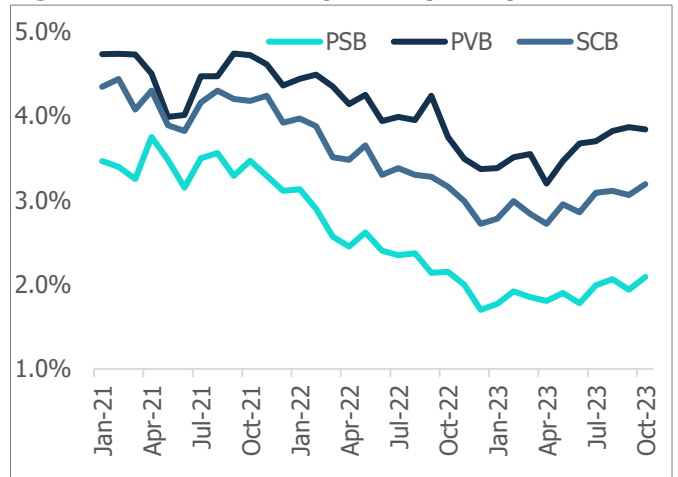
Spread Compression on O/s Business of SCBs and PSBs Continues

Figure 3: Evolution of Spreads (Outstanding)



Source: RBI; Note: Data post HDFC Merger in July

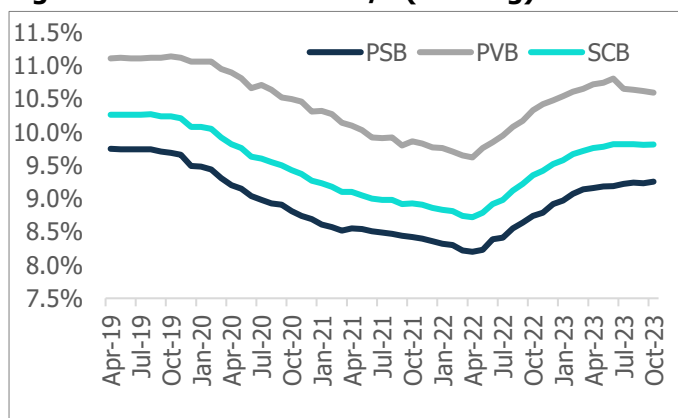
Figure 4: Evolution of Spreads (Fresh)



The spread of SCBs between WALR and WADTDR (the net interest rate spread) stood at 3.19% and 3.06% for Fresh and Outstanding rates respectively, in October 2023. The o/s SCB and PSB spreads have been compressing over the last one year touching fresh lows. O/s Spreads broadly narrowed in October 2023 compared to October 2022 by around 80 bps, whereas fresh spreads declined at a comparatively lower level of around 3 bps. The spread between Outstanding WALR and WADTDR continues to be lower than the spread between Fresh WALR and WADTDR. PVBs continue to maintain a higher spread given that they charge more as compared to PSBs.

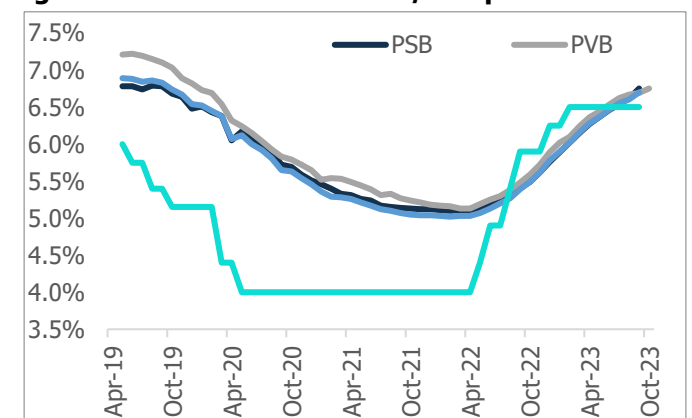
Outstanding Business: Deposit Rates Rise Marginally while Lending Rates Remain Mostly Flat

