

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:272
ANSWERED ON:03.07.2009
PRIME LENDING RATES
Majhi Shri Pradeep Kumar

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government proposes to review the prime lending rates of banks in the country;
- (b) if so, whether the Government has constituted any working group to suggest an alternative system to make banking operations transparent in the country;
- (c) if so, the details thereof and the composition and term and reference of said working group and the recommendations of working groups, if any; and
- (d) the action taken by the Government thereon?

Answer

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

(a) to (d): The concept of Benchmark Prime Lending Rate (BPLR) was introduced in November 2003 for pricing of loans by commercial banks with the objective of enhancing transparency in the pricing of their loan products. However, in its Annual Policy statement for the year 2009-10, Reserve Bank of India (RBI) noted that, over time, the system of BPLR has evolved in such a manner that it has lost its relevance as a meaningful reference rate as bulk of loans are advanced below BPLR. RBI has also observed that this impedes the smooth transmission of monetary signals and makes the loan pricing system non-transparent. Therefore, in order to review the present BPLR system and suggest changes to make credit pricing more transparent, the policy proposed constitution of a Working Group on BPLR.

Accordingly, RBI has constituted a Working Group on BPLR on June 11, 2009 and invited comments and suggestions on the proposed Terms of Reference of the Working Group by June 19, 2009. The terms of reference of the Working Group are to-

- (i) review the concept of BPLR and the manner of its computation;
- (ii) examine the extent of sub-BPLR lending and the reasons thereof;
- (iii) examine the wide divergence in BPLRs of major banks,
- (iv) suggest an appropriate loan pricing system for banks based on international best practices,
- (v) review the administered lending rates for small loans up to Rs 2 lakh and for exporters;
- (vi) suggest suitable benchmarks for floating rate loans in the retail segment; and
- (vii) consider any other issue relating to lending rates of banks.

The Working Group consists of representatives from RBI, Indian Banks' Association, Banking Codes and Standards Board of India, some select commercial banks and external experts. The notifications dated 1.06.2009 and 22.06.2009 indicating the constitution and terms of reference of the Working Group are available at RBI website www.rbi.org.in. The Working Group has not so far submitted its recommendations.