

Finally MCLR's Start Moving Downwards

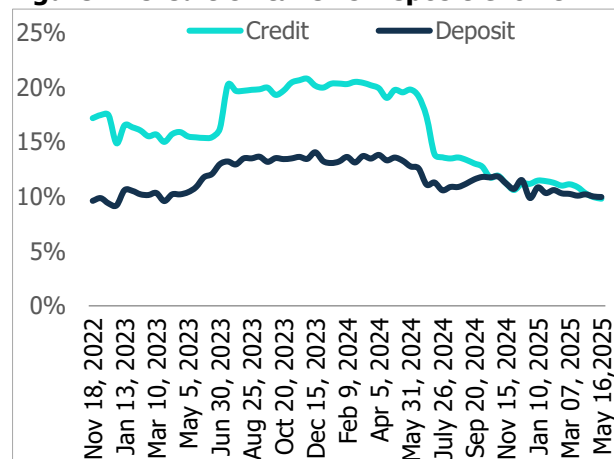
June 06, 2025 | BFSI Research

Synopsis

- In April 2025, the spread between the outstanding (o/s) weighted average lending rate (WALR – Lending Rate) and the weighted average domestic term deposit rate (WADTDR – Deposit Rate) for scheduled commercial banks (SCBs) continued to tighten, narrowing by four basis points (bps) on a month-on-month (m-o-m) basis, remaining at a 10-year low of 2.67%.
 - The SCBs lending rate on o/s rupee loans fell by seven bps m-o-m to 9.68%, driven by rate cuts, competition and reduced share of high-yield assets. The deposit rate on o/s rupee term deposits also decreased by three bps to 7.01%, driven by a 28 bps reduction of foreign banks (FBs). In comparison, PVBs increased their deposit rates by one bps, in contrast to a one bps decrease by PSBs, standing at 6.94% and 7.15% respectively.
- In April 2025, SCBs' fresh spreads diverged from o/s spreads and rose by 26 bps to 2.96%, PVBs by four bps to 3.67%, PSBs by eight bps to 1.73% and FBs by 27 bps to 3.34%, reflecting the impact of rate cuts.
 - As of April 2025, lending rates on fresh loans for SCBs fell by 9 bps m-o-m to 9.26%, driven by surplus liquidity and rate cuts. Fresh deposit rates for SCBs also declined by 35 bps m-o-m to 6.30%.
- In May 2025, the one-year median MCLR declined by five bps and stood at 8.95%, as PSBs and FBs declined by five and 31 bps, respectively, reaching 9.03% and 7.62%, while PVBs remained flat at 10.0%.

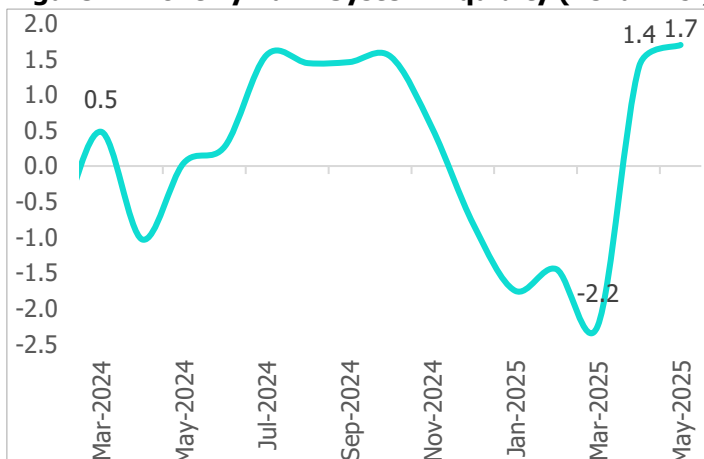
Slower Credit Growth Matches Deposits; Liquidity Stays Surplus

Figure 1: Credit Offtake vs Deposit Growth



Source: CMIE, RBI; Note: Data post-HDFC Merger in July 2023

Figure 2: Monthly Bank System Liquidity (Rs lakh cr)



