

How transmission has fared?

Table 1: Interest rates of PSBs and PVBs

Interest rates of Banks (%)	Apr-22			Nov-23			Change in bps		
	PSBs	PVBs	SCBs	PSBs	PVBs	SCBs	PSBs	PVBs	SCBs
WALR-O/s loans	8.20	9.62	8.72	9.25	10.51	9.78	105	89	106
WALR-Fresh loans	6.77	8.53	7.51	8.60	10.07	9.34	183	154	183
Term Deposits-O/S	5.11	5.13	5.03	6.85	6.76	6.79	174	163	176
Term Deposits-Fresh	4.32	4.39	4.03	6.72	6.34	6.34	240	195	231
MCLR-1Yr*	7.25	8.33	7.25	8.75	9.60	8.75	150	127	150
Share of EBLR**	33.30	61.84	44.04	37.40	78.40	53.30			

Source: RBI, Bank of Baroda Research, All figures are including merger, * the current data for 1 year MCLR is of Dec'23,** the current share of EBLR as of Sep-23 and the Apr-22 share is as of Mar-22, as per availability of data.

- A closer look at the table reveals how transmission of interest rates across different spectrum have fared. The change is taken from Apr-22 just before RBI embarked on the journey of rate hikes, to control inflation.
- The transmission of interest rates was better for PSBs relative to PVBs.
 - In case of PSBs the transmission on fresh term deposits was almost complete with an increase of 240 bps. On the lending side, WALR rose by 183 bps.
- For PVBs the increase on fresh deposits was lower 195 bps and that on loans was 154 bps.
- The increase in MCLR on 1 year loans was again higher for PSBs relative to PVBs with the difference being 23 bps for this period.
- PVBs had a higher share of loans under EBLR at 78% compared with PSBs with 37%. Yet the transmission of rate increase was swifter for PSBs.
- In the same period the accretion to deposits have been Rs 31.7 lakh crore (outstanding deposits as of Apr'22: Rs 166.2 lakh crore, outstanding deposits as of 15 Nov 2023: Rs 197.9 lakh crore). For credit, there has been accretion of Rs 38 lakh crore during the same period (outstanding credit as of Apr'22: Rs 119.6 lakh crore, outstanding credit as of 15 Nov 2023: Rs 158.1 lakh crore). (All figures are including the impact of merger)

Table 2: Movement of rates across other spectrum

Other interest rates	Apr-22	Dec-23
10Y Gsec	7.14	7.17
Spread between WALR and repo (WALR-Repo), bps	-55	25
91-days TBill	4.04	7.00
182-days TBill	4.39	7.08
364-days T bill	4.76	7.09
Corporate Spreads, in bps, AA+ 10Year	44	76
OIS-1Month	3.89	6.79

Source: RBI, Bank of Baroda Research, Data as of end point

- Looking at the movement of other interest rates, it is clear that the transmission has been pretty fast on short term rates (TBill rates). This is also contingent on the evolving liquidity conditions. The entire movement of repo was priced in to OIS to some extent. 10Year

sovereign yield on the other hand, remained broadly stable, reflecting robust demand conditions on the back of resilience of Indian economy.

- Tighter liquidity conditions in the wake of restrictive policy has resulted in WALR going above repo in the current cycle.

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