

A Rational Savings Bank Deposit Interest Rate in India

Ashish Das

Department of Mathematics
Indian Institute of Technology Bombay
Mumbai-400076, India



Indian Institute of Technology Bombay
Powai, Mumbai-400 076, India



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Department of Mathematics, Indian Institute of Technology Bombay, Mumbai 400076

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Abstract

Reserve Bank of India (RBI) through one of its discussion papers proposed to deregulate savings bank (SB) deposit interest rate to remove the skewed benefits that the bankers may be enjoying at the expense of the depositors. The SB interest rate is one of the few RBI administered interest rates in India. While trying to ensure that the SB deposit rate is not inappropriately anchored, we initiate our discussion under the premise that banks are for-profit companies and have the privilege of a banking licence for a social (in addition to a commercial) cause.

The country's banking sector have about ₹ 13 lakh crore parked under SB deposits and about ₹ 4.5 lakh crore is held under current account deposits. The 1-year term deposit rates, on an average, hover at the repo rate. Thus considering an average repo rate of 7% and the prevailing *time components* of SB and current account deposits, the present system deprived the current account and savings account (CASA) depositors to the tune of ₹ 52,000 crore in a year in terms of interest payoffs. The prime reason why depositors' money is not receiving more interest is the RBI's choice to give this ₹ 52,000 crore to the banking sector to retain their profitability and to cross subsidise their expenditures. Since banking sector has the freedom to pass any excess cost of funds to their base rate (the minimum lending interest rate) RBI attempts a balancing act while arriving at the SB deposit rate. RBI's move on deregulation of SB rates is an attempt to let individual banks decide how best they can let go some component of this ₹ 52,000 crore to the benefit of the SB depositors (based on their efficient use of cost effective technology to manage such SB deposit accounts).

Over time, with the advent of information and communications technology and with the core banking system in place, the banking system has evolved where the actual cost to manage 1-year term deposits vis-à-vis CASA deposits for one year, has a difference which is far less than ₹ 52,000 crore. Thus, given that the banking sector already has in place RBI mandated *reasonable service charges*, it appears unjustified to attribute an additional disproportionately high figure of ₹ 52,000 crore to manage the minimal free services of current and SB deposit accounts.

As an initial step towards deregulation, the option of no floor or ceiling could be considered gradually in order to protect the depositors. As on date there is no explicit method which RBI uses while fixing the SB rate. Therefore, under a deregulated scenario, we look into how the RBI or the banks could think of linking the SB deposit rate to the key policy rate. In the process of interest rate discovery, we suggest an approach to provide a basis for identifying the minimal SB deposit interest rate under a deregulated scenario. The floor rate arrived at by the proposed approach compares well to the historical SB rates fixed by RBI. Furthermore, the proposed approach is such that the SB floor rate will undergo a revision only after the repo rate undergoes a substantial change of 100 or 200 basis points.

⁺ Dr. Ashish Das is a Professor of Statistics with the Indian Institute of Technology Bombay. E-mail: ashish@math.iitb.ac.in



1. Introduction

1. For long, the regulated savings bank (SB) deposit interest rate remained sticky even when the market conditions were favourable for an increase. This could be attributed, among other reasons, to commercial banks' perseverance in convincing the Reserve Bank of India (RBI) on its excessive cost in maintaining such accounts. However, with the advent of technology in servicing the account (like ATM, NEFT, Core Banking Solutions, Net-Banking, Inter-Bank Mobile Payment Service, etc.), the cost to serve a bank customer has drastically reduced. This fact never got discounted appropriately while arriving at the SB interest rate or even the bank's service charges.

2. The RBI has recently initiated a discussion on the deregulation of interest rates on SB deposits. The SB interest rate, being decided by RBI, is one of the few administered interest rates in India. While trying to ensure that the SB deposit rate is not inappropriately anchored, we initiate our discussion under the premise that banks are for-profit companies and have the privilege of a banking licence for a social (in addition to a commercial) cause.

3. The SB interest rate was decreased in March 2003, from 4% to 3.5%, when inflation was around 3%. In April 2010, after RBI changed the method of calculating interest on SB accounts, the depositors saw an increase in their returns on savings. However, the inflation has been very high and sticky in recent period. The SB deposits are the major source of savings (investment) for many depositors, including pensioners, small savers and senior citizens. A sizeable portion of such deposits are held by households in semi-urban and rural areas. Not having the scope and ability to be good money managers, such persons are getting high negative returns on their hard earned monies.

4. Based on past WPI inflation data, we see that every time the real rate of interest on SB deposits turned positive, the regulator reduced the SB rate¹, never to take corrective action (in terms of increasing the SB rate) even on subsequent high negative real rates. Chart-1 provides this picture in very clear terms. From 2003 to 2009 the real rates on SB accounts remained at historically low levels and persisted there for six years. Barring the transitory reversal in end 2009, this high negative real rate continues to pinch the small savers till date. One can clearly see that as early as April 2005 and later in April 2007, there had been sufficient grounds to increase the SB rate from 3.5% by 50 to 100 basis points. This rate was artificially kept low to facilitate the banks in keeping their cost of deposits low (with small depositors having no voice and no bargaining power).