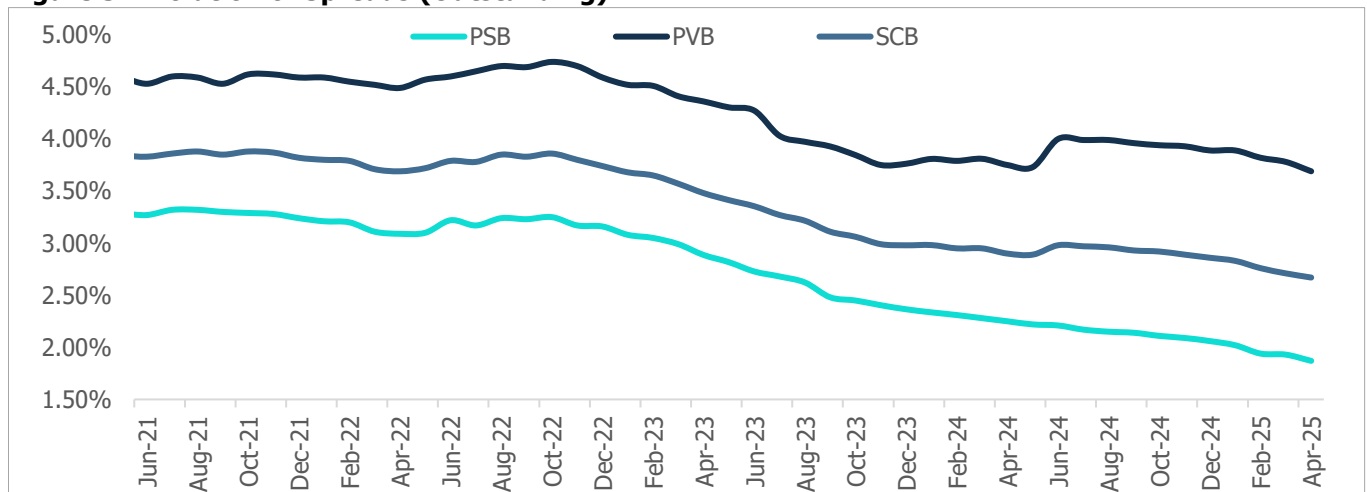
Source: RBI, CMIE

- Credit offtake rose by 9.8% y-o-y for the fortnight ending May 16, 2025, and came in slower than the previous year's growth of 15.8% (excluding the merger impact). This slowdown can be attributed to a higher base effect, generally slower growth at the start of the fiscal year. Meanwhile, deposits increased by 10.0% y-o-y, reaching Rs 228.9 lakh crore as of May 16, 2025, lower than the 12.7% growth (excluding merger impact) recorded last year.

- According to CareEdge Economics, as of the end of May 2025, the RBI's liquidity injections have kept the overall banking system liquidity in surplus. Average systemic liquidity has remained in surplus for the past two months, leading to the weighted average call rate hovering below the repo rate for specific periods. Average banking system liquidity surplus stood at Rs 1.7 lakh crore in May 2025, equivalent to 0.7% of NDTL. This is even higher than the Rs 1.4 lakh crore surplus in April 2025. Over the past few months, RBI's repo auctions, OMO purchases, and dollar swaps have aided liquidity conditions. Surplus liquidity conditions additionally ensure smoother transmission of the policy rates.

O/s Spread Continues to Witness a Decline in April

Figure 3: Evolution of Spreads (Outstanding)

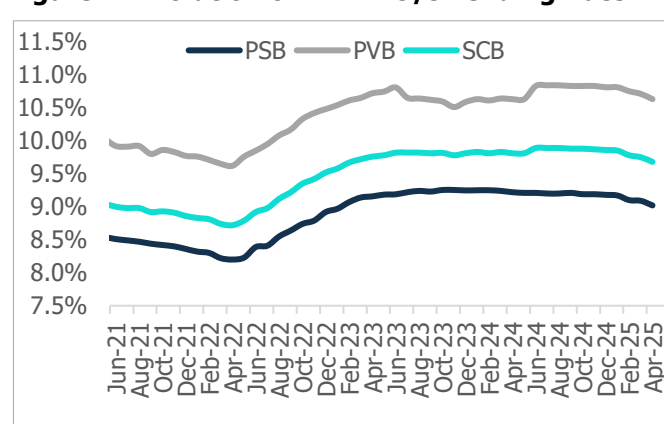


Source: RBI

- As of April 2025, SCBs o/s spread between lending and deposit rates continued to remain at a decadal low, at 2.67%, reflecting a slight m-o-m decrease of four bps. The o/s spread for PSBs and PVBs has also been compressing over the past months, reducing again by six and nine bps, reaching 1.87% and 3.69%.

