

Deposit Repricing and Net Interest Margin Dynamics During Monetary Tightening in Indian Banking

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Abstract - This study examines how monetary tightening affects bank margins in India through the repricing of deposits and loans. Using a comparative secondary-data design, it analyses Reserve Bank of India data for the easing phase from February 2019 to March 2022 and the tightening phase from May 2022 to September 2024. The study compares cumulative changes in the Policy Repo Rate, fresh and outstanding term-deposit rates, and fresh and outstanding rupee lending rates, and relates these movements to banking-sector Net Interest Margin. During tightening, the Policy Repo Rate increased by 250 basis points, fresh term-deposit rates by 251 basis points and fresh rupee lending rates by 186 basis points, while outstanding deposit and lending rates adjusted more slowly. Banking-sector Net Interest Margin moderated from 3.7 per cent in 2022-23 to 3.3 per cent in 2023-24. The findings indicate that margin dynamics depend on the relative timing of asset and liability repricing rather than on the policy-rate change alone. Current-Account and Savings-Account funding can moderate the initial increase in funding cost, although this protection weakens as term deposits reprice. The study highlights deposit repricing as a key channel linking monetary tightening to bank-margin dynamics in India.

Key Words: monetary policy, deposit repricing, net interest margin, cost of deposits, CASA deposits, Indian banking.

I. INTRODUCTION

Interest-rate changes affect banks through both sides of the balance sheet. Banks earn interest mainly from loans and investments and pay interest mainly on deposits and borrowings. A rise in the Policy Repo Rate can therefore increase lending yields and funding costs at different speeds. Recent research shows that the effect on bank margins depends on the timing of asset and liability repricing rather than on the policy rate alone (Dang & Huynh, 2022; Paul, 2023; Argimon et al., 2023; Davis et al., 2025). This timing perspective is especially useful for understanding a tightening cycle because the first response normally appears in rates attached to newly contracted loans and deposits, while the stock of existing assets and liabilities adjusts only as contracts reset or mature. A banking margin observed at any point in time therefore reflects both the current policy stance and the legacy pricing embedded in the balance sheet.

Deposit repricing is central to this process because deposits are the principal funding source for commercial banks. Deposit rates are often less responsive than market rates at the beginning of a policy cycle, but the degree of pass-through can increase when interest rates remain high and banks compete more strongly for funds (Hannan & Berger, 1991; Neumark & Sharpe, 1992; Drechsler et al., 2017; Emin et al., 2025; Kho, 2025). This creates a sequence rather than a single event. Lending rates may respond quickly when benchmark-linked or newly originated loans are repriced. Deposit costs can respond later as term deposits mature and new deposits must be raised at prevailing market rates. The result is that a bank may experience an early margin benefit and later funding-cost pressure within the same tightening episode (Drechsler et al., 2021; Present et al., 2023; Freriks & Kakes, 2024).

India provides a useful setting because Reserve Bank of India data show clear differences between the repricing of deposits and loans. During May 2022 to September 2024, the Policy Repo Rate increased by 250 basis points. Fresh term-deposit rates increased by 251 basis points and outstanding term-deposit rates by 192 basis points, while fresh and outstanding rupee lending rates increased by 186 and 118 basis points respectively (Reserve Bank of India, 2024a). These aggregate movements illustrate why the distinction between fresh and outstanding rates matters. Fresh rates describe current pricing decisions, whereas outstanding rates describe the slower adjustment of the existing balance sheet. Indian studies also show that interest-rate transmission is incomplete and may differ across banks and market conditions (Das, 2015; Mohanty & Singh, 2020; Rakshit & Bardhan, 2023; Swamy & Narayanamurthy, 2025).

The composition of deposits affects how strongly this repricing reaches the bank's average funding cost. Current-account deposits generally carry no interest and savings-account deposits usually reprice more slowly than term deposits. A larger Current-Account and Savings-Account (CASA) share can therefore reduce immediate funding-cost pressure during a tightening cycle. This mechanism is consistent with the deposit-franchise literature and with Indian evidence that low-cost deposits are important for bank margins (Barik & Raje, 2019; Drechsler et al., 2021; Emin et al., 2025). CASA should nevertheless be interpreted carefully. A high share can cushion average funding cost, but it does

not eliminate competition for term deposits, nor does it guarantee that savings rates, customer behaviour or deposit volumes will remain unchanged throughout a prolonged high-rate environment.

