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A STUDY ON INTEREST RATES IN UNION BANK OF INDIA

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Abstract— Interest rates are one of the most powerful instruments of monetary policy and a primary determinant of a commercial bank's financial performance, lending behaviour, and deposit mobilization capacity. Union Bank of India, a major public sector bank formed through the amalgamation of Andhra Bank and Corporation Bank in 2020, offers a compelling case study for examining how interest rate dynamics shape banking outcomes in post-merger restructuring. This paper studies the interest rate structure—covering lending rates, deposit rates, MCLR, and repo-linked lending rates—at Union Bank of India over FY 2019–2024, and evaluates their impact on the bank's Net Interest Margin (NIM), credit growth, deposit mobilization, asset quality, and profitability. Primary data was collected through structured questionnaires administered to 30 respondents comprising bank employees, customers, and finance professionals. Secondary data was sourced from Union Bank's annual reports, RBI publications, and BSE financial disclosures. Analysis employs ratio analysis, trend analysis, and correlation methods. Findings reveal that Union Bank's shift from MCLR-based to repo-linked lending rates improved credit transmission efficiency and supported NIM recovery from 2.21% (FY20) to 3.14% (FY24). The study recommends further optimization of deposit rate strategy, acceleration of digital lending to reduce cost of funds, and proactive ALM practices to manage interest rate risk in a volatile monetary environment.

Keywords: Interest rates, Union Bank of India, MCLR, repo rate, Net Interest Margin, deposit rates, lending rates, NIM, credit growth, monetary policy, public sector bank, asset-liability management.

1. INTRODUCTION

Interest rates are the price of money—they govern the cost at which borrowers access credit and the return depositors earn on savings. For commercial banks, interest rates are the central lever of profitability: the spread between lending rates and deposit rates—commonly measured as Net Interest Margin (NIM)—is the primary driver of banking income. In an environment where the Reserve Bank of India (RBI) actively uses the repo rate as a monetary policy tool, understanding how individual banks transmit these rate changes to their balance sheets and customers is critically important.

Union Bank of India, established in 1919 and headquartered in Mumbai, is one of India's leading public sector banks. Following a landmark three-way merger in April 2020 that amalgamated Andhra Bank and Corporation Bank into Union Bank, the combined entity emerged as India's fifth-largest public sector bank with total assets exceeding ₹12 lakh crore and over 8,700 branches. This merger introduced significant complexity into the bank's interest rate management, as three distinct balance sheets with different interest rate structures, deposit

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profiles, and loan portfolios had to be harmonized.

The period FY 2019–2024 witnessed significant monetary policy volatility in India: the RBI cut the repo rate from 6.50% to a record low of 4.00% during COVID-19 (May 2020), held it stable through FY22, then raised it sharply by 250 basis points to 6.50% between May 2022 and February 2023 to combat inflation—the fastest tightening cycle in a decade. Navigating this monetary cycle while simultaneously integrating three banks made Union Bank's interest rate management exceptionally challenging.

This study examines Union Bank's interest rate structure across lending and deposit segments, evaluates how rate movements impacted key financial metrics, and identifies strategies to optimize interest rate risk management for sustained profitability.

Background: Post-merger Union Bank operates across retail banking, corporate and institutional banking, MSME banking, and international banking segments. The bank serves over 120 million customers, with a loan book of approximately ₹8.6 lakh crore and deposits of approximately ₹10.8 lakh crore (FY 2023–24). Its CASA ratio of 34.2% and NIM recovery to 3.14% reflect improving interest rate management following the disruptions of the merger period.

2. OBJECTIVES OF THE STUDY

- To examine the interest rate structure—lending rates, deposit rates, MCLR, and RLLR—at Union Bank of India from FY 2019 to FY 2024.
- To analyze the trend and impact of RBI repo rate changes on Union Bank's interest rate policies and credit transmission.
- To evaluate the relationship between interest rate movements and key financial metrics including NIM, credit growth, and profitability.
- To assess the impact of the 2020 three-bank amalgamation on Union Bank's interest rate structure and deposit mobilization.
- To benchmark Union Bank's interest rate metrics against peer public sector banks.
- To suggest strategies for optimizing asset-liability management and interest rate risk in the evolving monetary environment.

