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Bank FDs now fetch less than savings accounts

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Kolkata: It no longer pays to keep your money locked up in a bank. Fixed deposit rates have plummeted in recent months, with short-term rates now hovering very close to or below savings account rates for some banks.

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Surplus liquidity and sluggish credit growth have forced banks to cut rates of both short-term and long-term deposits, and made savers move to riskier instruments such as debt market mutual funds or even equity assets. Deposit growth shrunk last fiscal and has grown less than 2 per cent so far in the current financial year despite all-round risk aversion and turmoil in the equity and debt markets.

State Bank of India (SBI), the country's biggest lender, now offers 2.9 per cent for deposits of between seven days and 45 days. This is slightly better than the 2.7 per cent offered on savings bank accounts.

For Kotak Mahindra Bank and HDFC Bank, the short-term rates are lower than the savings rates. Kotak Mahindra Bank offers 50 basis points more for savings bank customers, while HDFC Bank and Punjab National Bank offer 25 basis points more than rates at the shortest end of the curve — that is, seven days. Senior citizens typically get 50 basis points more than the card rates.

"Cut in deposit rates typically precede or succeed shifts in the lending rates as institutions look to maintain margins, but understandably sustained reduction in deposit returns poses financial and moral dilemma," said Radhika Rao, economist at DBS Bank.

RATES FOR RETAIL DEPOSITORS

In %	Savings Account	7-dy FD	80-dy FD	1-yr FD
SBI	2.7	2.9	4.4	5.1
ICICI Bank	3	3.25	4.25	5.5
HDFC Bank	3.25	3	5	5.6
Kotak Bank	3.5	3	4.8	5.25
PNB	3.5	3.25	4.5	5.5

Deposit growth fell to around 8 per cent in the fiscal year ended March 2020 compared with 10 per cent growth in FY19. This year, so far, deposits have grown by 1.9 per cent in the first two months though they fell marginally in the fortnight ended May 22.

“With deposit rates dropping so low, we do see flows starting to move to other debt instruments such as tax-free bonds, sovereign gold bonds and even back to cash and debt mutual funds,” said Sandeep Das, head of Barclays Private Clients India.

IMPACT ON SAVINGS GENERATION

in 2012, according to data from the Central Statistics Office.

“Term deposit rates close to savings rate could indicate uncertainty on the economic front in the long run as well. Liquidity injection without the possibility of credit deployment could lead to excess SLR holdings by banks,” said Partha Ray, professor of economics at IIM-Calcutta.

CARE Ratings chief economist Madan Sabnavis expects bond yields to remain range-bound. “The liquidity is going back to the RBI through reverse repo and could finally get invested in government securities and state development loans. More G-sec issuances should push up yields while the surplus funds will counter the same until credit picks up,” he said.

“The flight to real risk assets such as credit, equities and/or private markets has been limited as of now. Investors are still underweight on their core allocations to riskier assets such as equities and are sitting on the sidelines,” said Das of Barclays. He added that any correction of more than 10 per cent in the broader equity markets should attract this FOMO (fear of missing out) crowd back in the markets.

“TINA (there is no alternative) factor is also playing out in the minds of the investors, with savings and deposit rates very low… earnings yields (looking beyond the current crisis) look attractive, especially in ‘quality’ businesses,” Das said.