GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES
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LOK SABHA
UNSTARRED QUESTION NO. 1045
TO BE ANSWERED ON FRIDAY, APRIL 29, 2016/VAISAKHA 9, 1938 (SAKA)
“Banks Repo Rate”
QUESTION

1045. SHRI Y.V. SUBBA REDDY:

Will the Minister of FINANCE be pleased to state:

(a) whether the methodology in calculating base rate is coming in the way of banks to pass on lower rates to customers; if so, the details of existing methodology for calculating base rate;

(b) whether the RBI relook at this methodology and come out with revised guidelines on how banks will have to revise their base rates;

(c) if so, the details thereof; and

(d) if not, the reasons therefor?

ANSWER

The Minister of State in the Ministry of Finance
(SHRI JAYANT SINHA)

(a) to (d) Under the Base Rate system, which was in vogue from July 1, 2010 to March 31, 2016, all categories of domestic rupee loans were priced only with reference to the Base Rate. Banks determined their actual lending rates on loans and advances with reference to the Base Rate and by including such other customer specific charges as considered appropriate.

Under the Base Rate system, banks arrived at the cost of funds in a variety of ways. Some considered marginal cost of deposits while others took into account average costs or any other methodology. Due to the lack of uniformity in computing the cost of funds under Base Rate system, the transmission of changes in policy rates to the lending rates of banks was with a time lag and to a limited extent.

RBI has introduced the Marginal Cost of Funds based Lending Rate (MCLR) with effect from 1st April, 2016 in order to improve the efficiency of monetary policy transmission and transparency in the methodology followed by banks for determining interest rates on advances,