¹ The short period around end-2009 should be seen as an exception. During this period though the inflation was low due to base effects, the inflationary expectations were high and assessing that RBI had initiated its exit from its crisis driven expansionary stance.

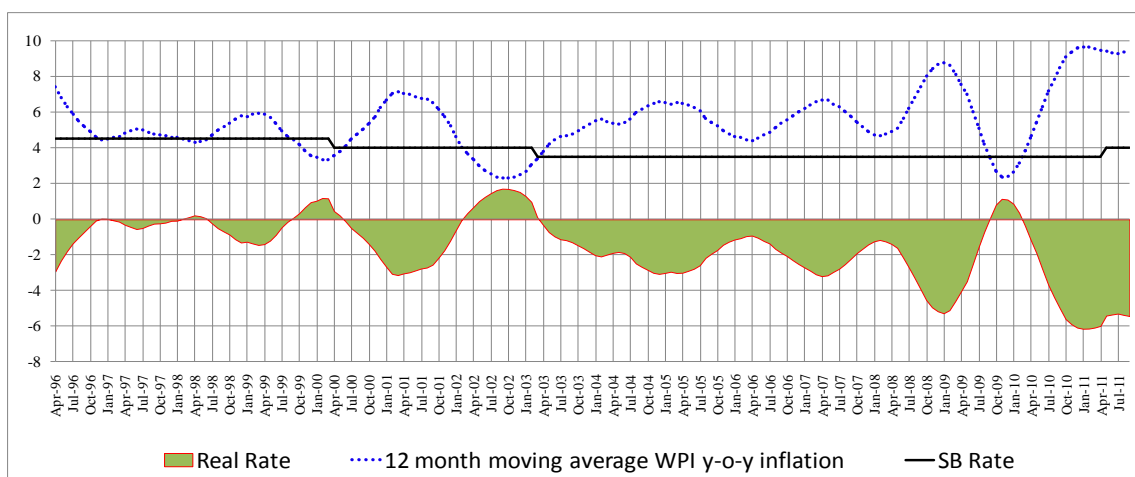


Chart-1

5. Theoretically, a monetary tool to check inflation is to curb demand through increase in interest rates. When interest rates increase, it has a two pronged impact- (i) it becomes expensive to take a loan to purchase any product and (ii) it becomes more attractive to save and earn high returns on deposits. The consequence is people tend to defer their purchase plans leading to decreased demand. Such a chain of events ultimately forces sellers to reduce their price.

6. Repo rate represents the rate at which RBI lends to the banks, i.e. it injects liquidity into the system. RBI uses this repo rate as an instrument to set trends in the lending and deposit rates. The other policy rate, the reverse repo rate has since been linked to repo rate and pegged at 100 basis points below the repo rate.

7. The banks can lift money from RBI through liquidity adjustment facility (LAF) window at repo rate against excess government securities held by them. Currently the prescribed statutory liquidity ratio (SLR) is 24% of net demand and time liabilities (NDTL) and the excess securities held by banks are unevenly distributed, though at system level the banks could hold about 3-4% excess SLR securities. Thus, the impact of change in repo rate varies from bank to bank depending on bank's holdings of government securities.

8. On a similar footing, the savings deposits held by banks are also unevenly distributed. Thus the impact of change in SB deposit interest rate varies from bank to bank.

9. This raises several questions: (a) How long should RBI maintain *status quo* and focus only towards banks' interests and deprive depositors by not offering meaningful net returns? (b) Is it an opportune time to completely deregulate the SB interest rate? (c) Is it time to partially regulate through prescription of only a floor on the SB interest rate (thereby protecting bulk of household savers, including those in rural and semi-urban



areas)? (d) How to arrive at a method linking the SB deposit rate to any of the key policy rates (repo or reverse repo) and/or CRR?

10. In Section 3, we attempt to address the last of the above listed issues.

2. Impact of Interest Rates on Depositors

11. There are five different options on how to fix the SB rate. Each of them may have some pros and cons. We set out those options as follows:

- (A) No floor or ceiling (as an initial step towards deregulation, this option could be considered gradually in order to protect the small depositors)
- (B) Fix only ceiling (option ruled out due to imbalance and lack of protection for small depositors)
- (C) Fix only floor
- (D) Fix different floor and ceiling
- (E) Fix same floor and ceiling

12. As a first step, considering the last three options as most relevant, it becomes imperative to understand how one should fix the SB floor rate and the SB ceiling rate. In this note we primarily concentrate on a suitable approach for arriving at a floor rate which is simple and is linked to RBI's key policy rates (repo or reverse repo) and/or CRR.

13. The current set-up has, broadly speaking, the following features:

Savings Bank Deposits -- the interest rate fixed at 4%, but return not fixed. The latter effectively becomes a variable and the net return to the depositors is affected by

- 1) Interest application frequency (every 3 months or more);
- 2) Minimum average quarterly balance to be maintained for quarterly fee exemption;
- 3) Service charges on basic transactions carried out in the SB deposit account;
- 4) For small deposits, there are no standards to park funds under *Term Deposit* -- Requirement of a minimum amount (varies from bank to bank) to be able to open a term deposit.

