

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:5779  
ANSWERED ON:30.04.2010  
TRANSPARENCY IN INTERESTS RATES  
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**Will the Minister of FINANCE be pleased to state:**

- (a) whether the Reserve Bank of India (RBI) has asked banks to be more transparent in the way they charge interests rate from borrowers and proposed a new concept called 'base rate' to serve as the minimum rate for all loans as a far reaching reform measures;
- (b) if so, the details thereof;
- (c) whether the Government/RBI has issued directions to banks to pass on the benefits of cheaper floating rate of interest on loans to the existing customers who have been paying the higher rate of interest; and
- (d) if so, the details thereof?

**Answer**

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI NAMO NARAIN MEENA)

(a) to (d): The Reserve Bank of India (RBI) has issued guidelines on the Base Rate on 9th April, 2010 to replace the Benchmark Prime Lending Rate (BPLR) with effect from July 1, 2010. The proposed Base Rate system is aimed at enhancing transparency in lending rates of banks and enabling better assessment of transmission of monetary policy. The Base Rate shall include all those elements of lending rates that are common across all categories of borrowers. The Base Rate would also serve as the reference benchmark rate for floating rate loan products, apart from external market benchmark rates. The floating interest rate based on external benchmarks should, however, be equal to or above the Base Rate at the time of sanction or renewal. The Base Rate system would be applicable for all new loans and for those old loans that come up for renewal. Existing loans based on the BPLR system may run till their maturity. In case existing borrowers want to switch to the new system, before expiry of the existing contracts, an option may be given to them by banks, on mutually agreed terms. Banks, however, should not charge any fee for such switch-over.