Fig 5: Evolution of WALR O/s (Lending) Rate



Source: RBI, Note: Data post HDFC Merger in July

Fig 6: Evolution of WADTDR O/s Deposit Rate



WALR on outstanding loans across bank segments increased marginally on m-o-m basis and stood at 9.82% for SCBs. PSBs and SCBs rose by 2 bps and 1 bps respectively, whereas PVBs declined by 3 bps. One of the reasons for the current trajectory of the PVB rates over the last three months has been the merger between HDFC and HDFC Bank whose housing finance assets have impacted the lending rates. If this impact is ignored, then the rates would have been higher by 2 bps for SCBs and 14 bps for PVBs. O/s rates have been moving below pre-pandemic times for the last few months. Meanwhile, outstanding deposit rates saw an uptick m-o-m by 5 bps, 6 bps and 6 bps for PSBs, SCBs and PVBs respectively. O/s WADTDR continue to remain above their pre-pandemic levels (compared with March 2020).

Fig 7: Movement in 1-Year MCLR (Median)

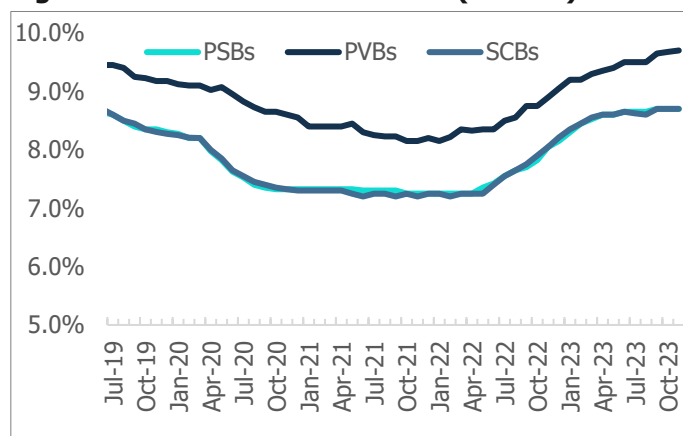


Fig 8: WALR o/s vs WALR Fresh

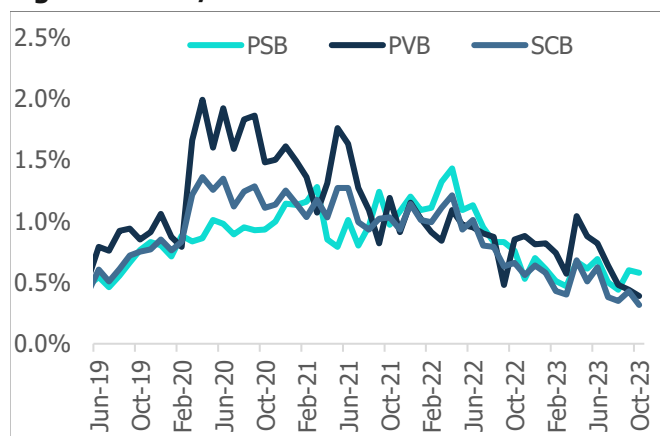


Fig 9: MCLR Rates (in %) Remained Broadly Flat on a m-o-m basis

Banks	11/22	12/22	01/23	02/23	03/23	04/23	05/23	06/23	07/23	08/23	09/23	10/23	11/23	YoY
Public Sector Banks														
BoB	8.05	8.30	8.50	8.55	8.55	8.60	8.60	8.65	8.65	8.65	8.70	8.70	8.75	0.70
BoI	7.95	8.15	8.30	8.40	8.50	8.60	8.60	8.65	8.65	8.70	8.70	8.70	8.75	0.80
BoM	7.90	7.90	8.20	8.40	8.40	8.50	8.50	8.50	8.50	8.60	8.60	8.70	8.70	0.80
Canara	8.10	8.15	8.35	8.50	8.60	8.65	8.65	8.65	8.65	8.70	8.70	8.70	8.75	0.65
CBI	7.65	7.90	8.15	8.15	8.45	8.45	8.45	8.60	8.60	8.60	8.60	8.65	8.70	1.05
