

Banks 'not transmitting reduction in policy rates to borrowers'

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Reflects banks' preference to protect profitability in the wake of deteriorating asset quality and higher provisioning



Mumbai, August 29:

There has hardly been any transmission of policy rate reductions to the actual lending rates charged to customers in the current financial year so far (up to June), said the Reserve Bank of India in its latest annual report.

In the last one year or so, the central bank has harped on the issue of ensuring that current and past policy rate cuts result in lower lending rates.

In the financial year so far, the central bank has cut the policy (repo) rate (the interest rate at which it provides short-term liquidity to banks to overcome liquidity mismatches) by 25 basis points from 6.75 per cent to 6.50 per cent in April. One basis point equals one-hundredth of a percentage point.

The RBI observed that while the cost of funding by banks has declined somewhat leading to a decline in shorter maturity MCLR (marginal cost of funds-based lending rate), there has been an increase in the premia in respect of term loans of one year and above, thereby weakening the transmission to actual lending rates charged to customers.

Moreover, the RBI surmised that banks may have been loading a higher credit risk premia on their new customers in order to attain their desired return on net worth in a rising NPA (non-performing assets) environment and/or a higher strategic risk premia on their riskier loans as part of their business strategy to reorient their lending operations towards less risky activities.

The consequent rise in spread, as per the report, is reflected in a near-unchanged WALR (weighted average lending rate) in respect of both outstanding and fresh rupee loans during 2016-17 so far (up to June).

As on July-end 2016, the median overnight and one-month MCLR of scheduled commercial banks (excluding regional rural banks) had declined to 8.95 per cent (9.05 per cent as on April 4, 2016) and 9.03 per cent (9.20 per cent), respectively. The median one-year MCLR was down a tad at 9.40 per cent from 9.45 per cent.

In response to the reduction in the policy repo rate by 150 basis points from January 15, 2015 through April 5, 2016, the median base rate (the erstwhile benchmark lending rate below which banks could not lend) of banks declined by 60 basis points as against a higher decline of 92 basis points in median term deposit rates. This, says the RBI, reflects banks' preference to protect profitability in the wake of deteriorating asset quality and higher provisioning.

It added that the WALR on fresh rupee loans declined 100 basis points (up to June 2016), significantly more than the decline of 65 basis points in WALR on outstanding rupee loans.

Since December 2014, lending rates across various sectors (except credit cards) have declined in the range of 16-110 basis points, reflecting the varied credit conditions and risk appetite of banks.

Sector-wise WALRs on outstanding rupee loans of scheduled commercial banks as at June-end 2016 vs December-end 2014 were: agriculture: 10.77 per cent (10.93 per cent); large industry: 12.17 per cent (12.95 per cent); micro, small and medium enterprises: 12.08 per cent (13.05 per cent); infrastructure: 12.20 per cent (13.05 per cent); trade: 11.99 per cent (13.09 per cent); housing: 10.50 per cent (10.76 per cent); and vehicle: 11.39 per cent (11.83 per cent).

In the case of credit cards, however, the WALR has actually gone up to 38.26 per cent from 37.86 per cent as at December-end 2014.

(This article was published in the Business Line print edition dated August 30, 2016)