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By: [Shritama Bose](#) | Updated: November 18, 2016 6:54 AM

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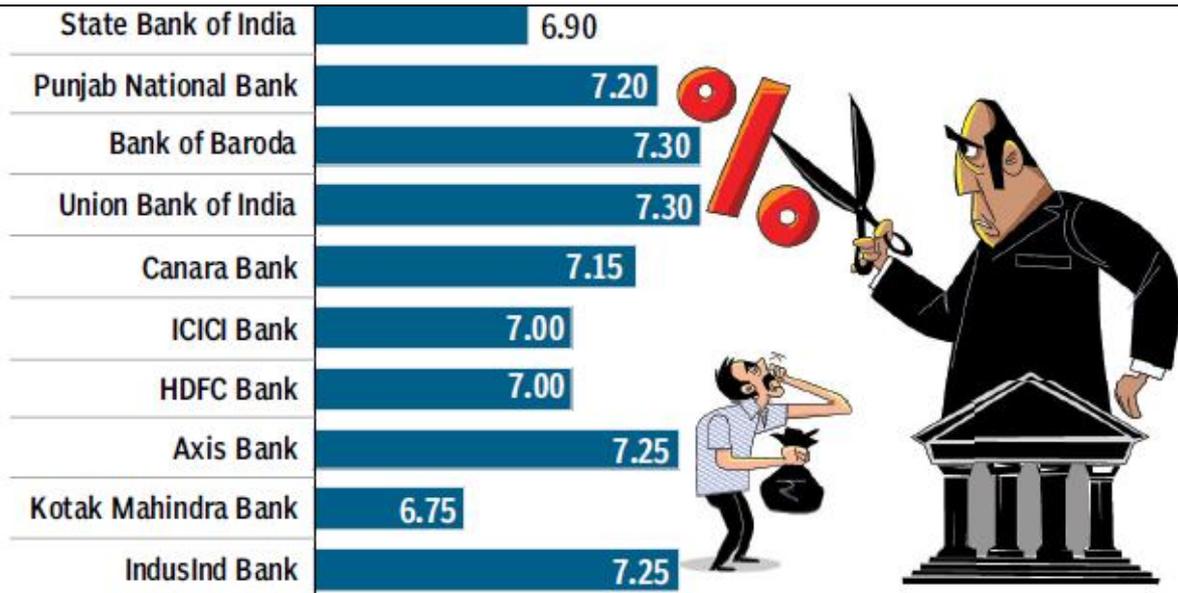
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[Kotak Mahindra Bank](#) (KMB) on Thursday lowered the rate on one-year deposits to 6.75%, lower than State Bank of India's 6.9%, reports Shritama Bose in Mumbai. With deposits pouring in, banks are rushing to cut interest rates; both ICICI Bank and HDFC Bank now offer 7% on one-year money.

Meanwhile, the yield on the one-year government bond closed at 6.18% on Thursday — a six-year low — having tumbled 656 basis points since September 1. The yield on the 10-year benchmark also dropped to 6.42%, a seven-and-a-half-year low.

Deposits with the banking system rose 9.82% year-on-year in the fortnight ended October 28; outstanding deposits in the banking system were, however, R99.84 lakh crore, lower than the over R100 lakh crore in the fortnight ended September 30.



Interest rates on term deposits

Source: Bank websites

Banks are expected to be inundated with deposits following the demonetisation of R1,000 and R500 notes by the government. However, lenders are unsure of how sticky these deposits will be and believe much of it could flow out soon. In the absence of meaningful demand for credit, lenders are preferring to keep their costs down so as not to jeopardise their margins. As of Wednesday, the inflows into SBI totalled R1.14 lakh crore.