

12:15 PM 21 DEC MARKET STATS ▾	SENSEX 26,338 ▲ 29.77	NIFTY 50 8,090 ▲ 7.55	GOLD (MCX) (Rs/10g.) 27,183 ▲ 53.00	USD/INR 67.86 ▼ -0.18	CREATE PORTFOLIO	Download ET MARKETS APP	CHOOSE LANGUAGE ENG
--	---------------------------------	---------------------------------	---	---------------------------------	-------------------------	--------------------------------	------------------------

Banks could gains Rs 38k cr due to drop in bond yields

By [Joel Rebello](#), ET Bureau | Updated: Dec 20, 2016, 05.47 PM IST

[Post a Comment](#)

MUMBAI: Indian banks could collectively gain a total of Rs 38,200 crore in the current fiscal year from potential treasury gains due to the [sharp](#) drop in government bond yields because of the momentous [liquidity](#) with banks after the withdrawal of high denominated currency notes, [India Ratings & Research](#) said in a report on Tuesday.

“The Rs 38,200 crore worth of potential treasury gains are significantly large, considering the banking sector reported an Rs 23,600 crore profit for FY16 (public sector banks (PSBs) reported INR 177 billion in loss),” India Ratings associate director Soumyajit Niyogi said in a report.

Banks have been awash with unprecedented liquidity after the government pulled out the high denomination Rs 500 and Rs 1000 notes from circulation on November 8. [People](#) have deposited Rs 12.44 lakh crore of old high denominated notes until December 10.

The [benchmark](#) ten year bond [yield](#) has dropped to 6.48% after starting the fiscal year at 7.46% mainly because the [Reserve Bank of India](#) (RBI) has reduced its benchmark repo rate by 50 basis points to 6.25% from 6.75% in this period. It has reduced its rate by 175 basis points since January 2015. One basis point is 0.01 [percentage point](#).

However the fall has been steep since the surplus liquidity due to the withdrawal of high denominated notes as the yield has dropped more than 30 basis points to 6.48% from 6.80% in the last one-and-a-half months.

The gains from this drop will benefit public sector banks more since they are starved of capital. It will also increase demand for government and high-rated corporate [bonds](#) because of the tepid credit demand currently.

“Banks are poised to benefit from the softening of yields, considering they are the largest holders of government bonds (about Rs 29 lakh crore as on 11 November 2016),” India Ratings said. Better placed private sector banks can use this windfall to improve their provision coverage ratios.

Banks will also benefit from the [Ujwal Discom Assurance Yojana](#) (UDAY) bonds as the yields for these instruments which were given to banks as part of the restructured loans for state [distribution](#) companies (discoms) have also fallen between 100 to 150 basis points.

It is likely that mid-sized public sector banks will announce large gains on treasury because they have been burdened by the rise in non performing loans. “Some mid-sized PSBs witnessed an increase in their investment portfolios in recent quarters on account of challenges with regard to the deployment of incremental deposits. The compression of yields has proved to be a boon for them. A weak profitability forecast, along with challenging capital conditions, would result in mid-sized PSBs registering high treasury gains to protect themselves from potential capital erosion,” India Ratings said.

Stay on top of business news with The Economic Times App. [Download it Now!](#)

Live Market	News	Portfolio	Mobile	Live TV	Newsletter	Commodities	Speed	QnA	Blogs	Alerts	RSS
<p>Other Times Group news sites</p> <p>Times of India इकोनॉमिक टाइम्स छद्दीनीमिड टाइम्स Mumbai Mirror Times Now Indiatimes नवभारत टाइम्स महाराष्ट्र टाइम्स ವಿಜಯ ಕರ್ನಾಟಕ Lifehacker Glzmodo Eisamay IGN India NavGujarat Samay</p>	<p>Living and entertainment</p> <p>Timescity iDiva Zoom Luxpresso Gaana Happytrips Cricbuzz Get Smartapp</p> <p>Networking</p> <p>itimes MensXP.com</p>	<p>Hot on the Web</p> <p>Budget 2017 Sensex, Nifty Live Year-End Special 2016 UP & Punjab Assembly Elections 2017 Live: Currency Demonetisation Gold Rate RBI Monetary Policy</p>	<p>Services</p> <p>ads2book Gadgetsnow Free Business Listings Simplymarry Astrospeak Timesjobs Magicbricks Zigwheels Timesdeal dineout Filmipop Remit2India Gaana Greetzap Techradar Alivear Google Play</p>								