This study examines how monetary tightening affects Indian bank margins through deposit repricing. The analysis focuses on the Policy Repo Rate, deposit and lending-rate repricing, Cost of Deposits, Current-Account and Savings-Account funding and Net Interest Margin because these variables capture the transmission path under investigation. Other determinants of bank profitability are recognised in the literature but fall outside the empirical scope of the analysis.

A. Research Questions

RQ1: How do changes in the Policy Repo Rate transmit to deposit rates and lending rates, and what does the difference in repricing imply for Net Interest Margin?

RQ2: Why does the Current-Account and Savings-Account deposit share matter for Cost of Deposits and margin pressure during a tightening cycle?

RQ3: What do Reserve Bank of India data from the 2022-2024 tightening cycle reveal about deposit repricing and the movement in Indian banking-sector Net Interest Margin?

II. LITERATURE REVIEW

A. Net Interest Margin and Bank Intermediation

Net Interest Margin (NIM) is a measure of the spread generated from a bank's core intermediation activity after accounting for interest cost. The classic dealership model explains the margin as compensation for uncertainty, interest-rate risk and the provision of liquidity (Ho & Saunders, 1981). Later studies show that interest-rate conditions and the structure of bank assets and liabilities materially affect the margin (Saunders & Schumacher, 2000; Maudos & Fernández de Guevara, 2004; Borio et al., 2017; Claessens et al., 2018; Altavilla et al., 2018). The relevant implication is that NIM depends on relative repricing. A higher loan yield improves interest income only to the extent that funding costs do not rise equally or faster. Likewise, a rise in deposit cost need not reduce NIM if asset yields are repricing more strongly. Accordingly, NIM is interpreted as the net outcome of asset-side and liability-side price adjustment, rather than as a direct response to the Policy Repo Rate.

B. Monetary Policy Transmission and Repricing

Monetary-policy transmission is the process through which a central bank's policy action affects market rates, bank lending rates and bank deposit rates. In India, the Policy Repo Rate is the principal policy signalling rate. A change in the repo rate does not enter bank margins directly; it changes the rates at which banks lend and raise funds. Evidence from India shows that this pass-through can be incomplete and asymmetric (Das, 2015; Mohanty & Singh, 2020). International research similarly shows that the speed of repricing depends on market structure, competition and the characteristics of the

deposit base (Gambacorta, 2008; Drechsler et al., 2017; Kho, 2025). The concept of repricing therefore concerns both magnitude and timing. Two rates may eventually move in the same direction but still create a temporary margin effect if one adjusts several quarters before the other.

C. Deposit Repricing, Cost of Deposits and CASA Funding

Deposit repricing means the adjustment of the interest rates paid on deposits after market or policy rates change. The Cost of Deposits (COD) measures the average interest cost of deposit funding. The Current-Account and Savings-Account (CASA) share measures the proportion of total deposits held in current and savings accounts. Current accounts normally carry no interest, and savings-account rates generally move more slowly than term-deposit rates. A larger CASA share can therefore slow the increase in average funding cost when term-deposit rates rise. Deposit-franchise research explains the economic value of this relatively rate-insensitive funding, while recent evidence shows that deposit-rate sensitivity can increase in a high-rate environment (Drechsler et al., 2021; Emin et al., 2025). The distinction between average and marginal funding cost is also important. COD reflects the average cost of the entire deposit book, whereas the rate required to attract a new term deposit can move faster. Margin pressure may therefore emerge before a large increase becomes visible in the average COD ratio.

D. Recent Evidence and Research Gap

Recent banking research has moved away from the idea that higher rates automatically improve bank margins. Dang and Huynh (2022) show that monetary-policy effects differ across bank business models, while Paul (2023) links margins to maturity transformation and interest-rate risk. Argimon et al. (2023) find that margin sensitivity differs across organisational structures, and Davis et al. (2025) show that margin responses can differ between the short run and the long run. These studies support a timing-based interpretation of bank margins and caution against reading a policy-rate change as a uniform profitability shock.

