

Spread Compression on O/s Business of SCBs Persists, Touches a 9-year Low



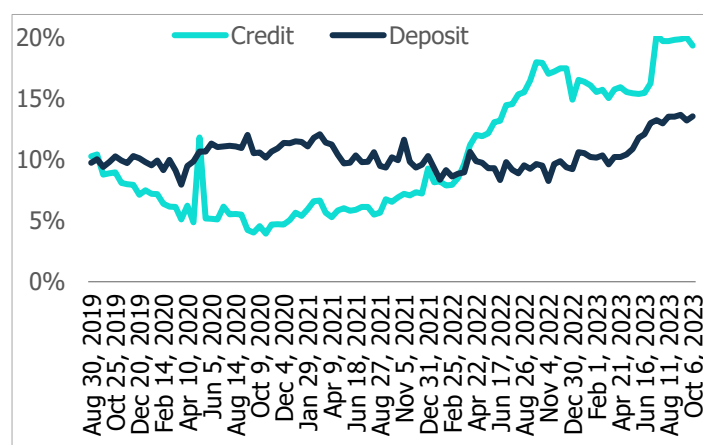
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Overview

- In September 2023, outstanding deposit rates increased while outstanding lending rates weakened marginally. Meanwhile, rates on fresh business broadly declined.
 - The spread of SCBs between WALR and WADTDR (the net interest rate spread) stood at 3.06% and 3.1% for Fresh and Outstanding rates, respectively in September 2023. The o/s SCB spread have been compressing over the last year and has reached a new 9-year low. PVBs continue to maintain a higher spread as compared to PSBs.
 - The weighted average lending rate (WALR) on outstanding rupee loans of scheduled commercial banks (SCBs) declined marginally sequentially, however, the weighted average domestic term deposit rate (WADTDR) on o/s rupee term deposits increased by 9 bps from 6.60% in August 2023 to 6.69% in September 2023. Meanwhile, if the merger effect is excluded, similar results would be reported, with lending rates declining by 1bps and deposit rates rising by 10 bps.
 - One-year median Marginal Cost of fund-based Lending Rate (MCLR) of SCBs stood at a similar level of 8.70% in October 2023 from September 2023.
 - The WALR on fresh rupee loans of SCBs dipped sequentially by 9 basis points (bps) to 9.38% in September 2023 from 9.47% in August 2023, while on WADTDR (Fresh) SCBs fell by 4 bps from 6.36% in August 2023 to 6.32% in September 2023.

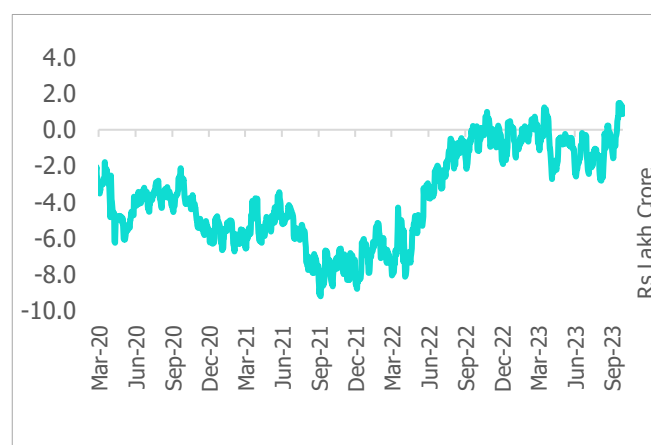
Large Gap Between Credit and Deposit Growth Persists along with Lower Liquidity Levels

Fig 1: Growth in Credit Continues to Outpace Deposit



Source: CMIE, RBI; Note: Data post HDFC Merger in July

Fig 2: Bank System Liquidity (Net Liquidity Injected in Rs lakh crores)



Source: RBI, CEIC

Credit offtake increased by 19.3% year on year (y-o-y) as of October 06, 2023. It is important to note that the y-o-y figures are not directly comparable, as the data includes the impact of the merger of HDFC with HDFC Bank. In absolute terms, over the last twelve months, credit offtake expanded by close to Rs. 25 lakh crore to reach Rs.