Zero Balance No-frills Savings Account -- once again, interest rate is fixed at 4%, but return is not fixed. The latter effectively becomes a variables and the net return to the depositors is affected by

- 1) Interest application frequency (every 3 months or more);
- 2) Service charges on basic transactions carried out in the SB deposit account.



14. Given the freedom to bankers in the current setup, RBI facilitates a *'not quite transparent'* deregulated SB deposit interest policy in terms of net return on funds parked under such accounts.

15. In the process of SB deposit interest rate deregulation, RBI could meaningfully discover the floor rate to protect the interest of the banks and the small depositors. A prudent decision on the prescription of a ceiling rate and the quantum should be taken by the banks and RBI. However, it is suggested to keep the ceiling rate *at least* 100 basis points above the floor rate.

16. There would be a need to change the floor rate from time to time depending upon RBI's assessment of prevailing macroeconomic and inflation scenario. In order to arrive at the floor rate, one needs to come up with a method which is meaningfully framed and protects the interests of the banks and the small depositors.

Biased Interest Trade-off

17. The country's banking sector have about ₹ 13 lakh crore parked under SB deposits and about ₹ 4.5 lakh crore is held under current account deposits (past 12 month average). The 1-year term deposit rates, on an average, hover at the repo rate (the rate at which RBI lends to the banks). Thus considering an average repo rate of 7%, the ₹ 13 lakh crore parked under SB deposits had a potential to fetch interest to the depositors to the tune of ₹ 84,000 crore in a year. This is so since as per RBI, on an average, 92% of the total amount of SB deposits held by banks always remains with the bank throughout the year². However, at 3.7% average SB interest rate, what is received by the depositors is only ₹ 48,000 crore in a year. The prime reason why depositors' money is not receiving more interest is the RBI's choice to give the balance ₹ 36,000 crore to the banking sector to retain their profitability and to cross subsidise their expenditures. Since banking sector has the freedom to pass any excess cost of funds to their base rate (the minimum lending interest rate decided by banks) RBI attempts a balancing act while arriving at the SB deposit rate. RBI's move on deregulation of SB rates is an attempt to let individual banks decide how best they can let go some component of this ₹ 36,000 crore to the benefit of the SB depositors (based on their efficient use of cost effective technology to manage such SB deposit accounts).

18. Again, though currently RBI does not recognize, a very conservative time component estimate of the current account deposits is 50% of the amount of current account deposits held by banks in a year³. This guides us to the fact that about ₹ 2.25 lakh crore held in the current accounts had a potential to fetch interest for the depositors to the tune of ₹ 16,000 crore (at repo rate of 7%). However, the system currently

² Also called the time component of the SB deposits and is defined as the average of the minimum balances maintained in each month during the half year period.

³ One may refer to "Debits to Deposit and Credit Accounts with Scheduled Commercial Banks: 2004-05", Reserve Bank of India Bulletin, November 2006.



provides nothing to the time component of the current account depositors' money which under prevailing interest rate scenario is worth ₹ 16,000 crore per annum.

19. Over time, with the advent of information and communications technology and with the core banking system in place, the banking system has evolved where the actual cost to manage 1-year term deposits vis-à-vis current account and savings account (CASA) deposits for one year, has a difference which is far less than ₹ 52,000 crore. Thus, given that the banking sector already has in place RBI mandated *reasonable service charges* (not out of proportion of actual cost to provide the various services related to current and SB accounts), it appears unjustified to attribute an additional disproportionately high figure of ₹ 52,000 crore to manage the minimal free services of current and SB deposit accounts.

Interest Application Frequency

20. It is pertinent to highlight that though interest is computed on a per annum rate basis, it is finally credited into the SB account after every three months *if not more*. In other words, throughout RBI's regulated regime of SB interest rate, there had been lack of standards on interest application frequency leading to annual percentage yield for such accounts being different for different banks. There is no good reason for introducing such flexibility in interest computation standards which keeps much scope for non-transparency and inconvenience of artificially created comparison requirement.

21. During the period 2002-03, RBI changed the interest application frequency from quarterly to monthly with respect to (i) interests on eligible CRR balances held by RBI; (ii) interests on loans taken by banks at RBI's prescribed bank / repo rate; and (iii) interest on loans taken by public from the banks. By reducing the interest application frequency, the yield of the product increases. Thus banks gained while receiving interest (at monthly rests) on CRR balances (that has since been discontinued) and on the loans given by them. However, just because of the manner of compounding periodicity (presently quarterly or more) for calculating interest on savings bank deposits and term deposits, the depositors' yield on their deposits is relatively less. Thus interest application frequency is an area where the depositors are presently getting a raw deal.

3. An approach to Minimal Savings Bank Interest Rate Discovery

22. As on date there is no explicit method which RBI uses while fixing the SB rate. Therefore, under a deregulated scenario, in our proposed new dispensation, the RBI or the banks could think of linking the SB deposit rate to any of the key policy rates (repo or reverse repo) and/or CRR. Subsequently, the linkage to policy rate will be the guiding rate for SB deposit rate as it is in case for base rate and term deposit rates of the banks.



23. It is observed that for the past 10 years, the repo rate played a significant role in directing the lending and deposit rates in the country. To some extent in times of excess and scarce liquidity, the change in CRR (as an instrument to check liquidity) has affected deposit and lending rates.