The deposit side of the balance sheet has received increasing attention. Hannan and Berger (1991) and Neumark and Sharpe (1992) established that deposit rates can be sticky and asymmetric. Drechsler et al. (2017) show that policy tightening affects deposit spreads and deposit flows, while Drechsler et al. (2021) explain why low-rate deposits can provide a valuable funding franchise. Emin et al. (2025) demonstrate that deposit-rate pass-through changes across interest-rate environments, and Kho (2025) shows that market concentration affects the speed of deposit-rate transmission. Together, these studies make deposit repricing a direct mechanism linking monetary policy to bank funding cost.

Research on bank margins also shows that lending-side and funding-side effects should be separated. Present et al. (2023) show how deposit-rate constraints can compress margins, while Freriks and Kakes (2024) emphasise the importance of the funding-margin component in bank net interest income. English et al. (2018) and Borio et al. (2017) further show that interest-rate exposure depends on balance-sheet structure and the rate environment. This separation is important for India because the same tightening cycle can produce rapid repricing of new loans, slower adjustment of outstanding loans, and a different path for new and outstanding term deposits.

The Indian evidence is consistent with this broader literature. Barik and Raje (2019) identify low-cost deposits among the important determinants of Indian bank margins. Das (2015) and Mohanty and Singh (2020) document incomplete and asymmetric interest-

rate transmission. Rakshit and Bardhan (2023) show that competition influences the bank-lending channel in India, while Swamy and Narayanamurthy (2025) report differences in policy sensitivity across bank groups. These studies establish the relevance of transmission and funding structure and provide the basis for examining the repricing sequence in the Indian context.

Existing studies have examined monetary transmission, deposit-rate behaviour and bank-margin determinants, but these strands are rarely considered together in a focused analysis of the timing of deposit repricing during an Indian tightening cycle. This study addresses that gap by combining Reserve Bank of India evidence on fresh and outstanding deposit and lending rates with the observed movement in banking-sector Net Interest Margin. The contribution lies in showing how the timing of liability repricing can alter the margin effect of a rate increase as the tightening cycle progresses.

TABLE I. SELECTED STUDIES RELATED TO RATE CHANGES, DEPOSIT REPRICING AND BANK MARGINS

Study	Focus	Finding used in this paper
Drechsler et al. (2021)	Deposit franchise and interest-rate risk	Relatively rate-insensitive deposits can protect banks from interest-rate exposure.
Dang & Huynh (2022)	Monetary policy and bank performance	Bank responses to monetary-policy changes differ across business models.
Paul (2023)	Maturity transformation and margins	Interest-rate risk and maturity mismatch influence bank margins.
Present et al. (2023)	Deposit-rate constraints and margins	Deposit pricing conditions can compress bank margins.
Argimon et al. (2023)	Interest rates and bank margins	Margin sensitivity differs across bank organisational structures.
Rakshit & Bardhan (2023)	India: competition and monetary transmission	Competition affects the transmission of policy through bank lending.
Freriks & Kakes (2024)	Funding and lending margins	Funding-cost changes are an important part of net interest income.
Emin et al. (2025)	Variable deposit-rate pass-through	Deposit-rate sensitivity changes across interest-rate environments.
Kho (2025)	Deposit-market concentration	Market concentration affects the speed of deposit-rate transmission.
Swamy & Narayanamurthy (2025)	India: policy sensitivity across bank groups	Indian bank groups differ in their sensitivity to policy changes.
Davis et al. (2025)	Policy and bank margins	Short-run and long-run margin responses can differ.

Note. The table summarises studies directly relevant to monetary-policy transmission, deposit repricing, funding cost and bank margins.

Source: Author's compilation based on the studies cited in the table.

