

Banks not to wait for RBI, may soon start raising lending rates

By [Saloni Shukla](#), ET Bureau | Updated: Feb 09, 2018, 06.37 AM IST

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MUMBAI: Mortgage and car loan rates may begin to climb as early as



March or April with banks looking at an interest rate increase to protect margins as their costs of borrowing from the market rise and they seek to attract deposits with higher rates, experts said.

Also, the Reserve Bank's move to link the base rate with the marginal cost of funds-based lending rate (MCLR) from April 1 comes as interest rates appear poised to rise after a near-four-year easing cycle, based on the February 7 monetary policy commentary.

In the past few months, bond yields have risen by more than a percentage point, making it expensive for banks to issue certificates of deposit (CD). Not only that, with market borrowing becoming increasingly expensive, even higher-rated corporates have been tapping banks, creating more space

for rate hikes.

HDFC Bank raised its MCLR by 10 basis points across tenors on Wednesday, in yet another sign that bank lending rates are on the way up. HDFC Bank followed private sector peers Axis, Kotak Mahindra, IndusInd and YES Bank that have all hiked their MCLR rates by 5-10 basis points. A basis point is 0.01 percentage point.

Rate Report

Bond yields have **risen 100 bps** in past few months

Certificates of deposit (CD) **rates are up over 50 bps**

Gap between 10-year yield and SBI home loan rate **narrowest in 4 years**

MCLR MOVES UP

HDFC Bank raised MCLR by 10 bps

Axis Bank, YES, Kotak Mahindra, IndusInd raised MCLR by 5-10 bps



SBI raised deposit rates 200 bps in 2 months; lender yet to raise MCLR



Difference in 10-Yr Yield & SBI Home Loan Rate Stands Lowest in 4 Yrs

The difference between the 10-year yield, around 7.5%, and the [State Bank of India](#) BSE -1.68% home loan rate of 8.3% is at the lowest in more than

four years, adding to the squeeze on banks. "Needless to say, such high yields push up government borrowing costs and are surely inimical to monetary policy transmissions, as this will put upward pressure on bank MCLR rates," said Soumya Kanti Ghosh, group chief economic adviser, State Bank of India.

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The first signals of an imminent rate hike came when lenders started raising their bulk deposit rates. SBI was the first to do so — the rate on one-year deposits of over Rs 1 crore jumped by 200 basis points to 6.25% in a matter of two months. [Reserve Bank of India](#) data showed that bank loans were up 11.1% on January 5 from the year earlier, sharply higher than the deposit growth rate of 4.5%. HDFC Bank deputy managing director Paresh Sukthankar had indicated last month that interest rates were set for a rise.

"Given, in particular, liquidity conditions and the fact that even at the system level loan growth for the first time now is outpacing deposit growth quite sharply, I think if anything, either rates will be in for a bit of a pause or if these liquidity conditions remain the way they are, there could be some upward pressure on both the deposit and lending rates," he had said.

Market leader SBI, which is yet to raise its MCLR, reduced its base rate last month by 30 basis points but none of the other banks followed suit leaving their base rate customers in the lurch. "The harmonisation of benchmark rates may not help borrowers whose loans are still linked to the base rate, given the upward bias in interest rates," said DK Joshi of CRISIL.