24. We suggest the following approach to provide a basis for fixing the SB deposit interest rate.

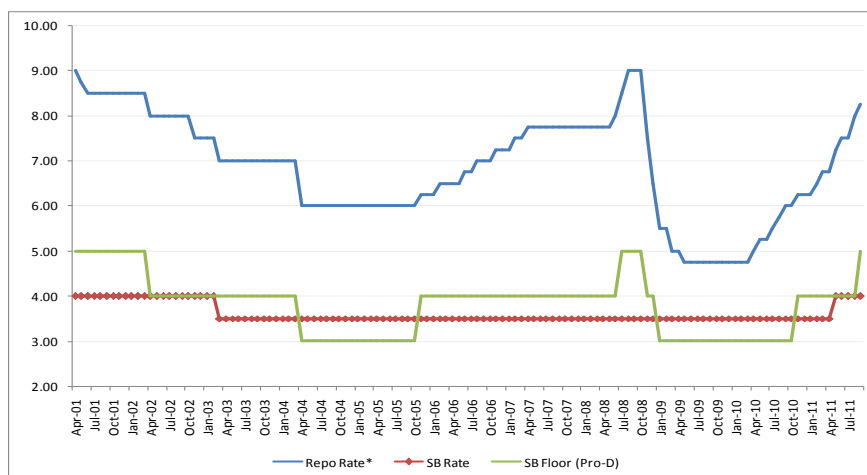
A Pro-Depositor (Pro-D) method for arriving at the SB floor rate

25. **The floor rate should be pegged at half the repo rate rounded to upper complete percentage.** With this method the SB rate will undergo a revision only after the repo rate undergoes a substantial change of 200 basis points. Once the interest application frequency is monthly, interest rate can be changed on 1st of a month.

26. As an illustration, the above method leads to the following scenario for the floor rate of SB deposit account.

<u>Repo rate (%)</u>	<u>Floor of savings bank rate (%)</u>
...	
4 or less but more than 2	2
6 or less but more than 4	3
8 or less but more than 6	4
10 or less but more than 8	5
...	

27. The effect of the above method for calculating the floor rate can be retrospectively seen in Chart-2 below.



* Repo Rate represents the rate at which RBI lends to the banks

Chart-2



28. It can be seen that historically the SB rate fixed by the RBI has been close to the floor rate arrived at by the proposed method. A more detailed insight on the retrospective effect of the above method for calculating the floor rate can be seen in Table-1 of Appendix. The data in the table indicates that on an average the difference in the proposed floor rate (Pro-D) and SB rate is less than 20 basis points. Furthermore, based on this 10 years data, the proposed method, on an average, achieves the floor SB rate to be below the repo rate by more than 305 basis points.

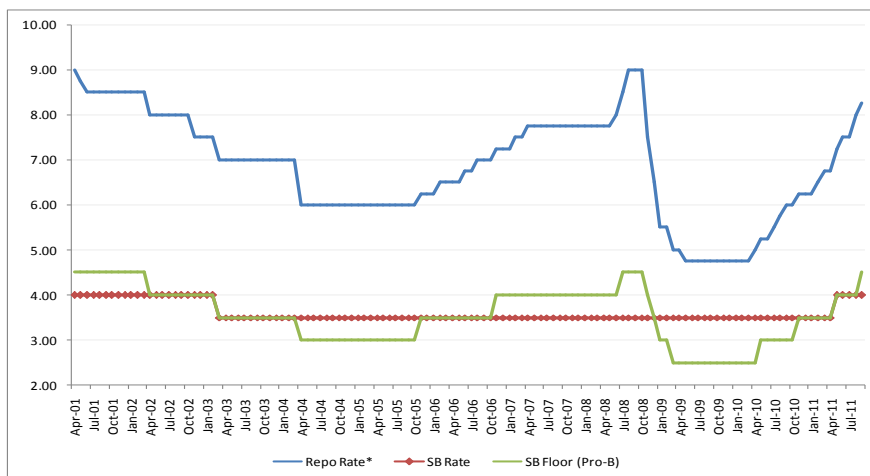
A Pro-Banker (Pro-B) method for arriving at the SB floor rate

29. **The floor rate should be pegged at half the repo rate rounded to upper complete 50 basis points.** With this method the SB rate will undergo a revision only after the repo rate undergoes a change of 100 basis points. Once the interest application frequency is monthly, interest rate can be changed on 1st of a month.

30. As an illustration, the above method leads to the following scenario for the floor rate of SB deposit account.

<u>Repo rate (%)</u>	<u>Floor of savings bank rate (%)</u>
...	
4 or less but more than 3	2
5 or less but more than 4	2.5
6 or less but more than 5	3
7 or less but more than 6	3.5
8 or less but more than 7	4
9 or less but more than 8	4.5
...	

31. The effect of the above method for calculating the floor rate can be retrospectively seen in Chart-3 below.



* Repo Rate represents the rate at which RBI lends to the banks

Chart-3



32. It can be seen that historically the SB rate fixed by the RBI has been close to the floor rate arrived at by the proposed method. A more detailed insight on the retrospective effect of the above method for calculating the floor rate is presented in Table-2 of Appendix.