151.5 lakh crore as of October 06, 2023. Excluding the impact of the merger, the growth stood at 14.7% y-o-y. This growth was primarily driven by continued demand for personal loans. Deposits rose to 13.5% y-o-y and without considering the merger, deposits rose by 12.7% y-o-y. Meanwhile, in absolute terms, deposits expanded by Rs. 22.3 lakh crore and reached Rs. 196.1 lakh crore as of October 06, 2023, compared to October 07, 2022. According to CareEdge Economics in The Economic Pathway, liquidity conditions remained tight over the last month, with some pressure easing as the last phase of I-CRR reversal took place on October 7. Given that threat of inflationary risks continues to linger, RBI is expected to ensure enough liquidity to meet credit demand.

Spread Compression on O/s Business of SCBs and PSBs Persists and Touches a 9-year Low

Figure 3: Evolution of Spreads (O/s)

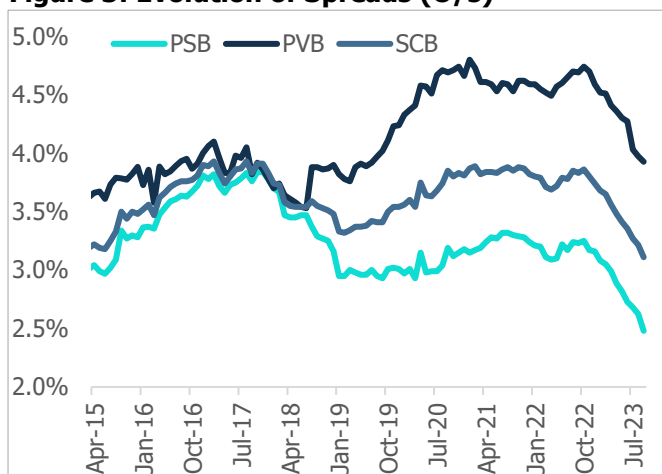
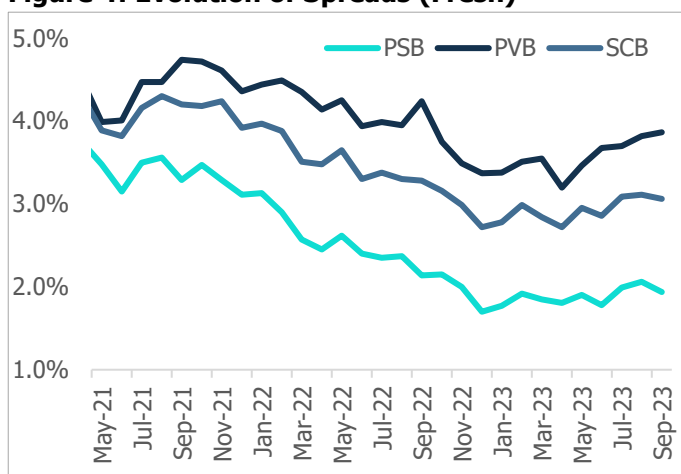


Figure 4: Evolution of Spreads (Fresh)



Source: RBI; Note: Data post HDFC Merger in July

The spread of SCBs between WALR and WADTDR (the net interest rate spread) stood at 3.11% and 3.22% for Fresh and Outstanding rates respectively, in August 2023. The o/s SCB and PSB spreads have been compressing over the last one year and has reached a 9-year low. O/s Spreads broadly narrowed in September 2023 compared to September 2022 by around 70 bps, whereas fresh spreads declined at a comparatively lower level of around 20 bps. The spread between Fresh WALR and WADTDR continues to be lower than the spread between Outstanding WALR and WADTDR. While all spreads declined sequentially, PVB fresh spreads actually increased by 5 bps sequentially in September 2023. PVBs continue to maintain a higher spread given that they charge more as compared to PSBs.