III. METHODOLOGY

A. Research Design

The study adopts a comparative secondary-data research design. Official Reserve Bank of India data are used to examine cumulative changes in the Policy Repo Rate, fresh and outstanding term-deposit rates, and fresh and outstanding rupee lending rates during the easing phase from February 2019 to March 2022 and the tightening phase from May 2022 to September 2024. Published theoretical and empirical studies provide the analytical context for interpreting the observed patterns. The design focuses on the magnitude and timing of repricing across assets and liabilities and on the

corresponding movement in banking-sector Net Interest Margin.

B. Data Sources

Indian banking-system figures are drawn from Reserve Bank of India publications. Deposit- and lending-rate transmission data are taken from the Reserve Bank of India Bulletin, November 2024, and banking-sector Net Interest Margin is taken from the Report on Trend and Progress of Banking in India 2023-24. Both sources are official central-bank publications. The observations are banking-system aggregates and therefore capture sector-wide transmission rather than heterogeneity across individual banks.

C. Operationalisation of Study Variables

TABLE II. OPERATIONALISATION OF THE STUDY VARIABLES

Concept	Operational meaning in this paper	Unit / interpretation
Policy Repo Rate (REPO)	Reserve Bank of India policy rate used to represent the direction of monetary-policy change.	Per cent per annum; an increase represents tightening.
Fresh Term-Deposit Rate	Weighted average rate on newly contracted domestic term deposits.	Basis-point change over the policy phase.
Outstanding Term-Deposit Rate	Weighted average rate on the existing stock of domestic term deposits.	Basis-point change over the policy phase.
Fresh Rupee Lending Rate	Weighted average lending rate on newly contracted rupee loans.	Basis-point change over the policy phase.
Outstanding Rupee Lending Rate	Weighted average lending rate on the existing stock of rupee loans.	Basis-point change over the policy phase.

Concept	Operational meaning in this paper	Unit / interpretation
Cost of Deposits (COD)	Interest paid on deposits divided by deposits, multiplied by 100.	Per cent; higher values indicate more expensive deposit funding.
Current-Account and Savings-Account Share (CASA)	Current-account deposits plus savings-account deposits divided by total deposits, multiplied by 100.	Per cent of total deposits; a higher value generally indicates a larger low-cost deposit base.
Net Interest Margin (NIM)	Net interest income relative to the asset base as reported in the Reserve Bank of India banking-sector source used in this paper.	Per cent; higher values indicate a wider interest margin.

Note. REPO = Policy Repo Rate; COD = Cost of Deposits; CASA = Current-Account and Savings-Account Share; NIM = Net Interest Margin. A basis point is one-hundredth of one percentage point; 100 basis points equal 1 percentage point. "Fresh" refers to newly contracted deposits or loans, while "outstanding" refers to the existing stock.

Source: *Author's compilation based on Reserve Bank of India definitions and the cited banking literature.*

D. Analytical Procedure

The analysis proceeds in three stages. First, cumulative basis-point changes in the Policy Repo Rate, deposit rates and lending rates are compared across the easing and tightening phases. Second, fresh and outstanding rates are contrasted to identify differences in the speed of pass-through between newly priced contracts and the existing balance-sheet stock. Third, the tightening-phase repricing pattern is interpreted alongside the movement in banking-sector Net Interest Margin between 2022-23 and 2023-24. The analysis is descriptive and comparative: it identifies relative repricing magnitudes and temporal alignment in official banking-system data. Econometric estimation is not employed because the available observations are aggregate sector-level series.

IV. RESULTS

A. Repricing During Easing and Tightening

Reserve Bank of India data show that deposit and lending rates did not move by the same amount during

TABLE III. MONETARY POLICY TRANSMISSION TO DEPOSIT AND LENDING RATES

Policy phase	Repo-rate change	Fresh term-deposit rate	Outstanding term-deposit rate	Fresh rupee-loan rate	Outstanding rupee-loan rate
Easing: Feb. 2019-Mar. 2022	-250	-259	-188	-232	-150
Tightening: May 2022-Sep. 2024	+250	+251	+192	+186	+118

Note. All rate changes are in basis points. Positive values indicate increases and negative values indicate decreases. Deposit-rate measures are weighted average domestic term-deposit rates; lending-rate measures are weighted average lending rates.