33. It follows that on an average the difference in the proposed floor rate (Pro-B) and SB rate is negative 5 basis points. Furthermore, based on more than 10 years data, the proposed method, on an average, achieves the floor SB rate to be below the repo rate by more than 330 basis points.

34. We looked into the CRR vis-à-vis repo rate and observed that CRR has been below the repo rate at most times. Furthermore, unlike the repo rate, CRR had been changed less frequently and changed for liquidity management concerns. It has remained less affected due to change in inflation values. Thus CRR was not found to be an appropriate measure to link to SB rate.

4. Conclusions

35. The country's banking sector have about ₹ 13 lakh crore parked under SB deposits and about ₹ 4.5 lakh crore is held under current account deposits. The 1-year term deposit rates, on an average, hover at the repo rate. Thus considering an average repo rate of 7% and the prevailing *time components* of SB and current account deposits, the present system deprived the CASA depositors to the tune of ₹ 52,000 crore in a year in terms of interest payoffs. The prime reason why depositors' money is not receiving more interest is the RBI's choice to give this ₹ 52,000 crore to the banking sector to retain their profitability and to cross subsidise their expenditures. Since banking sector has the freedom to pass any excess cost of funds to their base rate (the minimum lending interest rate decided by banks) RBI attempts a balancing act while arriving at the SB deposit rate. RBI's move on deregulation of SB rates is an attempt to let individual banks decide how best they can let go some component of this ₹ 52,000 crore to the benefit of the SB depositors (based on their efficient use of cost effective technology to manage such SB deposit accounts).

36. Over time, with the advent of information and communications technology and with the core banking system in place, the banking system has evolved where the actual cost to manage 1-year term deposits vis-à-vis CASA deposits for one year, has a difference which is far less than ₹ 52,000 crore. Thus, given that the banking sector already has in place RBI mandated *reasonable service charges*, it appears unjustified to attribute an additional disproportionately high figure of ₹ 52,000 crore to manage the minimal free services of current and SB deposit accounts.



37. In the process of SB deposit interest rate deregulation, RBI could meaningfully discover the floor rate to protect the interest of the banks and the small depositors. A prudent decision on the prescription of a ceiling rate and the quantum should be taken by the banks and RBI. However, it is suggested to keep the ceiling rate *at least* 100 basis points above the floor rate with banks given the freedom to appropriately associate interest rate based on different fund bands.

38. The challenge lies in introducing the floor rate in such a manner that it protects small depositors from low returns and yet give them an opportunity to get market based higher returns driven essentially by healthy competition. As on date there is no explicit method which RBI uses while fixing the SB rate. Therefore, under a deregulated scenario, in our proposed new dispensation, the RBI or the banks could think of linking the SB deposit rate to the key policy rate. Subsequently, the linkage to policy rate will be the guiding rate for SB deposit rate as it is in case for base rate and term deposit rates of the banks.

39. We suggest an approach to provide a basis for fixing the SB deposit interest rate. It is observed that historically the SB rate fixed by the RBI has been close to the floor rate arrived at by the proposed approach. Furthermore, the proposed approach is such that the SB floor rate will undergo a revision only after the repo rate undergoes a substantial change of 100 or 200 basis points.

40. Finally, in order to make overall measure on net return for SB deposit accounts simple and thereby transparent, as a first measure RBI could **make interest application frequency monthly**.