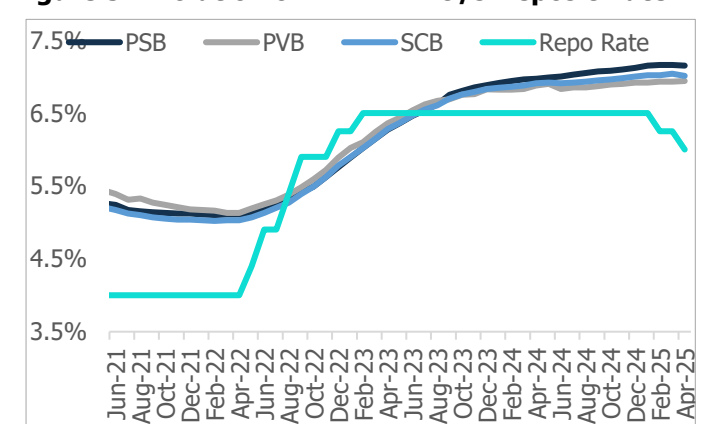
Outstanding Business: Deposit and Lending Rates Decline

Figure 4: Evolution of WALR O/s Lending Rate



Source: RBI

Figure 5: Evolution of WADTDR O/s Deposit Rate



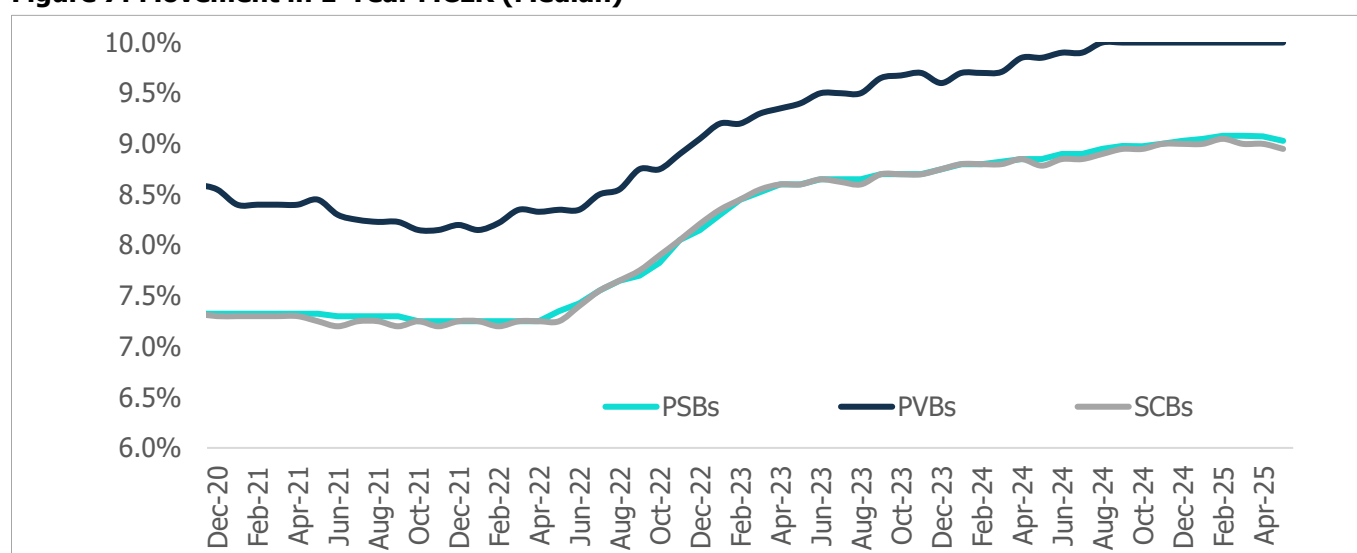
- As of April 2025, the outstanding lending rates declined m-o-m. SCBs dipped by seven bps to 9.68%, PSBs to 9.02% and PVBs by eight bps to 10.63%. This decline was largely driven by RBI's repo rate cut to 6.00% and