B. Deposit Repricing and Bank Margins

The tightening data show that fresh term-deposit rates eventually increased by slightly more than the Policy Repo Rate and by more than fresh lending rates in basis-point terms. The margin effect nevertheless depends on the weights and reset dates of the existing asset and liability books. Savings-account rates generally adjust more slowly and current-account balances carry no interest, so Current-Account and Savings-Account funding can moderate the initial rise in average deposit cost. As more term deposits are renewed at higher rates, the funding advantage can diminish (Drechsler et al., 2021; Freriks & Kakes, 2024; Emin et al., 2025). The outstanding-rate data support this gradual adjustment

comparable policy-rate changes. During the easing phase from February 2019 to March 2022, the Policy Repo Rate declined by 250 basis points, fresh term-deposit rates declined by 259 basis points, outstanding term-deposit rates by 188 basis points, fresh rupee lending rates by 232 basis points and outstanding rupee lending rates by 150 basis points. During the tightening phase from May 2022 to September 2024, the Policy Repo Rate increased by 250 basis points, fresh term-deposit rates increased by 251 basis points, outstanding term-deposit rates by 192 basis points, fresh rupee lending rates by 186 basis points and outstanding rupee lending rates by 118 basis points (Reserve Bank of India, 2024a). The different magnitudes demonstrate that asset and liability rates reprice at different speeds across a monetary-policy cycle, with fresh rates reflecting current pricing conditions earlier than outstanding rates.

Source: *Reserve Bank of India Bulletin, November 2024.*

because existing loan and deposit books moved substantially less than their fresh-rate counterparts during the tightening phase.

The Reserve Bank of India reported that banking-sector NIM moderated from 3.7 per cent in 2022-23 to 3.3 per cent in 2023-24 (Reserve Bank of India, 2024b). This movement coincided with the stage of the tightening cycle in which deposit repricing had strengthened. The aggregate data do not permit causal attribution, but the pattern is consistent with the proposition that rising funding costs can compress the margin advantage created earlier by loan repricing. The analysis therefore interprets the NIM movement in relation to the timing of deposit and lending-rate adjustment.

TABLE IV. KEY EVIDENCE FROM THE 2022-2024 TIGHTENING PHASE

Observed change / level		
Indicator		Meaning for this paper
	+250 basis points	
Policy Repo Rate		Represents the tightening impulse.
	+251 basis points	
Fresh term-deposit rate		Shows strong repricing of newly contracted deposit funding.
	+192 basis points	
Outstanding term-deposit rate		Shows slower repricing of the existing deposit stock.
Fresh rupee lending rate	+186 basis points	Shows loan pricing responded, but by less than fresh term-deposit rates in basis-point terms.
Outstanding rupee lending rate	+118 basis points	Shows slower repricing of the existing loan stock.
Banking-sector Net Interest Margin	3.7% in 2022-23; 3.3% in 2023-24	Shows margin moderation as the tightening cycle progressed; it does not by itself prove causality.

Note. The rate changes cover May 2022 to September 2024. NIM = Net Interest Margin. The NIM figures are annual banking-sector values for 2022-23 and 2023-24. The table summarises association and timing and does not attribute the change in NIM to rate changes alone.

Source: Reserve Bank of India Bulletin, November 2024, and Report on Trend and Progress of Banking in India 2023-24.

V. DISCUSSION

A. Policy Rate Transmission and Margin

The evidence supports a sequence rather than an immediate one-for-one effect. A change in the Policy Repo Rate affects newly priced loans and deposits first and reaches the outstanding books more gradually. The Reserve Bank of India figures show that fresh and outstanding rates moved by different amounts during the same tightening phase. This is consistent with the literature on deposit rigidity, maturity transformation and balance-sheet repricing (Hannan & Berger, 1991; Neumark & Sharpe, 1992; Drechsler et al., 2017; Paul, 2023; Emin et al., 2025). Therefore, the effect of a rate hike on NIM depends on relative asset and liability repricing, not simply on the direction of the policy-rate change. The analytical advantage of this interpretation is that it explains why the same repo-rate increase can have different margin effects at different stages of the cycle.

