Small savings expected to be an attractive alternative to bank deposits, says ICRA

OUR BUREAU

0

MUMBAI, SEPT 21

Credit rating agency ICRA expects small savings schemes to provide an attractive alternative to bank deposits in the coming months.

After remaining unchanged for two quarters, the interest rates on small savings schemes, which are linked to the yields for G-Sec, will be hiked by 30-40 basis points (bps) for the quarter starting October 1, 2018 relative to the quarter starting July 1, 2018. One basis point equals one-hundredth of a percentage point.

This is largely in line with the uptrend displayed by G-Sec yields of various maturities, during the trailing three month period.

ICRA assessed that systemic liquidity is expected to tighten in H2 (October 2018-March 2019) FY2019 due to the upcoming harvest, festive and marriage season, state elections and busy season for credit. “While this would nudge banks to increase their deposit rates in Q3 (October-December 2018) FY2019, the extent of the same would lag the overall increase in the repo rate and the magnitude of the recent revision in small saving rates..”

“As a result, we expect small savings schemes to provide an attractive alternative to bank deposits in the coming months, which should help the GoI to avail a higher net amount from the NSSF, compared to its target of Rs. 1 lakh crore in FY2019,” opined the agency.

In line with the trend so far in FY2019, the agency doesn’t expect the upcoming rate hikes (by RBI) to be fully transmitted to bank deposit rates, despite an expected tightening of liquidity in H2 FY2019.

Given the weak capital position of most public-sector banks (PSBs), ICRA observed that their credit growth is likely to remain limited in FY2019, which would curtail their incremental deposit requirements and the need to attract additional funds by hiking deposit rates.

It elaborated that some PSBs, which are relatively better placed on capital such as the State Bank of India (SBI), Canara Bank and the Bank of Baroda, may pursue credit growth, but the incremental hike in their deposit rates is likely to be limited because of reduced competition from other PSBs.

“While private banks (PVBs) are in a position to pursue substantial credit growth and gain market share at the cost of the PSBs, they have not been able to make a large dent in the deposit franchise of the latter, despite offering somewhat higher deposit rates than PSBs,” said ICRA.

“An increase in deposit rates by PVBs may not necessarily result in a meaningful gain in their share in deposits; hence, they are likely to undertake modest calibrated hikes in their deposit rates in the immediate term,” said ICRA.

Referring to the looming inflation risks, the robust GDP growth print for Q1 (April-June) FY2019 and the continued weakening of the Rupee, the agency said these suggest a high likelihood of a third consecutive rate hike of 25 bps by the Monetary Policy Committee (MPC) in the October 2018 policy review.

"This is likely to be accompanied by a change in stance to withdrawal of accommodation, to signal another potential rate hike in the December 2018 policy review, unless inflation risks recede appreciably during Q3 FY2019," said the agency.

The agency observed that this should help the Government of India (GoI) to avail a higher net amount from the National Small Savings Fund (NSSF), compared to its target of Rs. 1 lakh crore in FY2019.

"This may result in the GoI announcing a market borrowing programme for H2 FY2019, which may be smaller than what has been expected so far by the markets. This may in turn help to contain Government Security (G-Sec) yields to an extent going forward," ICRA said in a note.

Published on September 21, 2018

TOPICS interest rate RBI and other central banks small savings

More From The Hindu Business Line

How a farmer in TN is reimagining agriculture

IRCTC case: Lalu, others summoned

Smitha Crishna, Roshni Nadar top India’s richest women list

Corporate India mourns the passing of a business-friendly leader

SC admits pleas against mobile tower radiation

PM launches development projects worth over Rs 550 cr in Varanasi

A white elephant in the making

L&T AGM: Naik asks marshals to throw out shareholders

DHFL Pramerica Life appoints Kalpana Sampat as COO

MORE FROM BUSINESSLINE

YES Bank, NBFC woes send markets reeling

Sensex plunges over 1,000 points intraday; DHFL tumbles 60%

How a jackfruit plant is helping a farmer get rich

IIHR experiments with an agreement with a jackfruit variety to boost farm income

IL&FS sinks deeper into crisis as CEO Bawa quits

Infrastructure Leasing & Financial Services Ltd (IL&FS) plunged deeper into a crisis on Friday as Ramesh Bawa, the Chief Executive Officer and Managing Director of the company, put in his pape

0 comments Recommend 0

Write a comment

1000

or

Name

Email

I agree with Vuukle's Privacy Policy

POST

TALK OF THE TOWN

Massive selling in housing finance

Massive selling in housing finance stocks;

YES Bank pays ₹32 crore in GST 'under

stocks; Dewan Housing crashes 60%

Dewan Housing crashes 60%

2 comments

protest'

1 comment

BSE-led power bourse set to disrupt market

1 comment

I am this

1 comment

All eyes on YES Bank's succession plan post Rana Kapoor

1 comment

Vuukle

1. Comments will be moderated by The Hindu Business Line editorial team.

2. Comments that are abusive, personal, incendiary or irrelevant cannot be published.
3. Please write complete sentences. Do not type comments in all capital letters, or in all lower case letters, or using abbreviated text. (example: u cannot substitute for you, d is not 'the', n is not 'and').
4. We may remove hyperlinks within comments.
5. Please use a genuine email ID and provide your name, to avoid rejection.