Rates on Outstanding Business: Deposit Rates Rise, while Lending Rates Remain Flat

Fig 5: Evolution of WALR O/s (Lending) Rate

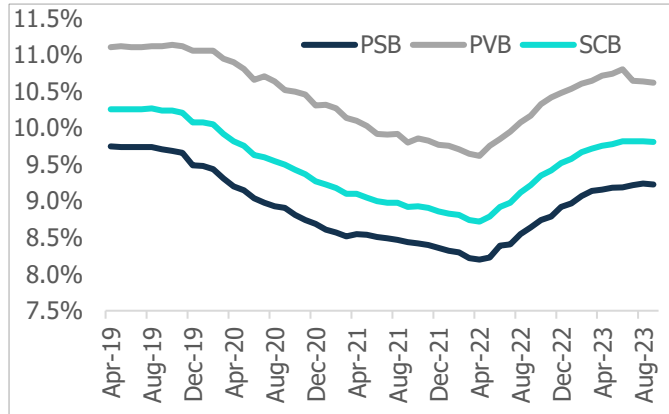
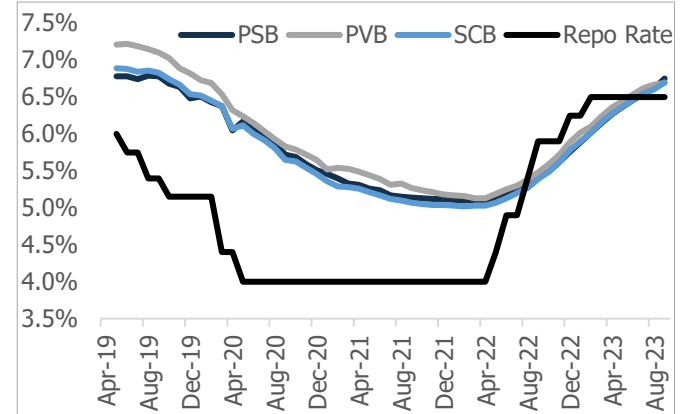


Fig 6: Evolution of WADTDR O/s Deposit Rate



Source: RBI, Note: Data post HDFC Merger in July

WALR on outstanding loans across bank segments remained flat on m-o-m at 9.12% for SCBs, PSBs and SCBs fell by 1 bps, whereas both PVBs declined by 2 bps. One of the reasons for the current trajectory of the PVB rates over the last three months has been the merger between HDFC and HDFC Bank whose housing finance assets have impacted the lending rates. O/s rates have been moving below pre-pandemic times for the last few months. Meanwhile, outstanding deposit rates saw an uptick m-o-m by 13 bps, 10 bps and 2 bps for PSBs, SCBs and PVBs respectively. O/s WADTDR continue to remain above their pre-pandemic levels (compared with March 2020).

Fig 7: Movement in 1-Year MCLR (Median)