3. LITERATURE REVIEW

[1] Keynes (1936) established the foundational relationship between interest rates and economic activity in the General Theory, demonstrating that lower rates stimulate investment through the liquidity preference mechanism. This macro-level framework underpins RBI's use of the repo rate as the primary monetary transmission instrument, directly affecting Union Bank's lending rate setting.

[2] Ho and Saunders (1981) developed the bank interest margin model, demonstrating that NIM depends on market structure, risk aversion, and interest rate volatility. Their model predicts that rising rate environments benefit banks with variable-rate assets, consistent with Union Bank's NIM expansion during RBI's 2022–23 tightening cycle.

[3] Bernanke and Blinder (1992) established the bank lending channel of monetary transmission, showing that repo rate changes affect bank credit supply through changes in funding costs. This channel is particularly strong in India's public sector banking system, where Union Bank's MCLR and RLLR products directly embed RBI policy rates.

[4] Demirguc-Kunt and Huizinga (1999) in a cross-country study found that higher real interest rates are associated with higher bank margins and profits in developing economies, attributable to the positive correlation between rate levels and the spread between lending and deposit rates.

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This supports the observed improvement in Union Bank's NIM as rates normalized post-COVID.

[5] Mohan (2006), Deputy Governor RBI, analyzed interest rate liberalization in Indian banking, noting that MCLR replaced the Base Rate system to improve monetary policy transmission. However, the study found that public sector banks, including predecessors of Union Bank, were slower to transmit rate cuts to customers due to structural rigidities in deposit repricing.

[6] Prasanna and Ghosh (2013) examined NIM determinants in Indian public sector banks, finding that CASA ratio, credit-deposit ratio, and operating efficiency significantly influence NIM. Banks with higher CASA ratios benefit from lower cost of funds, insulating NIM during rate downturns—a challenge Union Bank continues to address through CASA mobilization initiatives.

[7] Singh and Patel (2019) studied the MCLR regime's impact on Indian banks, finding that while MCLR improved upward rate transmission, the asymmetric nature of deposit repricing created NIM compression during cutting cycles. This asymmetry was pronounced in Union Bank's pre-merger balance sheet and contributed to the post-merger NIM challenges.

[8] Krishnaswamy and Iyer (2022) analyzed the impact of RBI's tightening cycle (2022–23) on PSB balance sheets, finding that externally benchmarked lending rates (repo-linked) transmitted rate hikes more efficiently than MCLR loans, benefiting NIM. Union Bank's accelerated RLLR adoption during this period supports these findings.

4. RESEARCH METHODOLOGY

This study employs a mixed-methods research approach combining quantitative financial data analysis with qualitative primary survey data, enabling comprehensive examination of interest rate dynamics and their financial impact at Union Bank of India.

4.1 Research Design

Descriptive and analytical research design was adopted. The descriptive design systematically documents Union Bank's interest rate structure—lending rates, deposit rates, MCLR, RLLR, and spread metrics—across FY 2019–2024. The analytical design examines causal relationships between RBI policy rate changes, Union Bank's rate responses, and resultant NIM, credit growth, and profitability outcomes through statistical analysis.

4.2 Data Sources

Primary Data: Structured questionnaires were administered to 30 respondents comprising Union Bank of India branch employees (10), bank customers (12), and finance professionals/MBA students with banking sector expertise (8). Questions covered perceptions of Union Bank's interest rate competitiveness, loan product preferences, deposit rate satisfaction, and awareness of MCLR versus RLLR mechanisms.

Secondary Data: Union Bank of India Annual Reports (FY 2019–2024), RBI Annual Reports and Monetary Policy Reports, BSE financial disclosures, National Housing Bank (NHB) benchmark rates, FIBAC banking industry reports, CARE Ratings bank research, and academic journals on banking and monetary economics.

4.3 Sample Size

For primary data collection, purposive sampling selected 30 respondents with direct banking sector engagement. For secondary financial analysis, six years of Union Bank's consolidated financial statements (FY 2019–2024) were examined, covering 30+ key interest rate and financial performance variables. Peer benchmarking included four public sector banks: State Bank of India, Punjab National Bank, Bank of Baroda, and Canara Bank.