Indian	8.10	8.20	8.30	8.45	8.55	8.60	8.60	8.65	8.65	8.65	8.70	8.70	8.75	0.65
IOB	8.05	8.25	8.30	8.45	8.60	8.60	8.65	8.65	8.65	8.70	8.70	8.70	8.70	0.65
PSB	8.00	8.15	8.30	8.50	8.60	8.65	8.65	8.65	8.70	8.90	8.90	8.90	8.95	0.95
PNB	8.05	8.10	8.30	8.40	8.50	8.50	8.50	8.60	8.60	8.60	8.65	8.65	8.65	0.60
SBI	8.05	8.30	8.40	8.50	8.50	8.50	8.50	8.50	8.55	8.55	8.55	8.55	8.55	0.50
UCO	7.95	8.10	8.25	8.35	8.50	8.60	8.60	8.65	8.65	8.65	8.70	8.70	8.70	0.75
UBI	8.20	8.25	8.40	8.65	8.65	8.65	8.65	8.65	8.65	8.65	8.70	8.70	8.70	0.50
Private Sector Banks														
HDFC	8.55	8.60	8.85	8.90	8.95	8.95	9.05	9.05	9.05	9.10	9.15	9.20	9.20	0.65
ICICI	8.30	8.40	8.65	8.65	8.75	8.75	8.75	8.85	8.85	8.90	8.95	8.95	9.00	0.70
Axis	8.45	8.75	8.80	8.90	8.95	8.95	9.10	9.10	9.10	9.15	9.15	9.15	9.20	0.75
IndusInd	9.80	9.95	9.95	10.05	10.15	10.20	10.20	10.20	10.25	10.25	10.30	10.30	10.35	0.55
Kotak	8.55	8.65	8.95	9.00	9.05	9.10	9.20	9.20	9.25	9.3	9.30	9.35	9.35	0.80
Yes.	9.70	9.75	9.85	9.90	10.10	10.15	10.00	10.05	10.15	10.15	10.25	10.25	10.40	0.70

On a m-o-m basis in November 2023, 1-Year median MCLR of SCBs, and PSBs remained at the same level witnessed in October 2023 as the majority of the PSBs and PVBs remained flat, while PVBs increased by 2 bps. Meanwhile when we compare pre-pandemic levels, MCLR median for SCBs is above 50 bps (compared with March 20), whereas we saw a divergence in trend, o/s WALR dropped by 10 bps since a large part of the lending has since moved to external benchmark linked rates.

Fresh Rates Remain Volatile

Fig 10: Evolution of WALR Fresh Loans

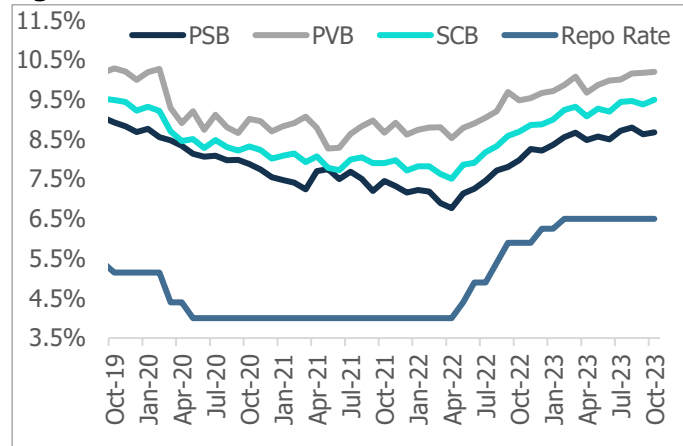
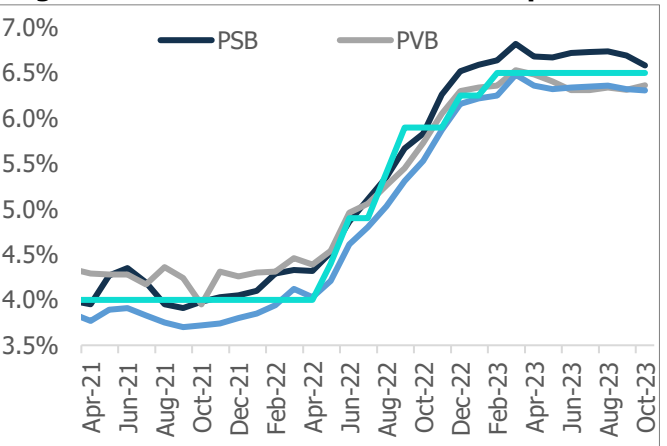