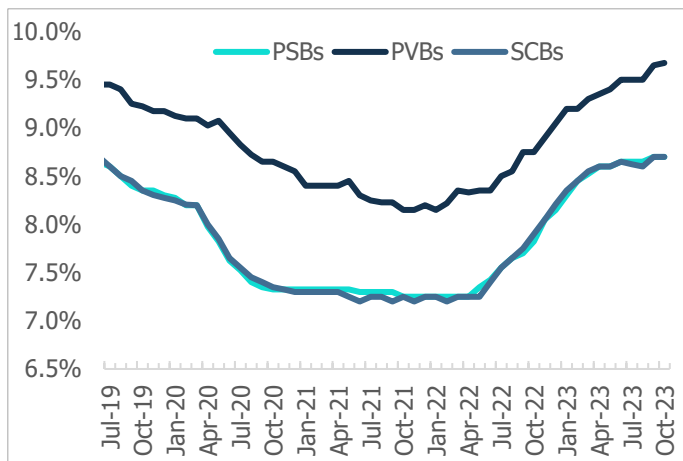


Fig 8: WALR o/s vs WALR Fresh

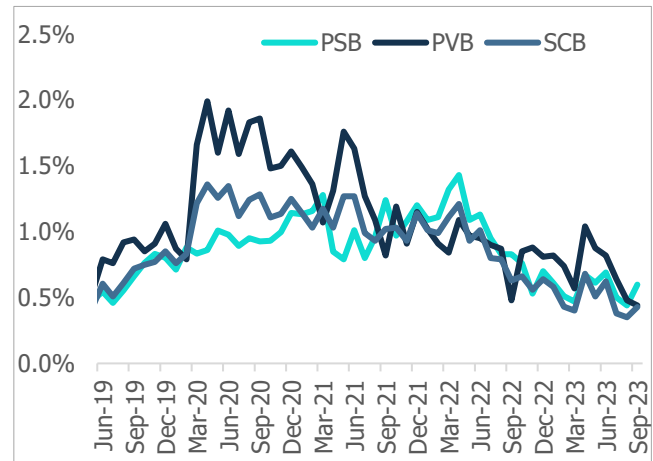


Fig 9: MCLR Rates (in %) Remained Broadly Flat on a m-o-m basis

Banks	10/22	11/22	12/22	01/23	02/23	03/23	04/23	05/23	06/23	07/23	08/23	09/23	10/23	YoY
Public Sector Banks														
BoB	7.95	8.05	8.30	8.50	8.55	8.55	8.60	8.60	8.65	8.65	8.65	8.70	8.70	0.75
BoI	7.80	7.95	8.15	8.30	8.40	8.50	8.60	8.60	8.65	8.65	8.70	8.70	8.70	0.90
BoM	7.80	7.90	7.90	8.20	8.40	8.40	8.50	8.50	8.50	8.50	8.60	8.60	8.70	0.90
Canara	7.90	8.10	8.15	8.35	8.50	8.60	8.65	8.65	8.65	8.65	8.70	8.70	8.70	0.80
CBI	7.60	7.65	7.90	8.15	8.15	8.45	8.45	8.45	8.60	8.60	8.60	8.60	8.65	1.05
Indian	7.85	8.10	8.20	8.30	8.45	8.55	8.60	8.60	8.65	8.65	8.65	8.70	8.70	0.85
IOB	7.90	8.05	8.25	8.30	8.45	8.60	8.60	8.65	8.65	8.65	8.70	8.70	8.70	0.80
PSB	7.80	8.00	8.15	8.30	8.50	8.60	8.65	8.65	8.65	8.70	8.90	8.90	8.90	1.10
PNB	7.75	8.05	8.10	8.30	8.40	8.50	8.50	8.50	8.60	8.60	8.60	8.65	8.65	0.90
SBI	7.95	8.05	8.30	8.40	8.50	8.50	8.50	8.50	8.50	8.55	8.55	8.55	8.55	0.60
UCO	7.70	7.95	8.10	8.25	8.35	8.50	8.60	8.60	8.65	8.65	8.65	8.70	8.70	1.00
UBI	7.90	8.20	8.25	8.40	8.65	8.65	8.65	8.65	8.65	8.65	8.65	8.70	8.70	0.80
Private Sector Banks														
HDFC	8.20	8.55	8.60	8.85	8.90	8.95	8.95	9.05	9.05	9.05	9.10	9.15	9.20	1.00
ICICI	8.10	8.30	8.40	8.65	8.65	8.75	8.75	8.75	8.85	8.85	8.90	8.95	8.95	0.85
Axis	8.35	8.45	8.75	8.80	8.90	8.95	8.95	9.10	9.10	9.10	9.15	9.15	9.15	0.80
Indusind	9.55	9.80	9.95	9.95	10.05	10.15	10.20	10.20	10.20	10.25	10.25	10.30	10.30	0.75
Kotak	8.45	8.55	8.65	8.95	9.00	9.05	9.10	9.20	9.20	9.25	9.3	9.30	9.35	0.90
Yes.	9.60	9.70	9.75	9.85	9.90	10.10	10.15	10.00	10.05	10.15	10.15	10.25	10.25	0.65

On a m-o-m basis in October 2023, 1-Year median MCLR of SCBs, PSBs and PVBs remained at the same level witnessed in September 2023 as the majority of the PSBs and PVBs remained flat. Meanwhile when we compare pre-pandemic levels, MCLR median for SCBs is above 50 bps (compared with March 20), whereas we saw a divergence in trend, o/s WALR dropped by 11 bps.