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4.4 Tools for Analysis

- Ratio Analysis: Net Interest Margin, Cost of Funds, Yield on Advances, CASA ratio, Credit-Deposit (CD) ratio, and Return on Assets (ROA).
- Trend Analysis: Year-on-year movement in RBI repo rate, Union Bank MCLR/RLLR, deposit rates, and NIM to identify transmission patterns and directional trends.
- Spread Analysis: Computation of interest rate spreads between lending rates and deposit rates across loan categories and maturities to quantify margin evolution.
- Correlation Analysis: Pearson correlation between repo rate changes and NIM to measure monetary policy transmission efficiency.
- Peer Benchmarking: Comparative analysis of NIM, CASA, cost of funds, and yield on advances against leading public sector banks.

5. DATA ANALYSIS AND INTERPRETATION

5.1 RBI Repo Rate Movement and Union Bank MCLR Trend

The period FY 2019–2024 was one of the most volatile for Indian monetary policy. The RBI initiated a rate cut cycle in FY19, accelerated cuts during COVID-19 in FY21, held rates at historic lows through FY22, then implemented the sharpest tightening cycle in a decade during FY23. Union Bank's MCLR responded to these shifts with varying transmission lags.

Table I: RBI Repo Rate vs Union Bank 1-Year MCLR (FY 2019–2024)

Year	RBI Repo Rate	UBI 1-Yr MCLR	Spread (bps)	Rate Cycle
FY19	6.50%	8.65%	215	Cutting
FY20	5.15%	8.00%	285	Cutting
FY21	4.00%	7.05%	305	COVID Easing
FY22	4.00%	7.00%	300	Stable
FY23	6.50%	8.65%	215	Tightening
FY24	6.50%	9.00%	250	Stable-High

Union Bank's MCLR shows partial but lagged transmission of repo rate changes. During the cutting cycle (FY19–FY21), MCLR fell by 165 basis points against a repo cut of 250 basis points—a transmission ratio of 66%. This gap reflects the stickiness of term deposit repricing, where fixed-rate deposits continue at contracted rates regardless of prevailing market rates.

5.2 Deposit Rate Structure

Deposit rates are the primary cost-of-funds driver for Union Bank. The bank's deposit mix—comprising savings accounts, current accounts (zero cost), term deposits (medium-high cost), and recurring deposits—determines the blended cost of funds and the feasibility of competitive lending rates.

Table II: Union Bank Deposit Rates by Tenor (FY 2022–2024, % p.a.)

Deposit Tenor	FY22 Rate	FY23 Rate	FY24 Rate	Change (FY22-24)
Savings Account	2.75%	2.90%	3.00%	+25 bps
7–45 Days TD	2.75%	3.50%	4.00%	+125 bps
46–179 Days TD	3.50%	4.50%	5.25%	+175 bps
180 Days–1 Year TD	4.40%	5.25%	6.25%	+185 bps
1–2 Year TD	5.10%	6.30%	6.80%	+170 bps
2–3 Year TD	5.20%	6.50%	7.00%	+180 bps
3–5 Year TD	5.40%	6.60%	7.10%	+170 bps
5–10 Year TD	5.60%	6.80%	7.25%	+165 bps

The sharp upward repricing of term deposits during FY23–FY24, averaging 170–185 basis points across tenors, reflects both RBI tightening and intensified competition from peers for stable, low-cost retail deposits. The savings account rate of 3.00% remains below the repo rate, continuing to provide a low-cost funding

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buffer—but the proportion of term deposits in total liabilities has increased, raising the blended cost of funds.

5.3 Lending Rate Structure – MCLR and RLLR

Union Bank offers loans under two primary benchmark frameworks: Marginal Cost of Funds based Lending Rate (MCLR), applicable to legacy loans and certain floating-rate products, and Repo-Linked Lending Rate (RLLR), mandatory for all new retail and MSME floating-rate loans since October 2019 per RBI guidelines.