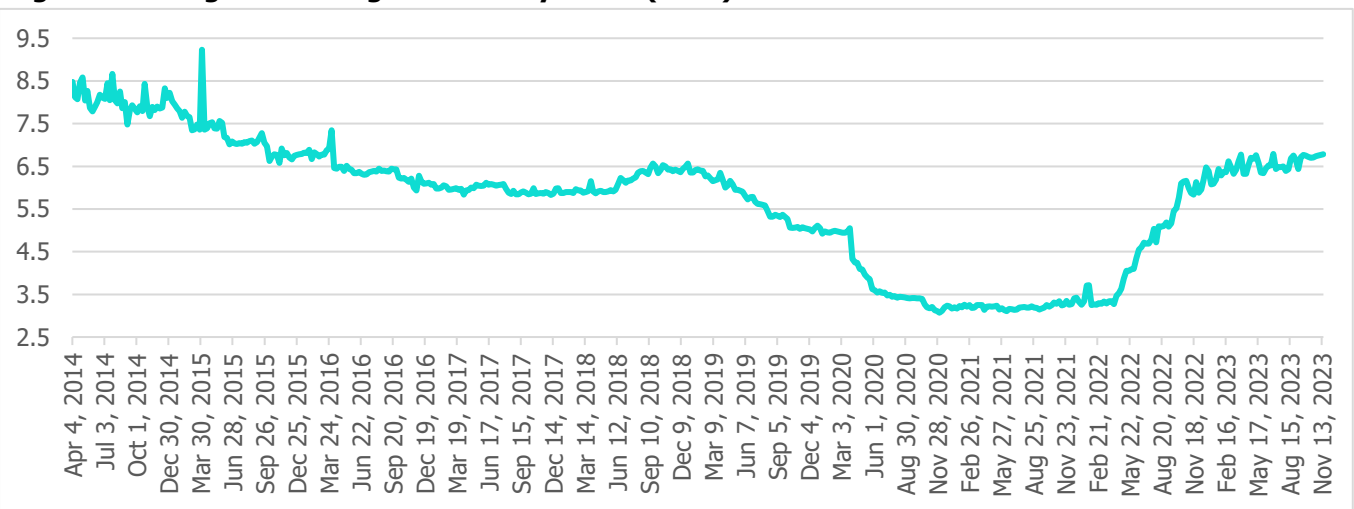
Fig 11: Evolution of WADTDR Fresh Deposits



Source: RBI, Note: Data post HDFC Merger in July

WALR on fresh loans on m-o-m basis saw an increase of 4, 2 bps and 12 bps for PSBs, PVBs and SCBs, respectively. On the other hand, fresh deposit rates saw a downtick m-o-m by 11 bps and 1 bps for PSBs and SCBs, respectively in October 2023, while PVBs rose by 5 bps. When compared to April 2022, (prior to commencing of rate hikes in May 22) repo rate increased by 250 bps to 6.5% as of October 2023, Fresh WALR and WADTDR increased by 199 bps and 228 bps to 9.50% and 6.31% as of October 2023 from April 2022.

