25-bp deposit rate hike likely this festival season

Only lenders with asset-liability mismatch may consider rate revision

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The Reserve Bank of India's (RBI's) decision to withdraw the incremental cash reserve ratio (I-CRR) is expected to benefit banks during the festival season. They are likely to increase deposit rates by up to 25 basis points (bps) in select maturity buckets. The rise in demand for funds to cover tax payments and meet quarter-end business targets could influence rate decisions by banks, according to bankers and money market executives.

Not all banks are expected to resort to rate hikes; only those with asset-liability management mismatch in specific buckets would consider upward rate revisions.

Delhi-based Punjab National Bank has raised interest rates by 25 bps to 6.75 per cent for the 270 days to less than one-year bucket. The revised rates came into effect on September 1, 2023.

On September 8, the RBI decided to withdraw I-CRR in phases, which will release about ₹1 trillion into the system by October 7, 2023. The first phase of withdrawal, which began on September 9, 2023, released ₹25,000 crore.

Treasury heads believe that in the short term, the decision will impact deposit rates as banks may not need to immediately raise deposit rates. However, in the medium term, factors such as liquidity conditions, asset-liability mismatches, and credit deployment opportunities will be considered. They also mentioned that the inflation rate will be a key factor in any decision regarding deposit rates.

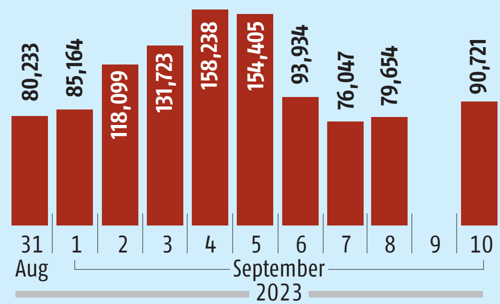
Naveen Singh, head of trading and executive vice-president at ICICI Securities Primary Dealership, said, "If the RBI wants to tighten liquidity further, given that inflation is not coming off, it could result in higher deposit rates. Given that bank lending activity continues at a higher pace, banks might need to attract more deposits to match that lending activity. So, this could lead to higher deposit rates," Singh added.

There is expected to be pressure on liquidity due to the outflow of resources for purposes such as tax payments. This could result in a modest rise in deposit rates of up to 25 bps in some buckets as banks prepare for immediate requirements as well as the upcoming festival season, said Soumyajit Niyogi, director, India Ratings & Research.

Krishnan Sitaraman, chief ratings officer at CRISIL Ratings, said the RBI's decision to withdraw I-CRR in phases aims to strike a fine balance on the liquidity front.

EXCESS LIQUIDITY ABSORPTION

(In ₹ cr)



Source: RBI

FACTORS WEIGHING ON LIQUIDITY

- Advance tax payment by September 15
- GST payment by month-end
- Quarter-end business (credit) targets for banks
- Festival season preparation
- Effect of HDFC twins' merger

Overnight index swap rates at 10-month high

Indian overnight index swap (OIS) rates rose to their highest levels in 10 months on Monday due to offshore paying and triggering of stop losses, dealers said. The one-year swap rate hit 7.10 per cent, the highest level since March 9, while the five-year swap rate rose to 6.85 per cent, a level last seen on November 9, 2022. Consequently, the yield on the benchmark 10-year government bond rose 4 basis points (bps) to settle at 7.25 per cent, against 7.21 per cent on Friday.

"There was not much trigger in the market, except paying (fixed rates) in OIS rate markets," a dealer at a state-owned bank said. "There wasn't any receiving (fixed rates) interest on the domestic front. Mutual funds had been receiving till Thursday, but that too faded." One-year swap rate has jumped 13 bps so far in September, whereas the five-year swap rate are up 19 bps. **ANJALI KUMARI**