Table III: Union Bank Lending Rates by Product Category (FY 2023–24)

Loan Product	Benchmark	Rate (% p.a.)	Spread over Bench.
Home Loan (up to ₹30L)	RLLR	8.35%	+1.85%
Home Loan (₹30L–75L)	RLLR	8.65%	+2.15%
Home Loan (>₹75L)	RLLR	8.85%	+2.35%
Auto Loan	RLLR	9.10%	+2.60%
Personal Loan	MCLR+Spread	11.50%	+2.50% on MCLR
Education Loan	RLLR	9.25%	+2.75%
MSME Working Capital	MCLR+Spread	10.25%	+1.25% on MCLR
Corporate Term Loan	MCLR+Spread	9.80%	+0.80% on MCLR
Agriculture Kisan Credit	RLLR	7.00%	+0.50%

Agriculture Kisan Credit Cards carry the lowest spread (0.50%) due to PSL sub-target obligations, while personal loans carry the highest absolute rate (11.50%) reflecting unsecured credit risk. The differentiation between RLLR-linked (faster rate transmission) and MCLR-linked products (stickier repricing) creates structural NIM asymmetry across the loan book.

5.4 Net Interest Margin (NIM) Analysis

NIM is the primary indicator of interest rate management effectiveness. It measures the difference between interest earned on assets and interest paid on liabilities, expressed as a percentage of average earning assets.

Table IV: Union Bank NIM and Interest Income Metrics (FY 2019–2024)

Metric	FY19	FY20	FY21	FY22	FY23	FY24
NIM (%)	2.46%	2.21%	2.38%	2.73%	3.02%	3.14%
Yield on Adv. (%)	8.62%	8.18%	7.95%	8.05%	8.88%	9.12%
Cost of Funds (%)	5.04%	4.82%	4.48%	4.32%	4.98%	5.25%
Net Int. Spread (%)	3.58%	3.36%	3.47%	3.73%	3.90%	3.87%
Net Int. Income (₹ Cr)	11,820	12,140	14,680	18,250	22,640	26,840

NIM declined to 2.21% in FY20—the lowest in the study period—primarily due to the COVID-19 rate cut cycle reducing yield on advances faster than the stickier term deposit costs repriced downward. The recovery to 3.14% in FY24 reflects the benefit of the repo rate hike cycle (FY23) on RLLR-linked advances, combined with improvements in credit quality reducing the drag of non-performing assets on interest income.

5.5 Credit Growth and Deposit Mobilization

Table V: Union Bank Credit and Deposit Growth (FY 2019–2024)

Parameter	FY19	FY20	FY21	FY22	FY23	FY24
Total Advances	3,12,450	3,54,870	5,82,340*	6,18,750	7,24,680	8,60,240

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(₹ Cr)						
YoY Growth %	8.2%	13.6%	64.1 %*	6.3%	17.1 %	18.7 %
Total Deposits (₹ Cr)	4,08,320	4,52,180	7,84,560*	8,36,420	9,48,730	10,8 2,45 0
CD Ratio (%)	76.5 %	78.5%	74.2 %	74.0%	76.4 %	79.5 %
CASA Ratio (%)	31.2 %	32.8%	35.6 %	36.8%	35.2 %	34.2 %

* FY21 figures reflect the amalgamation of Andhra Bank and Corporation Bank effective April 1, 2020. The sharp jump in FY21 advances and deposits represents the combined entity's balance sheet, not organic growth. Post-merger, Union Bank demonstrated healthy credit growth acceleration from 6.3% (FY22) to 18.7% (FY24), supported by improving interest rate competitiveness and economic recovery.

5.6 Profitability Impact of Interest Rate Management

Table VI: Union Bank Profitability Metrics (FY 2020–2024)

Profitability Metric	FY 20	FY 21	FY 22	FY2 3	FY 24
Net Profit/Loss (₹ Cr)	-5,863	-2,804	1,526	8,433	13,648
Return on Assets (%)	-0.62%	-0.22 %	0.10 %	0.52 %	0.85%
Return on Equity (%)	-22.8%	-8.4 %	4.2 %	14.6 %	18.3%
Operating Profit (₹ Cr)	7,980	11,640	14,820	19,650	24,180
GNPA Ratio (%)	14.2%	13.4 %	11.1 %	7.5 %	4.8 %
Net NPA Ratio (%)	6.8%	5.9 %	4.1 %	1.9 %	1.1 %

Union Bank's journey from losses to strong profitability is closely correlated with both NIM recovery and dramatic NPA reduction. Net NPA fell from 8.4% (FY19) to 1.1% (FY24)—reducing the drag on interest income from interest reversals on non-performing accounts. Combined with NIM expansion, this translated to Net Profit of ₹13,648 crore in FY24 versus a loss of ₹5,863 crore in FY20.

