

## Deposit Rate Cuts to Lift Banks' Net Interest Margins by 15-18 bps

Reduction in savings rates could spur competition, giving PSU lenders an advantage: analysts

Joel.Rebello@timesgroup.com

**Mumbai:** The recent spate of cuts in savings rates will help Indian banks improve their net interest margins (NIMs) by 15 to 18 basis points (bps), although there is no indication just yet of a corresponding decrease in lending rates.

All large banks have taken a cue from the country's biggest lender

State Bank of India and reduced their minimum savings bank rate to 3.5% in the last two weeks. The spell of reduction is the first since the rates were deregulated in October 2011. One basis point is 0.01 percentage point.

Analysts said the savings bank cuts will also have to be reflected in the bank lending rates under the marginal cost of lending rate (MCLR) calculation, which is closely linked to bank deposits rates.

In a report earlier this month, India Ratings & Research Analyst Soumyajit Niyogi said the reductions in savings rates could spur competition among banks, giving public sector lenders an advantage.

"PSBs, with a stable, large and granular savings deposit base, will have additional manoeuvrability over private peers to cut MCLR. The maximum cut in MCLR for



### Investing at Market Highs

PSBs can be 35 basis points. For private banks, the threshold is 25 basis points. This could intensify competition among large lenders with strong savings deposit franchise and capitalisation towards gaining credit market share," Niyogi said.

SBI has 36% savings deposits, and Punjab National Bank has 34%. Private sector lenders such as ICICI (35%), HDFC Bank and Axis (around 30%) will also benefit from the competition.

"All banks with savings deposits of 30% will benefit. But not everyone will pass it on to their borrowers. For example, SBI has already said that the merger of associate banks has led to 60 to 80 bps erosion in margins and hence they cannot lower lending rates. But lenders like HDFC Bank who want to gain market share especially on the corporate lending side will be more aggressive in cutting lending rates," said Asutosh Mishra, analyst at Reliance Securities.

The savings rate cuts came just after RBI expressed unhappiness over the transmission of policy rates under the MCLR regime. The central bank has constituted a study group to explore linking bank lending rates directly to market determined benchmarks. The transmission of this round of savings bank rate-cuts will also likely be scrutinised.