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Appendix

Table-1

Date (1)	Repo Rate* (2)	SB Rate (3)	SB Floor (Pro-D) (4)	Difference (5)=(4)-(3)	Margin (6)=(2)-(4)	Date (1)	Repo Rate* (2)	SB Rate (3)	SB Floor (Pro-D) (4)	Difference (5)=(4)-(3)	Margin (6)=(2)-(4)
Apr-01	9.00	4.0	5.0	1.0	4.00	Jul-06	6.75	3.5	4.0	0.5	2.75
May-01	8.75	4.0	5.0	1.0	3.75	Aug-06	7.00	3.5	4.0	0.5	3.00
Jun-01	8.50	4.0	5.0	1.0	3.50	Sep-06	7.00	3.5	4.0	0.5	3.00
Jul-01	8.50	4.0	5.0	1.0	3.50	Oct-06	7.00	3.5	4.0	0.5	3.00
Aug-01	8.50	4.0	5.0	1.0	3.50	Nov-06	7.25	3.5	4.0	0.5	3.25
Sep-01	8.50	4.0	5.0	1.0	3.50	Dec-06	7.25	3.5	4.0	0.5	3.25
Oct-01	8.50	4.0	5.0	1.0	3.50	Jan-07	7.25	3.5	4.0	0.5	3.25
Nov-01	8.50	4.0	5.0	1.0	3.50	Feb-07	7.50	3.5	4.0	0.5	3.50
Dec-01	8.50	4.0	5.0	1.0	3.50	Mar-07	7.50	3.5	4.0	0.5	3.50
Jan-02	8.50	4.0	5.0	1.0	3.50	Apr-07	7.75	3.5	4.0	0.5	3.75
Feb-02	8.50	4.0	5.0	1.0	3.50	May-07	7.75	3.5	4.0	0.5	3.75
Mar-02	8.50	4.0	5.0	1.0	3.50	Jun-07	7.75	3.5	4.0	0.5	3.75
Apr-02	8.00	4.0	4.0	0.0	4.00	Jul-07	7.75	3.5	4.0	0.5	3.75
May-02	8.00	4.0	4.0	0.0	4.00	Aug-07	7.75	3.5	4.0	0.5	3.75
Jun-02	8.00	4.0	4.0	0.0	4.00	Sep-07	7.75	3.5	4.0	0.5	3.75
Jul-02	8.00	4.0	4.0	0.0	4.00	Oct-07	7.75	3.5	4.0	0.5	3.75
Aug-02	8.00	4.0	4.0	0.0	4.00	Nov-07	7.75	3.5	4.0	0.5	3.75
Sep-02	8.00	4.0	4.0	0.0	4.00	Dec-07	7.75	3.5	4.0	0.5	3.75
Oct-02	8.00	4.0	4.0	0.0	4.00	Jan-08	7.75	3.5	4.0	0.5	3.75
Nov-02	7.50	4.0	4.0	0.0	3.50	Feb-08	7.75	3.5	4.0	0.5	3.75
Dec-02	7.50	4.0	4.0	0.0	3.50	Mar-08	7.75	3.5	4.0	0.5	3.75
Jan-03	7.50	4.0	4.0	0.0	3.50	Apr-08	7.75	3.5	4.0	0.5	3.75
Feb-03	7.50	4.0	4.0	0.0	3.50	May-08	7.75	3.5	4.0	0.5	3.75
Mar-03	7.00	3.5	4.0	0.5	3.00	Jun-08	8.00	3.5	4.0	0.5	4.00
Apr-03	7.00	3.5	4.0	0.5	3.00	Jul-08	8.50	3.5	5.0	1.5	3.50
May-03	7.00	3.5	4.0	0.5	3.00	Aug-08	9.00	3.5	5.0	1.5	4.00
Jun-03	7.00	3.5	4.0	0.5	3.00	Sep-08	9.00	3.5	5.0	1.5	4.00
Jul-03	7.00	3.5	4.0	0.5	3.00	Oct-08	9.00	3.5	5.0	1.5	4.00
Aug-03	7.00	3.5	4.0	0.5	3.00	Nov-08	7.50	3.5	4.0	0.5	3.50
Sep-03	7.00	3.5	4.0	0.5	3.00	Dec-08	6.50	3.5	4.0	0.5	2.50
Oct-03	7.00	3.5	4.0	0.5	3.00	Jan-09	5.50	3.5	3.0	-0.5	2.50
Nov-03	7.00	3.5	4.0	0.5	3.00	Feb-09	5.50	3.5	3.0	-0.5	2.50
Dec-03	7.00	3.5	4.0	0.5	3.00	Mar-09	5.00	3.5	3.0	-0.5	2.00
Jan-04	7.00	3.5	4.0	0.5	3.00	Apr-09	5.00	3.5	3.0	-0.5	2.00
Feb-04	7.00	3.5	4.0	0.5	3.00	May-09	4.75	3.5	3.0	-0.5	1.75
Mar-04	7.00	3.5	4.0	0.5	3.00	Jun-09	4.75	3.5	3.0	-0.5	1.75
Apr-04	6.00	3.5	3.0	-0.5	3.00	Jul-09	4.75	3.5	3.0	-0.5	1.75
May-04	6.00	3.5	3.0	-0.5	3.00	Aug-09	4.75	3.5	3.0	-0.5	1.75
Jun-04	6.00	3.5	3.0	-0.5	3.00	Sep-09	4.75	3.5	3.0	-0.5	1.75
Jul-04	6.00	3.5	3.0	-0.5	3.00	Oct-09	4.75	3.5	3.0	-0.5	1.75
Aug-04	6.00	3.5	3.0	-0.5	3.00	Nov-09	4.75	3.5	3.0	-0.5	1.75
Sep-04	6.00	3.5	3.0	-0.5	3.00	Dec-09	4.75	3.5	3.0	-0.5	1.75
Oct-04	6.00	3.5	3.0	-0.5	3.00	Jan-10	4.75	3.5	3.0	-0.5	1.75
Nov-04	6.00	3.5	3.0	-0.5	3.00	Feb-10	4.75	3.5	3.0	-0.5	1.75
Dec-04	6.00	3.5	3.0	-0.5	3.00	Mar-10	4.75	3.5	3.0	-0.5	1.75
Jan-05	6.00	3.5	3.0	-0.5	3.00	Apr-10	5.00	3.5	3.0	-0.5	2.00
Feb-05	6.00	3.5	3.0	-0.5	3.00	May-10	5.25	3.5	3.0	-0.5	2.25
Mar-05	6.00	3.5	3.0	-0.5	3.00	Jun-10	5.25	3.5	3.0	-0.5	2.25
Apr-05	6.00	3.5	3.0	-0.5	3.00	Jul-10	5.50	3.5	3.0	-0.5	2.50
May-05	6.00	3.5	3.0	-0.5	3.00	Aug-10	5.75	3.5	3.0	-0.5	2.75
Jun-05	6.00	3.5	3.0	-0.5	3.00	Sep-10	6.00	3.5	3.0	-0.5	3.00
Jul-05	6.00	3.5	3.0	-0.5	3.00	Oct-10	6.00	3.5	3.0	-0.5	3.00
Aug-05	6.00	3.5	3.0	-0.5	3.00	Nov-10	6.25	3.5	4.0	0.5	2.25
Sep-05	6.00	3.5	3.0	-0.5	3.00	Dec-10	6.25	3.5	4.0	0.5	2.25
Oct-05	6.00	3.5	3.0	-0.5	3.00	Jan-11	6.25	3.5	4.0	0.5	2.25
Nov-05	6.25	3.5	4.0	0.5	2.25	Feb-11	6.50	3.5	4.0	0.5	2.50
Dec-05	6.25	3.5	4.0	0.5	2.25	Mar-11	6.75	3.5	4.0	0.5	2.75
Jan-06	6.25	3.5	4.0	0.5	2.25	Apr-11	6.75	3.5	4.0	0.5	2.75
Feb-06	6.50	3.5	4.0	0.5	2.50	May-11	7.25	4.0	4.0	0.0	3.25
Mar-06	6.50	3.5	4.0	0.5	2.50	Jun-11	7.50	4.0	4.0	0.0	3.50
Apr-06	6.50	3.5	4.0	0.5	2.50	Jul-11	7.50	4.0	4.0	0.0	3.50
May-06	6.50	3.5	4.0	0.5	2.50	Aug-11	8.00	4.0	4.0	0.0	4.00
Jun-06	6.75	3.5	4.0	0.5	2.75	Sep-11	8.25	4.0	5.0	1.0	3.25
Average	6.87	3.61	3.81	0.20	3.06						