also reflects the reductions in rates in key sectors such as industry (8 bps), housing (20 bps), education and personal loans (19 bps), and trade (11 bps) q-o-q, along with the leading banks to adjust their lending rates. Meanwhile, the outstanding deposit rates of SCBs declined by three bps to 7.01%, which was attributed to policy-driven easing, surplus liquidity, and repricing of deposit portfolios toward lower market rates. PSBs and FBs declined by one and 28 bps, at 7.15% and 5.90%, respectively, while PVBs rose marginally by one bps at 6.94%.

Figure 6: WALR of SCBs According to Occupation (in %)

Occupation	Mar-24	Dec-24	Mar-25	Y-o-Y (bps)	Q-o-Q (bps)
I. Agriculture	10.56	10.60	10.56	0	-4
II. Industry	9.49	9.46	9.37	-11	-8
III. Transport Operators	10.39	10.34	10.43	4	10
IV. Professional and other services	9.91	9.94	9.97	5	3
V. Personal Loans	11.18	11.23	11.05	-14	-19
1. Housing	9.00	8.93	8.73	-28	-20
2. Consumer Durables	14.12	14.23	14.32	20	9
3. Vehicles	9.96	10.15	10.08	12	-7
4. Education	10.54	10.50	10.32	-22	-19
5. Personal Credit Cards	36.88	37.19	37.64	76	44
6. Other Personal Loans	11.41	11.33	11.24	-17	-8
VI. Trade	10.47	10.32	10.21	-26	-11
VII. Finance	8.40	8.33	8.30	-9	-2
VIII. All others	9.89	10.07	10.20	31	13
Aggregate Credit	9.77	9.75	9.68	-9	-7

Source: RBI

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


Source: RBI

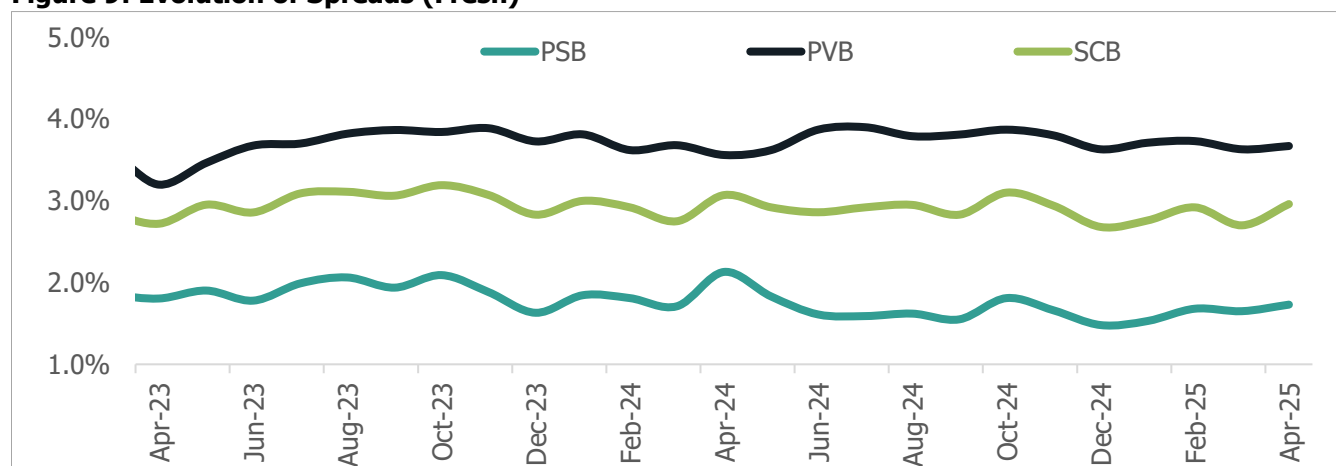
- On a m-o-m basis in May 2025, the one-year median MCLR decreased by 5 bps and stood at 8.95%, attributed to policy rate adjustments. In contrast, on a y-o-y basis, the one-year median MCLR of SCBs rose by 17 bps, and when compared to pre-pandemic levels, the MCLR median for SCBs is higher by 75 bps (compared with Feb 20).