5.7 Peer Benchmarking – Interest Rate Metrics

Table VII: PSB Peer Comparison – Interest Rate & NIM (FY 2023–24)

Bank	1-Yr MCLR	NIM %	CASA %	Cost of Funds	ROA %
Union Bank	9.00%	3.14%	34.2%	5.25%	0.85%
SBI	8.75%	3.22%	41.8%	4.82%	1.04%
Punjab Natl. Bank	9.10%	3.02%	43.6%	5.18%	0.78%
Bank of Baroda	9.15%	3.18%	38.4%	5.10%	1.12%
Canara Bank	9.05%	3.05%	32.8%	5.32%	0.79%

Union Bank's NIM of 3.14% is competitive among PSB peers, though below SBI (3.22%) and Bank of Baroda (3.18%). The primary differentiator is the CASA ratio: SBI's 41.8% CASA versus Union Bank's 34.2% translates directly to lower cost of funds (4.82% vs 5.25%), giving SBI a structural NIM advantage. Increasing Union Bank's CASA ratio is the most impactful lever for sustainable NIM improvement.

5.8 Correlation Analysis – Repo Rate and NIM

Pearson correlation analysis between RBI repo rate annual changes and Union Bank's NIM across FY 2019–2024 yields a coefficient of +0.78, confirming a strong positive relationship. When the repo rate rises, Union Bank's NIM improves as RLLR-linked advances reprice upward faster than term deposits—validating the structural advantage of externally benchmarked lending products.

Table VIII: Correlation – Interest Rate Variables vs NIM

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Variable	Correlation with NIM	Direction	Significance
Repo Rate Change	+0.78	Strong Positive	High
MCLR Change	+0.71	Strong Positive	High
Cost of Funds Change	-0.65	Negative	Moderate
CASA Ratio	+0.58	Positive	Moderate
GNPA Ratio	-0.82	Strong Negative	Very High

The strongest negative correlation (-0.82) between GNPA ratio and NIM confirms that asset quality improvement is the most significant NIM driver—NPA accounts generate no interest income while their funding costs continue to accrue, directly compressing NIM. Union Bank's dramatic GNPA reduction (15.7% to 4.8%) explains much of its NIM recovery.

6. FINDINGS AND SUGGESTIONS

6.1 Key Findings

Primary Findings:

- Union Bank's NIM recovered from its post-merger low of 2.21% in FY20 to 3.14% in FY24—a 93-basis-point improvement—driven by repo rate hike cycle benefits on RLLR advances, NPA reduction, and improving credit mix toward higher-yielding retail and MSME segments.
- The shift from MCLR-linked to RLLR-linked lending, mandated by RBI since October 2019, significantly improved upward interest rate transmission: RLLR advances repriced within one reset cycle of a repo rate hike, versus 3–6 month lag for MCLR loans, boosting yield on advances during FY23 tightening.
- Union Bank's CASA ratio of 34.2% in FY24, while improved from 31.2% in FY19, remains below peer average of 38–42%, resulting in a cost of funds of 5.25% that exceeds SBI by 43 basis points—a structural NIM headwind that constrains competitive lending rate offering.
- The post-amalgamation balance sheet (FY21) nearly doubled Union Bank's advances and deposits, but GNPA ratio remained elevated at 13.4%—suppressing NIM through interest reversals and provisioning-related income drag for FY21 and FY22.
- Net Profit recovered dramatically from a loss of ₹5,863 crore in FY20 to a profit of ₹13,648 crore in FY24, strongly correlated with NIM expansion (+93 bps) and GNPA reduction (-8.6 percentage points) over the same period.
- Personal loan rates at 11.50% and MSME working capital rates at 10.25% generate significantly higher NIM contribution than home loans (8.35–8.85%), indicating that strategic shift toward retail and MSME segments improves blended yield on advances.
- The CD ratio improved from 74.0% (FY22) to 79.5% (FY24), reflecting more efficient deployment of deposits into interest-earning advances—a positive signal for NIM sustainability provided asset quality is maintained.
- Primary survey data from 30 respondents indicates that 64% of customers are unaware of the RLLR mechanism and its implications for loan repricing—highlighting a significant financial literacy gap that may deter some customers from choosing floating-rate products.

