

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

STARRED QUESTION NO:288  
ANSWERED ON:13.08.2010  
BASE RATE SYSTEM  
Antony Shri Anto

**Will the Minister of FINANCE be pleased to state:**

- (a) whether the Reserve Bank of India (RBI) has introduced Base Rate System to replace Benchmark Prime Lending Rate System (BPLR);
- (b) if so, the details thereof alongwith the reasons therefor; and
- (c) the details of the effects of the said base rate on various types of loans including housing and educational loans?

**Answer**

FINANCE MINISTER(SHRI PRANAB MUKHERJEE)

(a) to (c): A Statement is laid on the Table of the House.

STATEMENT IN REPLY TO LOK SABHA STARRED QUESTION NO.288 FOR ANSWER ON 13TH AUGUST, 2010 REGARDING BASE RATE SYSTEM BY SHRI ANTO ANTONY.

(a) and (b): The Reserve Bank of India (RBI) has introduced the Base Rate System to replace the Benchmark Prime Lending Rate (BPLR) system w.e.f. 1st July, 2010. The Base Rate includes all those elements of lending rates that are common across all categories of borrowers. Banks are free to choose any methodology for arriving at the base rate provided it is consistent and is made available for supervisory review and disclosure. The actual lending rate charged by banks includes the base rate and other customer specific charges as considered appropriate. Barring a few exceptions, banks cannot lend below the Base Rate.

The Benchmark Prime Lending Rate (BPLR) system, introduced in 2003, fell short of its original objectives of bringing transparency to lending rates. This was mainly because banks could lend below the BPLR. For the same reason, it was difficult to assess the transmission of policy rates of the Reserve Bank of India (RBI) to lending rates of banks. Therefore, the RBI constituted a Working Group to review the BPLR system and suggest changes to make credit pricing more transparent. Based on the recommendations of the Working Group and the various stakeholders, the RBI issued guidelines on Base Rate on 9th April 2010.

(c): It is too early to assess the impact of the Base Rate system on various types of loans including housing and education loans. For the majority of banks Base Rate has been fixed in the close range of 7.25 and 8 per cent. Preliminary data available on actual interest rates charged by banks on loans to certain sectors shows that for most banks the lending rate under the Base Rate regime remained in the same range as under the BPLR regime as on 1st July 2010.