GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES

RAJYA SABHA
UNSTARRED QUESTION NO. 250

Answered on Tuesday, July 22, 2025/ 31 Ashadha, 1947 (Saka)

Interest rate in response to cut in Repo Rate

250. SHRI ASHOKRAO SHANKARRAO CHAVAN :

Will the Minister of Finance be pleased to state:

(a) the average cut in Repo Rate by RBI over the last three years;

(b) whether the Government has taken cognizance that RBI has lowered its Repo Rates considerably but commercial banks/ Non- banking Financial Companies have not lowered their interest rate in same proportion thereby restricting the benefit from reaching the common people;

(c) if so, the details thereof and the reasons therefor;

(d) whether the RBI has issued any guideline in this regard, if so, the details therefor along with the provision of penalty for violation of such guidelines; and

(e) other action taken/ being taken in this regard?

ANSWER

THE MINISTER OF STATE FOR FINANCE
(SHRI PANKAJ CHAUDHARY)

(a): During Financial Year 2022-23, the Policy Repo Rate was increased cumulatively by 250 basis points (bps) in six instances by the Monetary Policy Committee (MPC). The MPC embarked on monetary easing cycle, beginning February, 2025 to stimulate growth impulses, with inflation showing signs of broad-based moderation. Consequently, the cumulative reduction in repo rate has been 100 bps during February, 2025 to June, 2025 (February, 2025-25 bps reduction; April, 2025-25 bps reduction; June,2025-50 bps reduction).

(b) and (c): In respect of banks, the extant RBI guidelines state that interest rates on floating rate loans are to be linked either to their internal marginal cost of funds (i.e. Marginal Cost of Funds-based Lending Rate - MCLR) or an external benchmark (i.e. External Benchmark Lending Rate - EBLR). The EBLR is the reference rate, which is benchmarked to Policy Repo Rate or 3-Months/ 6-Months Treasury Bill rate or any other benchmark market interest rate published by the Financial Benchmark India Pvt Ltd (FBIL). Also, all retail and MSME floating rate loans must be mandatorily linked to an external benchmark. The interest rate on loans linked to MCLR have to be reset at least once a year, while for loans under EBLR regime, interest rate is reset at least once in three months.

MCLR depends, *inter-alia*, on the cost of borrowing of the banks, and loans liked to MCLR, may be relatively slower to respond to policy repo rate changes, as deposit gets repriced with a time lag. As per the provisional data given by RBI, the weighted average lending rates (WALRs) charged by Schedule Commercial Banks (SCBs) on outstanding rupee loans have declined by 18 bps during February-May 2025 (SCBs) on outstanding rupee loans have declined by 18 bps during February-May 2025.

As regards Non- Banking Financial Companies' (NBFC), policy rate transmission generally takes place with a lag as effects of changes in policy rates first transmit to financial markets and banks, and then to NBFCs through the funding channels.

(d) and (e): Credit related matters of Regulated Entities (REs) including interest rate on advances are largely deregulated and the same are governed by the Board approved Policies of the REs, which are framed, while taking into account the applicable regulatory and statutory requirements and considering relevant factors such as cost of funds, margin and risk premium to determine the rate of interest to be charged for loans and advances.

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