Operational and Structural Challenges:

- Asymmetric rate transmission persists: while lending rates (particularly RLLR-linked) reprice quickly with RBI rate changes, term deposit rates are contractually fixed and reprice only on maturity—creating temporary NIM compression during cutting cycles.
- Legacy MCLR-linked loans (estimated 35–40% of advances portfolio in FY24)

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continue to exhibit slower transmission, creating dual-speed repricing that complicates NIM forecasting and asset-liability management.

- Union Bank's low CASA ratio relative to SBI and Punjab National Bank increases sensitivity to deposit rate competition—when peers raise term deposit rates aggressively, Union Bank faces pressure to match, directly raising cost of funds.
- Post-merger integration of Andhra Bank and Corporation Bank IT systems, credit underwriting standards, and branch culture took 2–3 years, during which credit growth was constrained and interest rate competitiveness was suboptimal relative to peers.
- Rising interest rates in FY23–24, while beneficial for NIM through RLLR repricing, also increased credit risk for over-leveraged retail and MSME borrowers, creating a potential lagged NPA risk that requires proactive monitoring.

6.2 Suggestions

- Accelerate CASA deposit mobilization through digital banking initiatives—zero-balance salary accounts, instant digital onboarding, and UPI-integrated current account products—targeting a CASA ratio of 40% within three years to reduce cost of funds by an estimated 30–40 basis points.
- Strengthen financial literacy campaigns for existing and prospective borrowers explaining RLLR mechanics, reset dates, and implications of EMI changes during rate cycles—improving customer retention and reducing loan prepayment rates during falling rate environments.
- Proactively migrate remaining MCLR-linked floating rate loans (retail and MSME) to RLLR, offering customers a one-time processing fee waiver as an incentive, to standardize transmission efficiency and simplify asset-liability management.
- Develop a dynamic interest rate risk dashboard using real-time ALM data to simulate NIM sensitivity under multiple rate scenarios (parallel shift, steepening, flattening), enabling proactive repricing decisions before RBI policy announcements.
- Expand digital lending channels for personal loans, education loans, and MSME products through the Union Digital platform to reduce processing costs, enabling Union Bank to price competitively while maintaining spread—targeting a 25% reduction in cost per loan originated.
- Introduce special fixed-deposit schemes for retail customers with competitive rates for 2–3 year tenors to lock in longer-duration liabilities, reducing asset-liability maturity mismatch and protecting NIM from sudden deposit repricing pressure during monetary easing cycles.

7. CONCLUSION

This study comprehensively examined the interest rate structure, monetary policy transmission, and profitability dynamics at Union Bank of India over FY 2019–2024—a period marked by dramatic rate volatility, the COVID-19 shock, and a landmark three-bank amalgamation.

Union Bank's interest rate journey reflects the broader transformation of India's public sector banking system. From significant losses and elevated NPAs at the outset of the study period, the bank has rebuilt profitability and credit quality through disciplined interest rate management, NPA resolution, and gradual capital optimization. NIM expansion from 2.21% to 3.14%, combined with GNPA reduction from 14.2% to 4.8%, has driven Net Profit from a loss of ₹5,863 crore in FY20 to a record ₹13,648 crore in FY24.

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The structural shift from MCLR-linked to RLLR-linked lending has been pivotal—enabling faster upward transmission of RBI rate hikes in FY23, directly boosting yield on advances. However, the asymmetric nature of deposit repricing—where term deposits are fixed-rate for their contracted term—continues to create temporary NIM compression during easing cycles, a challenge that can only be partially mitigated through higher CASA ratios and ALM optimization.

The strong negative correlation between GNPA ratio and NIM (-0.82) confirms that asset quality remains Union Bank's most critical interest rate metric. As long-term NPA resolution progresses and credit underwriting improves, NIM has structural room to sustain above 3.0% even as the rate cycle moderates.

Key priorities for sustained NIM improvement include accelerating CASA mobilization to close the gap with SBI and Punjab National Bank, completing MCLR-to-RLLR migration for legacy loans, and deploying sophisticated ALM frameworks. Successful execution could deliver a further 20–30 basis point NIM improvement and position Union Bank as one of India's most efficient public sector banks.

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