Why SBI slashing deposit rates, may not lead to huge cuts by private banks

Radhika MerwinBL Research Bureau | Updated on July 30, 2019 Published on July 30, 2019

0

Strong credit offtake and pressure on deposit growth could limit rate actions

After dragging its feet and cutting deposit rates only marginally despite RBI's 75 bps policy rate cut so far this year, SBI slashed deposit rates sharply on Monday. The cut in rates has been the most in the very short-term deposits of upto 179 days. Term deposit rates in the 7-45 days bucket have been slashed by 75 bps while that in the 46-179 days category by 50 bps. In deposits of higher tenure, the rate reduction has been much lower 10-20 bps. Given that nearly 24 per cent of SBI's deposits are in the up to 6 month category (according to annual report), sharp cuts in deposit rates, could result in lower lending rates as the bank reduces its MCLR—benchmark lending rates. Under MCLR, banks are mandated to calculate their cost of funds based on the latest rates offered on deposits or borrowings.

But will other banks follow suit and slash their deposit rates as well? While some public sector banks may toe SBI's line, private sector banks may not be in a hurry to cut deposit rates steeply.

Small differential

Chunk of SBI's reduction has happened in the very short term deposits—up to 6 months. Currently even after this sharp cut, rates offered by private sector banks such as ICICI Bank and HDFC Bank are not significantly higher than SBI. Thus they do not have leeway to lower rates sharply.

For instance, before the latest rate cuts, SBI offered 5.75 per cent for deposits in the 7 to 45 days bucket; it has cut rates in this bucket to 5 per cent now.

HDFC and ICICI Bank bifurcate deposits further within this tenure—7 to 14 days, 15-29 days and 30-45 days—and offer 3.5-5.5 per cent. This is more or less close to the revised rates offered by SBI (on a weighted basis) and hence these banks may only tinker with rates. Sharp rate cuts seem unlikely.

Similarly in the 46-179 days deposits where SBI has lowered deposit rate from 6.25 per cent to 5.75 per cent, HDFC and ICICI Bank offer 6 per cent currently. The headroom for cuts appear limited here too.

In the higher tenure deposits of over six months, SBI has cut deposit rates by a much lower 10-20 bps. Here too private banks may not be in a hurry to slash their deposit rates.

High credit growth

In the six month to 1 year deposits, the two private lenders have been offering a higher 6.5-6.75 per cent, against SBI's earlier 6.4 per cent. In the two to three year tenure, HDFC and ICICI Bank offer 7.3 per cent, way above SBI's earlier 6.75 per cent (after cut 6.7 per cent).

Hence rates offered by SBI have already been significantly lower than private banks. But strong credit growth vis-à-vis weak growth in deposits have forced private banks to keep deposit rates high, limiting their ability to cut rates sharply despite the wide gap. Many private banks continue to sport a very high credit deposit ratio of 80-100 per cent, on the back of strong loan growth. Hence while SBI's deposit rate cut action may offer some headroom for cutting rates, steep cuts are unlikely.

Also, each bank's action on rates would differ based on the composition of their deposits. While on an aggregate basis deposits up to 1 year constitute 45 per cent of deposits for all banks (according to RBI report), at the micro level there are wide variations. For instance, for SBI 24 per cent of deposits are in the up to six months category and 19 per cent in the six months to one year bucket. For HDFC Bank 24 per cent are in the up to six months while 39 per cent are in the 1-3 year bucket.

Published on July 30, 2019

private banks interest rate State Bank of India

0

COMMENTS