

## RBI rate cut: Loan, deposit rates set to fall

**Margin worries might prompt lenders to first lower the latter but all agree both cuts likely soon**

**BS Reporters | Kolkata/Mumbai January 16, 2015** Last Updated at 00:50 IST



Your wait for lower equated monthly instalments, or EMIs, is finally over. Banks are willing to pare their lending rates in the next few days, following the Reserve Bank of India (RBI)'s decision to cut its repo rate (at which it lends to them) by 25 basis points (bps) on Thursday. At the same time, depositors will earn lower interest as banks are expected to reduce deposit rates to protect their margins.

United Bank of India (UBI) has already announced a reduction in its base rate by 25 bps, and many others are set to mirror the move. "It was certainly a surprise as bankers were expecting RBI to cut the repo rate only in February. We have reduced our base rate to 10 per cent, effective from February 1," P Srinivas, managing director and chief executive officer of UBI, told Business Standard.

Most bankers had a similar view.

State Bank of India (SBI) chairman Arundhati Bhattacharya felt RBI's action would probably begin the much-awaited rate cut cycle. "With global crude oil and commodity prices expected to be benign and inflationary expectations moderating to single digit, the current disinflationary impetus is likely to be firmly entrenched and unwinding. We thus believe this cut (by RBI) may be the beginning of a rate easing cycle," she said. ([GOOD TIMES AHEAD?](#))

However, the bank did not disclose when it would cut its base rate. The country's largest lender had reduced deposit rates by up to 50 bps between October and December 2014.

A few banks remain cautious, as an immediate lending rate cut will stress their margin in the current environment of muted credit demand. According to RBI, credit growth slowed to a three-month low of 10.5 per cent as on December 26, 2014.

Jairam Sridharan, president and head of retail lending at Axis Bank, said while banks will lower lending rates, it might not happen immediately. "We need to evaluate the immediate impact on our policies. While the incremental funds will come in at lower rates, banks will need to assess how much of their current funds are borrowed at higher rates and how soon they can extinguish that," he said.

According to Rajesh Cheruvu, chief investment officer at RBS Private Banking in India, many lenders recently

reduced deposit rates and might not be lower these further immediately. “But the RBI move shows the policy rate trajectory. With inflation and food prices coming down, momentum was building up for a rate cut,” he added.

Rising non-performing assets in the past few years have also impacted banks’ interest income as returns from earning assets contracted.

“Lending rates will come down but may happen with a lag effect. Banks will first start reducing deposit rates sharply. There had been some rationalisation that had happened in different maturities in deposit rates in the last quarter but banks were still holding it up to provide for inflation-adjusted returns. The rate cut signals that inflation has been tamed and, therefore, deposit rates will come down first. This will be followed by the lending rate cut,” said M S Raghavan, chairman and managing director, IDBI Bank.

However, most lenders say rate cut is now a matter of time.

“Bankers have been waiting to see how the cost of funds behaves before they cut their lending rates. Most banks will start taking a view on their lending and deposit rates in the next couple of weeks,” said Arun Kaul, chairman and managing director of UCO Bank.

According to YES Bank, it will lower its minimum lending rate by the end of this month. “Base rate cuts will now start sooner than later. I expect most major banks to cut rates within this month itself. The base rate cut by lenders will at least be to the tune of 25 bps. Even we are positively inclined to reduce our base rate by up to 25 bps and it should definitely happen in January itself,” said Rana Kapoor, managing director and chief executive officer of YES Bank.

Canara Bank executive director P S Rawat said the lender’s asset-liability committee will meet “in a day or two” to take a call on rate revision. According to T M Bhasin, chairman and managing director of Indian Bank, while lenders have reduced interest rates selectively on loan products for the festive season, RBI’s move will set the tone for lowering of banks’ base rate.