

Interest Rate Spread

Spread between lending and deposit rates would be calculated as the difference between Weighted Average Interest Rates on Advances and Weighted Average Interest Rates on Deposits. The weights for each type of advance and deposit would be calculated using end-period position data.

The increase in interest spread discourages savings on the one hand, and raises concerns on the effectiveness of bank lending channel of monetary policy on the other.

Calculation procedure of Weighted Average Interest Rate on Advance (WAIRA):

Serial No	Type of Advances	Outstanding Advances (x)	Interest Rate (y)	X * Y
(1)	(2)	(3)	(4)	(5) = (3) * (4)
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
Total		$\sum X_i$		$\sum (X_i * Y_i)$

Note: 1. Excluding inter bank advances
2. Excluding bills purchased and discounted

$$\text{WAIRA} = \frac{\sum (X_i * Y_i)}{\sum X_i}$$

Calculation procedure of Weighted Average Interest Rate on Deposit (WAIRD):

Serial No	Types of Deposits	Outstanding Deposit (x)	Interest Rate (y)	X * Y
(1)	(2)	(3)	(4)	(5) = (3) * (4)
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14.				
Total		$\sum X_i$		$\sum (X_i * Y_i)$

Note: 1. Excluding inter bank deposits

$$\text{WAIRD} = \frac{\sum (X_i * Y_i)}{\sum X_i}$$

Calculation of spread:

$$\text{SPREAD} = \text{WAIRA} - \text{WAIRD}$$