Figure 8: MCLR Rates (in %) PSBs Increase, While PVBs Decline

Banks	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	YoY
Public Sector Banks														
BoB	8.85	8.90	8.95	8.95	8.95	8.95	9.00	9.00	9.00	9.00	9.00	9.00	8.95	0.10
BoI	8.85	8.90	8.95	8.95	8.95	8.95	9.00	9.00	9.05	9.05	9.05	9.05	9.05	0.20
BoM	8.85	8.95	8.95	8.95	9.00	9.05	9.05	9.05	9.10	9.15	9.15	9.15	9.10	0.25
Canara	8.90	8.95	9.00	9.00	9.00	9.05	9.05	9.10	9.10	9.10	9.10	9.10	9.00	0.10
CBI	8.75	8.85	8.85	8.85	8.95	8.95	8.95	9.00	9.00	9.00	9.00	9.00	8.95	0.25
Indian	8.85	8.95	8.95	8.95	9.00	9.00	9.00	9.05	9.05	9.10	9.10	9.10	9.10	0.10
IOB	8.90	8.95	9.00	9.00	9.00	9.00	9.05	9.05	9.10	9.10	9.10	9.10	9.10	0.20
PSB	8.95	9.05	9.10	9.10	9.10	9.15	9.15	9.20	9.20	9.20	9.20	9.20	9.20	0.25
PNB	8.80	8.85	8.90	8.90	8.90	8.95	8.95	9.00	9.00	9.05	9.05	9.05	8.95	0.15
SBI	8.65	8.85	8.95	8.95	8.95	8.95	9.00	9.00	9.00	9.00	9.00	9.00	9.00	0.35
UCO	8.85	8.90	8.95	8.95	9.00	9.00	9.00	9.05	9.05	9.10	9.10	9.10	9.10	0.25
UBI	8.90	8.90	8.95	8.95	8.95	8.95	9.00	9.00	9.00	9.00	9.00	9.00	8.95	0.05
Private Sector Banks														
HDFC	9.30	9.40	9.45	9.45	9.45	9.45	9.45	9.45	9.40	9.40	9.40	9.30	9.15	-0.15
ICICI	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	9.10	8.85	8.75	-0.35
Axis	9.30	9.30	9.35	9.35	9.35	9.35	9.35	9.45	9.40	9.40	9.40	9.25	9.15	-0.15
IndusInd	10.45	10.45	10.55	10.55	10.55	10.55	10.55	10.55	10.55	10.55	10.45	10.40	10.35	-0.10
Kotak	9.45	9.50	9.55	9.55	9.55	9.55	9.55	9.55	9.55	9.55	9.55	9.35	9.20	-0.25
Yes	10.60	10.50	10.50	10.50	10.60	10.60	10.60	10.60	10.60	10.65	10.65	10.65	10.30	-0.30

Source: RBI

Figure 9: Evolution of Spreads (Fresh)

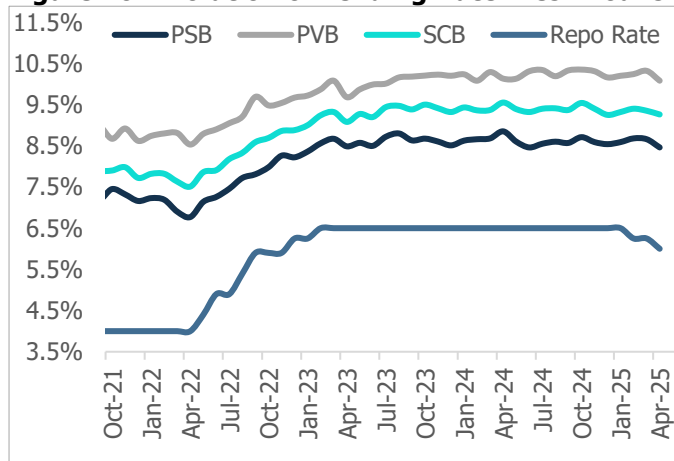


Source: RBI

- In April 2025, the fresh spread of SCBs increased m-o-m. SCBs rose by 26 bps to 2.96%, PVBs by four bps to 3.67% and PSBs by eight bps to 1.73%.
- For SCBs, as of April 2025, the fresh spread is higher than the outstanding spread, indicating that outstanding spreads adjust with a lag, while fresh spreads reflect the impact of rate cuts.

