

Credit policy: Borrowers will have to be more watchful

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Banks have been hiking deposit and lending rates

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The RBI holding rates and lowering its inflation forecast for the current fiscal have cheered the markets. But for borrowers, the prolonged pause may offer little respite. This is because leading banks have been steadily increasing their benchmark lending rates over the past two months, despite the RBI keeping its policy rates unchanged since August last year.

With the benefits in the form of surplus inflows after demonetisation waning for sometime now and banks clocking double-digit credit growth against a muted deposit growth, rates on deposits of a few banks have been inching up. This has, in turn, led them to increase lending rates, too, over the past one to two months. If more banks raise deposit rates in the coming months, lending rates can inch up further.

Recent hikes

With liquidity gradually draining out, rates on bulk deposits have been inching up since the middle of last year. Recently, banks have also been raising rates on their retail deposits. Bank of Baroda, PNB, and SBI have been a few banks that have been increasing their deposit rates by 15-25 basis points. With changes in deposit rates immediately reflecting on banks' cost of funds under MCLR, this has led to rise in lending rates as well.

Canara Bank, Central Bank of India, PNB, SBI, Axis Bank, HDFC Bank, ICICI Bank, IndusInd Bank and YES Bank have hiked their one-year MCLR by 10-20 basis points over the past two months.

	One-year MCLR (%)					
	Apr-16	Apr-17	Dec-17	Jan-18	Feb-18	Mar-18
Canara Bank	9.45	8.45	8.30	8.30	8.30	8.40
Central Bank of India	9.60	8.50	8.30	8.30	8.30	8.45*
Punjab National Bank	9.40	8.45	8.15	8.15	8.15	8.30
State Bank of India	9.20	8.00	7.95	7.95	7.95	8.15*
Axis Bank	9.35	8.25	8.25	8.30	8.40	8.40*
HDFC Bank	9.20	8.15	8.10	8.10	8.20	8.30
ICICI Bank	9.20	8.20	8.20	8.20	8.20	8.30*
IndusInd Bank	10.00	9.10	8.85	8.95	9.10	9.25
YES Bank	9.60	8.80	8.85	8.95	9.15	9.20*

*As of April 2018

MCLR: Marginal cost of fund-based lending rate

Will this trend continue?

There are a few factors that will decide this. One, while credit growth has been picking up, it has not been broad-based. For PSU banks, credit growth moved up to 6 per cent from a muted 2 per cent between September to December 2017 quarter. For private sector banks, the credit growth was much higher at 20-24 per cent. Hence, from here on, lending rates can move up substantially, if credit growth shows good traction across all banks. The first quarter in a fiscal is generally a leaner period for banks in terms of credit and, hence, lending rates could stabilise before moving up once again.

Two, deposit growth for PSU banks has been minuscule in the December 2017 quarter at 0.9 per cent from 6.9 per cent in the September quarter.

For private sector banks, on the other hand, deposit growth continues to remain healthy at 14 per cent. Over the past two months, PSU banks have been more aggressive in hiking deposit rates. If the trend continues across more banks, then MCLR will inevitably inch up.