B. CASA and Funding Cost Pressure

CASA funding matters because current-account deposits carry no interest and savings-account rates are normally less responsive than term-deposit rates. A higher CASA share can therefore reduce the speed with which a rise in market deposit rates reaches the bank's

average Cost of Deposits. This is why deposit composition is relevant to margin analysis even when two banks face the same policy-rate change. The mechanism is supported by Indian margin evidence and by the deposit-franchise literature (Barik & Raje, 2019; Drechsler et al., 2021; Emin et al., 2025). The effect should nevertheless be understood as a cushion rather than permanent insulation. If term-deposit competition intensifies or the mix of deposits changes, the average funding cost can still rise materially.

C. Evidence from the 2022-2024 Tightening Cycle

The 2022-2024 cycle shows that deposit repricing became increasingly important as tightening progressed. Fresh term-deposit rates rose by 251 basis points, compared with 186 basis points for fresh rupee lending rates, while outstanding deposit and loan books repriced more slowly. Over the period in which deposit costs were catching up, banking-sector NIM moderated from 3.7 per cent in 2022-23 to 3.3 per cent in 2023-24. The pattern is consistent with a temporal repricing mechanism in which loan yields can respond earlier and deposit costs gain importance as the cycle matures. Because the evidence is based on aggregate series, the results establish association and timing rather than bank-level causality.

Fresh rates, outstanding rates and NIM therefore need to be interpreted jointly.

D. Implications for Bank Management

For bank treasury and asset-liability management, the main implication is to monitor the timing of deposit repricing together with loan repricing. The Policy Repo Rate alone is not sufficient. Cost of Deposits, the share of CASA funding, the maturity of term deposits and the reset timing of loans determine whether a rate-hiking cycle supports or compresses NIM. Monitoring fresh deposit rates can provide an early signal of future pressure on the average funding cost, while the outstanding rate indicates how much of that pressure has already entered the balance sheet.

E. Implications for Monetary Policy Analysis

For monetary-policy analysis, transmission should be examined separately for fresh and outstanding deposits and loans. A common policy-rate change can generate different funding-cost effects across banks because deposit composition and repricing schedules differ. Aggregate transmission statistics identify the direction and timing of repricing, while bank-level evidence is required to estimate the magnitude of margin effects for individual institutions. This distinction connects system-level transmission evidence with the bank-level mechanisms that subsequent empirical research can test.

VI. CONCLUSION

This study examines how monetary tightening reaches bank margins through deposit repricing in Indian banking. The central finding is that lending and deposit rates adjust at different speeds. During May 2022 to September 2024, the Policy Repo Rate increased by 250 basis points, fresh term-deposit rates by 251 basis points and fresh rupee lending rates by 186 basis points, while outstanding deposit and loan rates adjusted more slowly. As deposit repricing progressed, banking-sector Net Interest Margin moderated from 3.7 per cent in 2022-23 to 3.3 per cent in 2023-24.

The findings indicate that the effect of a rate increase on Net Interest Margin depends on the relative pace of asset and liability repricing and on the extent to which deposit composition moderates funding costs. Current-Account and Savings-Account funding can delay the transmission of higher market rates into average deposit cost, although this cushioning effect can diminish as term deposits reprice. Accordingly, analysis of a tightening cycle should track the Policy Repo Rate, fresh and outstanding lending rates, fresh and outstanding deposit rates, Cost of Deposits and Net Interest Margin as a connected transmission sequence.

A. Limitations and Scope for Further Research

The analysis is based on Reserve Bank of India banking-system aggregates and therefore does not estimate heterogeneity across individual banks or ownership groups. Current-Account and Savings-

Account deposits are treated as a combined funding category, although current-account and savings-account balances may respond differently to rate changes. Cost of Deposits is an average funding measure and does not capture the marginal pricing of newly mobilised deposits. Future research can extend the analysis with bank-level panel data, separate current and savings deposits where data permit, and test whether banks with different deposit structures experience different margin responses during tightening.

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