Figure 12: Weighted Average Call Money Rates (in %)



Source: RBI

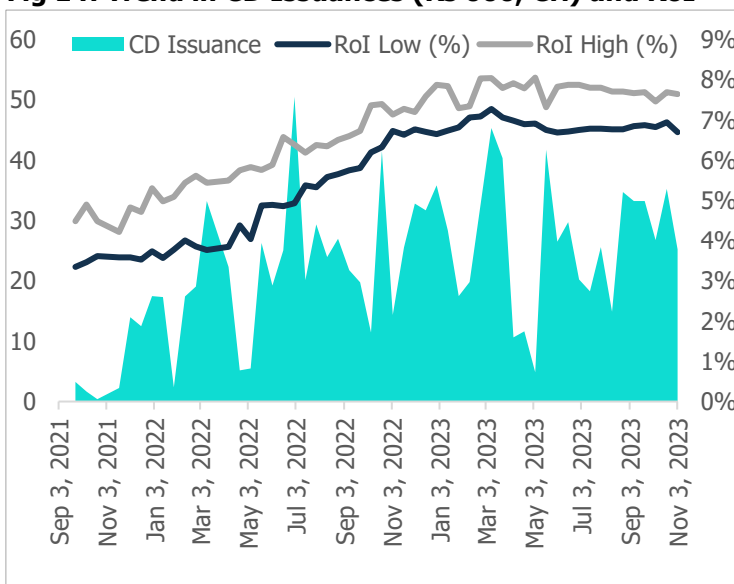
The Weighted Average Call Rates (WACR) increased by approximately by 315 bps from 3.63% on April 29, 2022, to 6.78% by November 17, 2023. Meanwhile, Fresh WALR and WADTDR increased by 199 bps and 228 bps to 9.5% and 6.31% as of October 2023 from April 2022. WADTDR was impacted by the lag effect, however, due to growing short-term rates, we can see a high demand for short-term instruments like Certificate of Deposits.

O/s CDs Continue to Remain at Elevated Levels

Fig 13: Certificate of Deposit Outstanding

Fortnight ended	Amount Outstanding (Rs'000 cr.)	Y-o-Y growth %
Mar 11, 2022	154.4	168.9
July 1, 2022	223.8	222.9
Sep 23, 2022	252.2	318.7
Dec 30, 2022	294.0	247.1
Jan 27, 2023	279.8	180.6
Feb 10, 2023	269.7	139.6
Feb 24, 2023	280.4	120.4
Mar 24, 2023	304.5	50.4
Apr 07, 2023	301.4	49.6
Oct 6, 2023	290.3	28.3
Nov 3, 2023	315.8	27.0

Fig 14: Trend in CD Issuances (Rs'000, Cr.) and RoI



Note: The quarter-end data reflect the last fortnight's data of that quarter; Source: RBI

CD issuance for October was more than Rs 60,000 crore. However, the growth in o/s CD has been reduced. The preference for raising funds via CDs has continued amidst healthy credit growth and tightening liquidity in the banking system.

Conclusion

In October 2023, there was a broad increase in fresh lending rates, while outstanding lending rates rose marginally with PVBs being the exception. In contrast, interest rates on outstanding deposit rates increased, while fresh deposit rates fell with PVBs being the exception. Spreads between the outstanding WALR and WADTDR have fallen below pre-pandemic levels since June 2023, which is exerting pressure on NIMs. Notably, the spread between the outstanding lending and deposit rates has narrowed compared to that between the fresh lending and deposit rates. Furthermore, with RBI turning the heat on unsecured lending products leading to banks turning cautious on high yield products such as unsecured personal loans, lending rates could also witness some pressure. Further, with yields on capital market offerings remaining elevated, the interest rates on deposits are likely to increase in the current period. Additionally, as the Credit to Deposit ratio remains elevated, growth in the liability franchise would play a significant role in sustaining loan growth. The competition for deposits is likely to remain intense resulting in a rise in funding costs in the coming periods as CASA share reduces further.

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