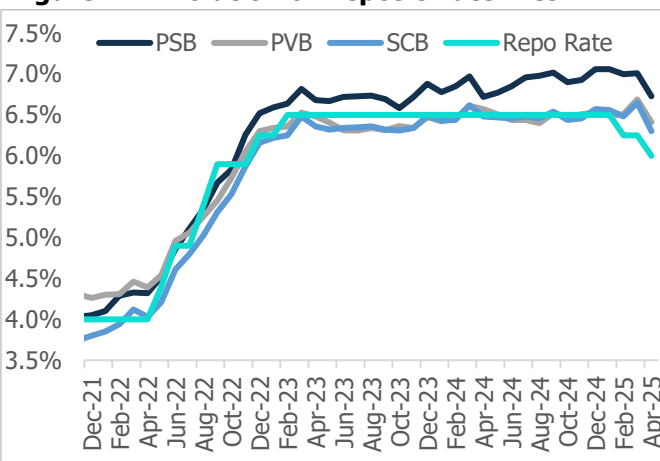
Fresh Lending Rates and Deposit Rates Witness a Downtick

Figure 10: Evolution of Lending Rate Fresh Loans



Source: RBI

Figure 11: Evolution of Deposit Rate Fresh



- The lending rates on fresh loans for SCBs decreased by nine bps m-o-m, settling at 9.26%. PVBs saw a decrease of 24 bps, while PSBs saw a decline of 20 bps, standing at 10.08% and 8.46% respectively, as of April 2025, attributed to surplus liquidity, weaker loan demand and rate cut expectations. Additionally, fresh deposit rates for SCBs decreased by 35 basis points m-o-m, reaching 6.30%. PSBs and PVBs saw a decrease of 28 bps each, standing at 6.73% and 6.41% respectively, as of April 2025.

Private banks excel in EBLR loans, while public banks lead in MCLR

Figure 12: PSBs

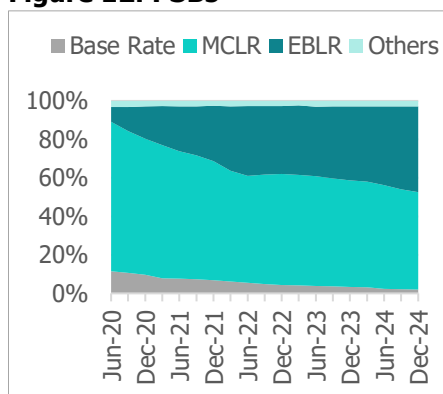


Figure 13: PVBs

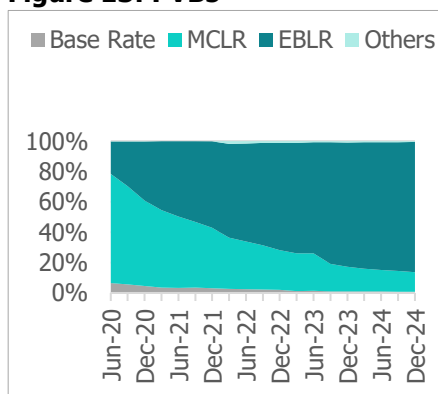
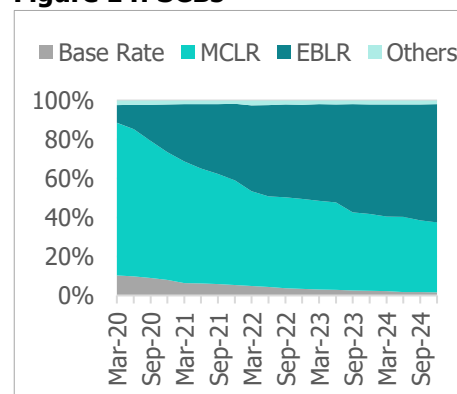


Figure 14: SCBs



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

The share of External Benchmark Lending Rate (EBLR)- linked loans in total outstanding floating-rate rupee loans of SCBs stood at 60.6% in December 2024 (compared to 56.9% in December 2023), while that of MCLR-linked loans was 35.9% in December 2024 (compared to 38.8% in December 2023). EBLR includes both repo-linked and

treasury bill loans. Furthermore, compared to PSBs, PVBs have a higher share of EBLR (EBLR share as of Dec-24: PVBs, 85.9%; PSBs, 44.6%). Hence, the transmission of lending rates is faster in PVBs than PSBs.