* Repo Rate represents the rate at which RBI lends to the banks



A Rational Savings Bank Deposit Interest Rate in India

Table-2

Date	Repo Rate*	SB Rate	SB Floor (Pro-B)	Difference	Margin	Date	Repo Rate*	SB Rate	SB Floor (Pro-B)	Difference	Margin
(1)	(2)	(3)	(4)	(5)=(4)-(3)	(6)=(2)-(4)	(1)	(2)	(3)	(4)	(5)=(4)-(3)	(6)=(2)-(4)
Apr-01	9.00	4.0	4.5	0.5	4.50	Jul-06	6.75	3.5	3.5	0.0	3.25
May-01	8.75	4.0	4.5	0.5	4.25	Aug-06	7.00	3.5	3.5	0.0	3.50
Jun-01	8.50	4.0	4.5	0.5	4.00	Sep-06	7.00	3.5	3.5	0.0	3.50
Jul-01	8.50	4.0	4.5	0.5	4.00	Oct-06	7.00	3.5	3.5	0.0	3.50
Aug-01	8.50	4.0	4.5	0.5	4.00	Nov-06	7.25	3.5	4.0	0.5	3.25
Sep-01	8.50	4.0	4.5	0.5	4.00	Dec-06	7.25	3.5	4.0	0.5	3.25
Oct-01	8.50	4.0	4.5	0.5	4.00	Jan-07	7.25	3.5	4.0	0.5	3.25
Nov-01	8.50	4.0	4.5	0.5	4.00	Feb-07	7.50	3.5	4.0	0.5	3.50
Dec-01	8.50	4.0	4.5	0.5	4.00	Mar-07	7.50	3.5	4.0	0.5	3.50
Jan-02	8.50	4.0	4.5	0.5	4.00	Apr-07	7.75	3.5	4.0	0.5	3.75
Feb-02	8.50	4.0	4.5	0.5	4.00	May-07	7.75	3.5	4.0	0.5	3.75
Mar-02	8.50	4.0	4.5	0.5	4.00	Jun-07	7.75	3.5	4.0	0.5	3.75
Apr-02	8.00	4.0	4.0	0.0	4.00	Jul-07	7.75	3.5	4.0	0.5	3.75
May-02	8.00	4.0	4.0	0.0	4.00	Aug-07	7.75	3.5	4.0	0.5	3.75
Jun-02	8.00	4.0	4.0	0.0	4.00	Sep-07	7.75	3.5	4.0	0.5	3.75
Jul-02	8.00	4.0	4.0	0.0	4.00	Oct-07	7.75	3.5	4.0	0.5	3.75
Aug-02	8.00	4.0	4.0	0.0	4.00	Nov-07	7.75	3.5	4.0	0.5	3.75
Sep-02	8.00	4.0	4.0	0.0	4.00	Dec-07	7.75	3.5	4.0	0.5	3.75
Oct-02	8.00	4.0	4.0	0.0	4.00	Jan-08	7.75	3.5	4.0	0.5	3.75
Nov-02	7.50	4.0	4.0	0.0	3.50	Feb-08	7.75	3.5	4.0	0.5	3.75
Dec-02	7.50	4.0	4.0	0.0	3.50	Mar-08	7.75	3.5	4.0	0.5	3.75
Jan-03	7.50	4.0	4.0	0.0	3.50	Apr-08	7.75	3.5	4.0	0.5	3.75
Feb-03	7.50	4.0	4.0	0.0	3.50	May-08	7.75	3.5	4.0	0.5	3.75
Mar-03	7.00	3.5	3.5	0.0	3.50	Jun-08	8.00	3.5	4.0	0.5	4.00
Apr-03	7.00	3.5	3.5	0.0	3.50	Jul-08	8.50	3.5	4.5	1.0	4.00
May-03	7.00	3.5	3.5	0.0	3.50	Aug-08	9.00	3.5	4.5	1.0	4.50
Jun-03	7.00	3.5	3.5	0.0	3.50	Sep-08	9.00	3.5	4.5	1.0	4.50
Jul-03	7.00	3.5	3.5	0.0	3.50	Oct-08	9.00	3.5	4.5	1.0	4.50
Aug-03	7.00	3.5	3.5	0.0	3.50	Nov-08	7.50	3.5	4.0	0.5	3.50
Sep-03	7.00	3.5	3.5	0.0	3.50	Dec-08	6.50	3.5	3.5	0.0	3.00
