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In deposit war, private sector banks win hands down

BY **JOEL REBELLO**, ET BUREAU | UPDATED: FEB 27, 2019, 07:54 AM IST

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Mumbai: Are **private sector banks** winning the deposit war against public sector banks? It would appear so given the recent figures from the **Reserve Bank of India**. The difference between the weighted average term deposit rates of **public sector banks** and their private sector counterparts has increased to the highest in at least five years showcasing private banks' ability to raise rates and drive higher credit growth.

Data from the Reserve Bank of India (RBI) highlighted by Elara Securities shows that average term deposit rates for private sector banks in December 2018 was 43 basis points higher at 7.21% compared to 6.78% for public sector banks. One basis points is 0.01 percentage point.

This is the highest differential between private and public-sector banks in at least five years and shows that fast growing private sector banks are able to offer a much higher rate to garner deposits helped by a better pricing power. Data shows that this differential has turned since April 2017 when private sector banks, taking advantage of benign liquidity conditions post **demonetisation** were in fact offering a lower rate compared to public sector banks.

Private sector banks rates were 8 to 10 basis points lower to public sector banks between January and April 2017 and have since turned the other way. In a note, Elara Securities said private banks have been more aggressive than public sector banks in the race for resources. "Private banks and PSBs hiked their rates by 15 basis points and 8 basis points respectively, over the past three months. On fresh loans, private banks' quarterly average of weighted average lending rate (WALR) in Q3FY19 was 10.41% vs 10.08% in Q2FY19, a rise of 33 basis points QoQ while PSBs' quarterly average was 9.43% vs 9.33% in Q2FY19, a rise of 10 basis points QoQ. This shows strength of private banks as they are able to garner market share along with rise in yields," Elara said.

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However, higher deposit rates mean lending rates will also not come down in a hurry as both are linked in the current marginal cost-based lending rate regime. "In the current scenario it will be difficult for banks to cut lending rates unless they are ready to take a hit on their margins. Lending rates will hence remain elevated," said Karthik Srinivasan, group head, financial sector ratings at ICRA.

It also prevents public sector banks from reducing their deposit rates further. "The difference between one-year deposit for SBI and some private sector banks is as high as 100 basis points. But we cannot cut our deposit rates further because there is a risk of people being attracted towards private sector banks, though at 70% credit deposit ratio, we are better placed than private sector banks," said Prashant Kumar, CFO, SBI.

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