Conclusion

According to Sanjay Agarwal, Senior Director, CareEdge Ratings, "In April 2025, SCBs witnessed a divergence in spread trends amid ongoing rate transmission. Fresh spreads remained above outstanding spreads, as lending rates on existing loans adjusted with a lag. The higher share of EBLR-linked loans (including repo-linked and T-Bill-linked loans) in PVBs suggests faster transmission than PSBs. The divergence in MCLR among PVBs and PSBs reflects variations in cost structures, asset repricing and competitive strategies, highlighting the impact of a changing interest rate environment."

Annexure

Banks	PSBs				PVBs				SCBs			
End Month	Base Rate	MCLR	EBLR	Others	Base Rate	MCLR	EBLR	Others	Base Rate	MCLR	EBLR	Others
Sep-2019	14.4	81.6	0.4	3.6	8.3	86.6	4.6	0.4	12.3	82.8	2.4	2.5
Dec-2019	12.7	81.6	2.2	3.6	7.7	82.0	10.0	0.3	11.1	81.2	5.2	2.5
Mar-2020	12.0	79.9	4.9	3.3	6.8	76.3	16.7	0.3	10.3	78.3	9.1	2.3
Jun-2020	11.5	77.7	7.7	3.1	6.5	71.8	21.4	0.3	9.9	75.4	12.5	2.2
Sep-2020	10.6	73.7	12.6	3.1	5.8	64.7	29.3	0.2	9.0	70.3	18.5	2.2
Dec-2020	9.7	70.6	16.9	2.8	4.7	56.1	39.0	0.2	8.1	65.4	24.6	1.9
Mar-2021	7.8	69.1	20.4	2.6	3.7	50.9	45.3	0.1	6.4	62.3	29.5	1.8
Jun-2021	7.7	66.1	23.4	2.8	3.4	47.0	49.5	0.1	6.2	58.9	33.1	1.8
Sep-2021	7.3	64.5	25.5	2.8	3.5	43.4	53.0	0.1	5.9	56.5	35.8	1.8
Dec-2021	6.8	61.9	28.9	2.5	3.0	39.9	57.0	0.1	5.4	53.6	39.3	1.7
Mar-2022	6.1	57.7	33.3	2.9	2.7	33.7	61.9	1.7	4.8	48.7	44.0	2.5
Jun-2022	5.5	55.6	36.2	2.7	2.5	31.4	64.5	1.6	4.3	46.5	46.9	2.3
Sep-2022	4.8	57.0	35.5	2.7	2.2	29.2	67.6	1.1	3.8	46.5	47.6	2.1
Dec-2022	4.3	57.8	35.2	2.7	2.0	26.3	70.5	1.2	3.4	46.1	48.3	2.2
Mar-2023	4.1	57.4	36.2	2.4	1.3	24.8	72.9	1.0	3.1	45.4	49.6	1.9
Jun-2023	3.8	57.2	36.1	2.9	1.4	24.7	73.2	0.7	2.9	44.8	50.2	2.1
Sep-2023	3.6	56.2	37.4	2.8	1.1	18.0	80.3	0.6	2.5	40.1	55.5	1.9
Dec-2023	3.4	55.3	38.5	2.8	1.0	16.0	82.3	0.7	2.4	38.8	56.9	1.9
Mar-2024	2.9	54.6	39.7	2.8	1.0	15.1	83.2	0.7	2.2	39.2	56.6	2.0
Jun-2024	2.4	53.8	40.9	2.9	0.9	14.2	84.2	0.7	1.8	38.2	57.9	2.1
Sep-2024	2.2	51.9	43.0	2.9	0.9	13.6	84.9	0.7	1.7	36.9	59.4	2.0
Dec-2024	2.0	50.6	44.6	2.8	0.8	12.9	85.9	0.4	1.6	35.9	60.6	1.9

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

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