Fresh Rates Remain Volatile

Fig 10: Evolution of WALR Fresh Loans

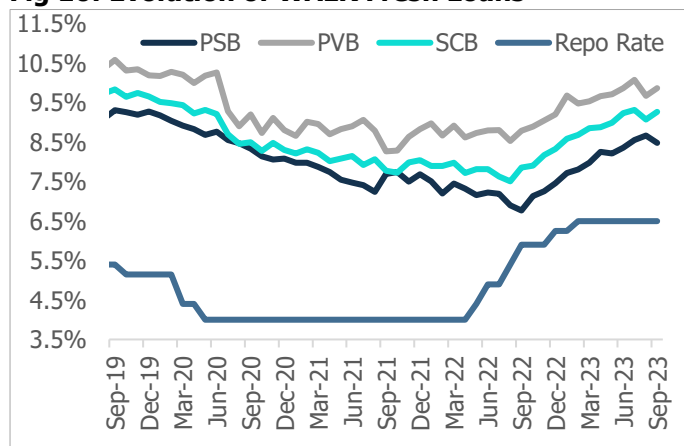
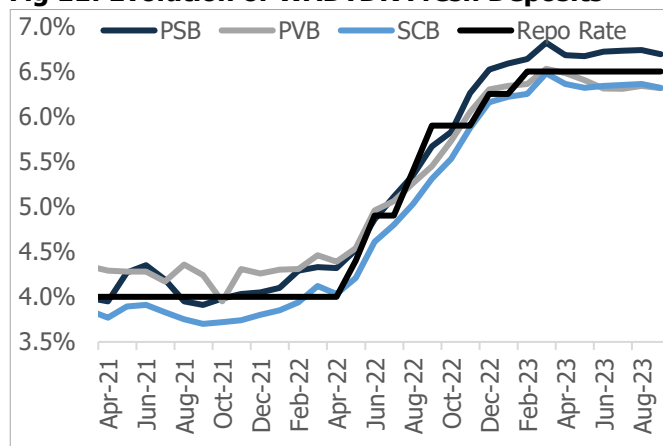


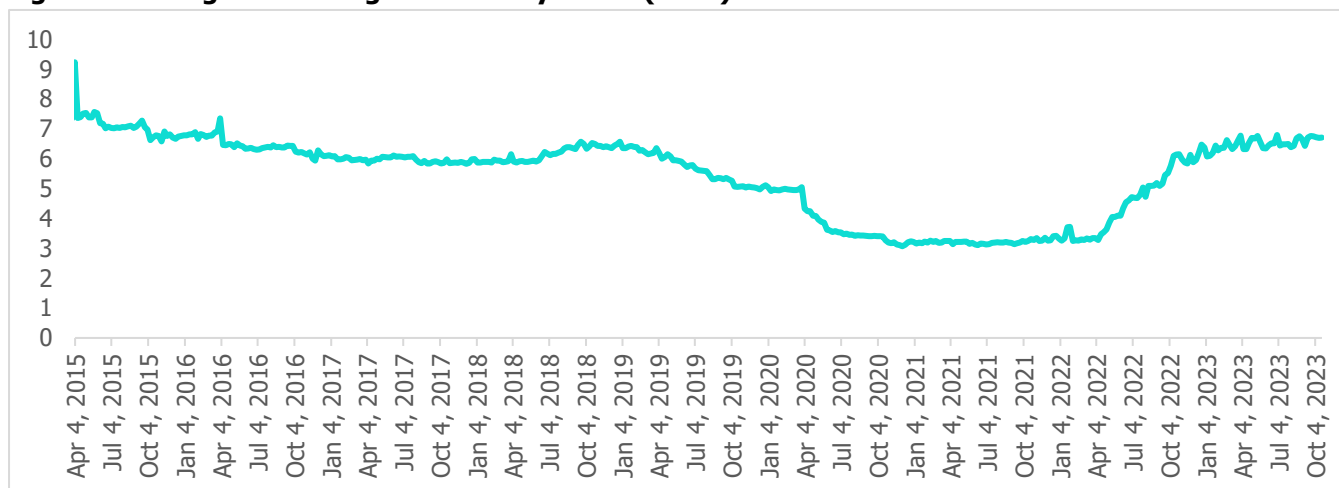
Fig 11: Evolution of WADTDR Fresh Deposits



Source: RBI, Note: Data post HDFC Merger in July

WALR on fresh loans on m-o-m basis saw an increase of 2 bps for PVBs: while SCBs and PSBs decreased by 9 bps and 17 bps respectively. On the other hand, fresh deposit rates saw a downtick m-o-m by 4 bps, 3 bps, and 4 bps for PSBs, PVBs and SCBs, respectively in September 2023. When compared to April 2022, (prior to commencing of rate hikes in May 22) repo rate increased by 250 bps to 6.5% as of September 2023, Fresh WALR and WADTDR increased by 187 bps and 229 bps to 9.38% and 6.32% as of September 2023 from April 2022.

