Banks begin to ease bulk deposit rates

Lower CPI may allow banks to cut retail rates

Banks have started to reduce short-term corporate bulk deposit rates on the back of comfortable liquidity.

This signals a downward bias in the overall rate environment, though those on retail deposits are yet to see any major revision.

Yet, with retail inflation falling to 6.46 per cent in September, the lowest since the government started issuing Consumer Price Index data in 2012, banks also see it as an opportunity to cut retail deposit rates.

"It might not happen immediately but my expectation is by March 31, we can expect about a 500-basis point (bp) reduction in retail deposits as well. This is because we haven't seen any growth in credit pick-up and as a result of the tepid demand, interest rates will have to soften. Consequently, even deposit rates will have to go down," said M S Raghavan, chairman, IDBI Bank.

ICICI Bank and Oriental Bank of Commerce (OBC) announced new rates on Monday for short-term bulk deposits. Punjab National Bank (PNB) had reduced the rate last Friday. Interest rates on such deposits have fallen by 25-50 bps in select maturities. A deposit of more than Rs 1 crore is considered a bulk deposit.

According to bankers, the revision in bulk deposit rates is mostly in the three-month category. "We have taken the strategy of moderating the growth of deposits of Rs 1 crore and above, to fund credit expansion. We will give retail depositors a reasonable return above the inflation level," said K R Kamath, chairman and managing director, PNB.

ON THE EDGE

Interest rate on retail deposits of less than ₹ 1 crore

Lender	Tenure	Interest rate per annum (%)
Punjab National Bank	1 year	9
Bank of India	1 year	9.05
Corporation Bank	1 year	9
ICICI Bank	290 days–1 year	7.75
HDFC Bank	1 year	8.75

Source: Banks

ICICI Bank, for example, is offering eight per cent for such deposits, for maturities between one to four months. PNB is offering eight per cent for three-month to nine-month deposits and OBC is offering 8.5 per cent for 91 to 269 days.

“There is a downward bias on bulk deposit rates due to lack of credit demand, though deposit growth has been stable. In addition, there are inflows from foreign institutional investors, which has also helped the liquidity situation to improve,” said the treasury head of a public sector bank.

According to Reserve Bank of India (RBI) data, year-on-year loan growth till September 19 was 9.7 per cent, slowest since June 2001. It was 17.6 per cent in the comparable period. Deposit growth at 13.4 per cent during the same period was almost the same as last year.

Since the start of September, foreign investors have pumped $4.5 billion in both debt and equity markets, easing the liquidity situation. According to RBI data, liquidity support from it to banks fell to Rs 45,000 crore in September from a high of Rs 87,000 crore in July.

Though bulk deposits have come down, banks are still holding on to the retail deposit rate as retail inflation stayed high. As mentioned earlier, retail inflation eased to 6.46 per cent in September, lowest level since 2012. The revised CPI number for August was 7.73 per cent.

Bankers had been maintaining the retail deposit rate to give depositors a positive return. Barring State Bank of India, which reduced these by 25 bps in early October, no other bank had done so.

“CPI inflation has fallen in September but we need to see if it sustains. If CPI inflation consistently stays below a particular level, we might review retail deposit rates,” said PNB’s Kamath.

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