Oct-03	7.00	3.5	3.5	0.0	3.50	Jan-09	5.50	3.5	3.0	-0.5	2.50
Nov-03	7.00	3.5	3.5	0.0	3.50	Feb-09	5.50	3.5	3.0	-0.5	2.50
Dec-03	7.00	3.5	3.5	0.0	3.50	Mar-09	5.00	3.5	2.5	-1.0	2.50
Jan-04	7.00	3.5	3.5	0.0	3.50	Apr-09	5.00	3.5	2.5	-1.0	2.50
Feb-04	7.00	3.5	3.5	0.0	3.50	May-09	4.75	3.5	2.5	-1.0	2.25
Mar-04	7.00	3.5	3.5	0.0	3.50	Jun-09	4.75	3.5	2.5	-1.0	2.25
Apr-04	6.00	3.5	3.0	-0.5	3.00	Jul-09	4.75	3.5	2.5	-1.0	2.25
May-04	6.00	3.5	3.0	-0.5	3.00	Aug-09	4.75	3.5	2.5	-1.0	2.25
Jun-04	6.00	3.5	3.0	-0.5	3.00	Sep-09	4.75	3.5	2.5	-1.0	2.25
Jul-04	6.00	3.5	3.0	-0.5	3.00	Oct-09	4.75	3.5	2.5	-1.0	2.25
Aug-04	6.00	3.5	3.0	-0.5	3.00	Nov-09	4.75	3.5	2.5	-1.0	2.25
Sep-04	6.00	3.5	3.0	-0.5	3.00	Dec-09	4.75	3.5	2.5	-1.0	2.25
Oct-04	6.00	3.5	3.0	-0.5	3.00	Jan-10	4.75	3.5	2.5	-1.0	2.25
Nov-04	6.00	3.5	3.0	-0.5	3.00	Feb-10	4.75	3.5	2.5	-1.0	2.25
Dec-04	6.00	3.5	3.0	-0.5	3.00	Mar-10	4.75	3.5	2.5	-1.0	2.25
Jan-05	6.00	3.5	3.0	-0.5	3.00	Apr-10	5.00	3.5	2.5	-1.0	2.50
Feb-05	6.00	3.5	3.0	-0.5	3.00	May-10	5.25	3.5	3.0	-0.5	2.25
Mar-05	6.00	3.5	3.0	-0.5	3.00	Jun-10	5.25	3.5	3.0	-0.5	2.25
Apr-05	6.00	3.5	3.0	-0.5	3.00	Jul-10	5.50	3.5	3.0	-0.5	2.50
May-05	6.00	3.5	3.0	-0.5	3.00	Aug-10	5.75	3.5	3.0	-0.5	2.75
Jun-05	6.00	3.5	3.0	-0.5	3.00	Sep-10	6.00	3.5	3.0	-0.5	3.00
Jul-05	6.00	3.5	3.0	-0.5	3.00	Oct-10	6.00	3.5	3.0	-0.5	3.00
Aug-05	6.00	3.5	3.0	-0.5	3.00	Nov-10	6.25	3.5	3.5	0.0	2.75
Sep-05	6.00	3.5	3.0	-0.5	3.00	Dec-10	6.25	3.5	3.5	0.0	2.75
Oct-05	6.00	3.5	3.0	-0.5	3.00	Jan-11	6.25	3.5	3.5	0.0	2.75
Nov-05	6.25	3.5	3.5	0.0	2.75	Feb-11	6.50	3.5	3.5	0.0	3.00
Dec-05	6.25	3.5	3.5	0.0	2.75	Mar-11	6.75	3.5	3.5	0.0	3.25
Jan-06	6.25	3.5	3.5	0.0	2.75	Apr-11	6.75	3.5	3.5	0.0	3.25
Feb-06	6.50	3.5	3.5	0.0	3.00	May-11	7.25	4.0	4.0	0.0	3.25
Mar-06	6.50	3.5	3.5	0.0	3.00	Jun-11	7.50	4.0	4.0	0.0	3.50
Apr-06	6.50	3.5	3.5	0.0	3.00	Jul-11	7.50	4.0	4.0	0.0	3.50
May-06	6.50	3.5	3.5	0.0	3.00	Aug-11	8.00	4.0	4.0	0.0	4.00
Jun-06	6.75	3.5	3.5	0.0	3.25	Sep-11	8.25	4.0	4.5	0.5	3.75
Average	6.87	3.61	3.56	-0.05	3.31						

* Repo Rate represents the rate at which RBI lends to the banks