Figure 12: Weighted Average Call Money Rates (in %)



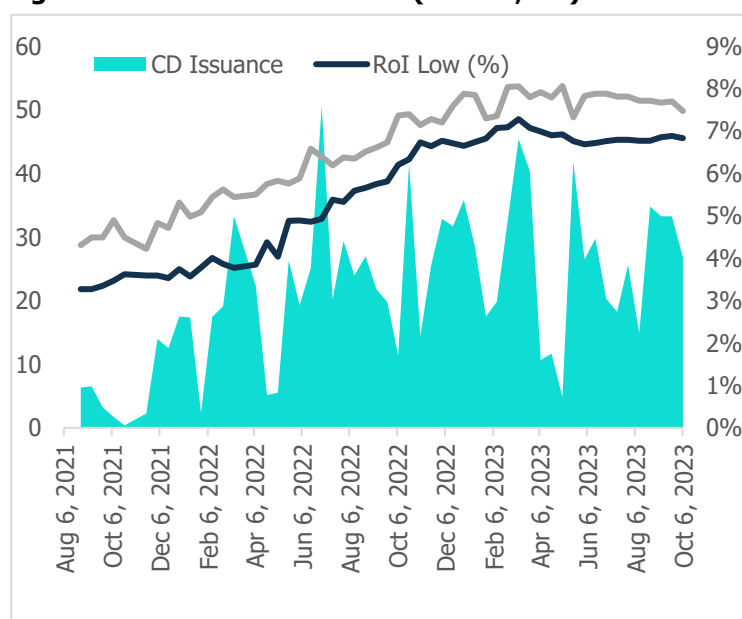
The Weighted Average Call Rates (WACR) increased by approx. by 312 bps from 3.63% on April 29, 2022 to 6.75% by September 29, 2023. Meanwhile, Fresh WALR and WADTDR increased by 187 bps and 229 bps to 9.38% and 6.32% as of September 2023 from April 2022. WADTR was impacted by lag effect, however, due to growing short term rates, we can see a high demand for short term instruments like Certificate of Deposits.

O/s CDs Continue to Remain at Elevated Levels

Fig 13: Certificate of Deposit Outstanding

Fortnight ended	Amount Outstanding (Rs'000 cr.)	Y-o-Y growth %
Mar 11, 2022	154.4	168.9
May 20, 2022	193.0	113.7
July 1, 2022	223.8	222.9
Sep 23, 2022	252.2	318.7
Dec 30, 2022	294.0	247.1
Jan 27, 2023	279.8	180.6
Feb 10, 2023	269.7	139.6
Feb 24, 2023	280.4	120.4
Mar 24, 2023	304.5	50.4
Apr 07, 2023	301.4	49.6
Jul 28, 2023	307.0	23.3
Oct 06 2023	290.3	28.3

Fig 14: Trend in CD Issuances (Rs'000, Cr.) and RoI



Note: The quarter-end data reflect the last fortnight's data of that quarter; Source: RBI

CD issuance for the fortnight stood at Rs 26.8 thousand crore and saw a growth of 134.7% y-o-y as on October 06, 2023, compared to October 07, 2023. However, the growth in o/s CD has reduced. The preference for raising funds via CDs is likely to have risen amidst healthy credit growth and tightening liquidity in the banking system.

Conclusion

In September 2023, there was a broad decrease in fresh lending rates, with PVBs being the only outlier. In contrast, interest rates on existing business loans reported mixed results with outstanding lending rates reducing marginally, while outstanding deposit rates increased. Spreads between the outstanding WALR and WADTDR have fallen below pre-pandemic levels since June 2023, which is exerting pressure on NIMs. Notably, the spread between the fresh lending and deposit rates remains narrower than that between the outstanding lending and deposit rates. Furthermore, with banks turning cautious on high yield products such as unsecured personal loans, lending rates could also witness some pressure. Additionally, as the Credit to Deposit ratio remains elevated, growth in the liability franchise would play a significant role in sustaining loan growth. The competition for deposits is likely to intensify even further, resulting in a rise in funding costs in the coming periods as rates remain elevated and CASA share reduces.

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