

After Modi's new-year announcement, banks cut lending rate by up to 0.9%

ET Bureau | Jan 02, 2017, 02.14 AM IST

15 Comments MUMBAI: State Bank of India



SBI cuts lending rates by 0.90% to 8%, home loan at 8.25%

slashed interest rates to the lowest in about a decade, forcing rivals to follow suit in the fight for market share, a day after Prime Minister Narendra Modi urged lenders to broaden their focus to the vast range of poorly served borrowers from the poor to the middle class.

The country's largest bank cut rates by 0.9 percentage point, or 90 basis points (bps), making its loans the cheapest among all lenders. The government-owned SBI pegged its marginal cost of lending rate (MCLR) — the benchmark for its best customers — at 8 per cent for one year, down from 8.90 per cent, on Sunday.

SBI's prospective home loan borrowers will be charged 8.65 per cent (8.60 per cent for women), on a floating rate loan. The bank is offering fixed rate loan for two years at 8.55 per cent (8.50 per cent for women borrowers). With this SBI is bringing back teaser rate loans which was discouraged by the Reserve Bank a few years ago.

New Year Gift
1 year MCLR of banks

Bank	New rates	Old rates
SBI	8	8.9
PNB	8.45	9.15
Union Bank of India	8.65	9.3
IDBI Bank	9.15	9.3
SBT	9.2	9.45

Figures in %



State-owned Union Bank of India (BSE -3.60%) and Punjab National Bank (BSE -2.24%) also announced cuts ranging from 60 to 90 basis points. Delhi-based PNB will charge 8.45 per cent for a year while Union Bank will charge 8.65 per cent. The new rates will be effective for new borrowers. The old

borrowers will get the benefit of new rates at the end of the lock-in period, when rates are revised in line with prevailing levels. The lock-in could vary from one month to three years, depending on the loan agreement.

Bank executives said [Housing Development Finance](#) BSE -1.78 % Corp, the largest home financier, and private lenders like ICICI Bank and [HDFC Bank](#) BSE -1.14 %, which are more profitable than their rivals, will likely match SBI's rates to ensure that they do not lose customers.

IDBI Bank and State Bank of Travancore had led the field by cutting rates on Friday evening itself. ET reported on Friday that banks, nudged by the government, will announce steep cuts in lending rates in the first week of January.



Help every child survive and thrive

UNICEF



Build your brand. Target right audience on Colombia Network

COLOMBIA

Recommended By Colombia

The move has become necessary to fuel consumption that has slumped after the November 8 [demonetisation](#), besides encouraging a revival in investment. Prime Minister Modi had called on banks to take advantage of the flood of money they had got in the form of deposits after Rs 500 and Rs 1,000 notes were demonetised. The deadline for such deposits was December 30.

"History is witness that the Indian banking system has never received such a large amount of money in such a short time," Modi said in his December 31 address to the nation.

"While respecting the autonomy of the banks, I appeal to them to move beyond their traditional priorities, and keep the poor, the lower middle class and the middle class at the focus of their activities."

This series of rate reductions is among the sharpest in one shot since the cuts that followed the 2008 financial crisis. In the past, banks have typically lowered lending rates by increments of 5 to 10 basis points as they transmitted [monetary policy](#) or the cost of funding dropped.

Sources said CEOs of five large banks—SBI, Union Bank of India, ICICI Bank, Dena Bank and [Central Bank of](#) BSE -0.19 % India— had a held a closed-door meeting 10 days ago to discuss the possibilities of a sharp reduction in rates to boost investment sentiment.

Banks collected about Rs 12.44 lakh crore in deposits in the month after demonetisation. That compares with the average Rs 9 lakh crore they get by way of incremental deposits in a fiscal year.

However, demand for loans, reflecting investment activity, has almost dried up. Reserve Bank of India data show bank credit rose 1.2 per cent to Rs 73 lakh crore in the fiscal year to date — April 1 to December 9 — much slower than the 6.2 per cent rise to Rs 69.6 lakh crore in same period a year ago.

Deposits rose 13.6 per cent to Rs 105.9 lakh crore compared with a 7 per cent rise to Rs 91.8 lakh crore in the year earlier.