

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:811

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RBI Lending Rate

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Will the Minister of FINANCE be pleased to state:

- (a) whether the Reserve Bank of India (RBI) has cut the Repo rate recently, if so, the details thereof;
- (b) whether as per study conducted by the International Monetary Fund (IMF) recently Indian banks are not customer friendly in terms of passing the benefits of interest rate cuts to its customers;
- (c) If so, the details thereof and the reasons therefor;
- (d) whether the Government/RBI has any proposal to introduce reforms in the monetary policy to check this practice; and
- (e) If so, the details thereof and the steps taken/being taken by the Government/RBI in this regard?

Answer

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

(a): The Reserve Bank of India (RBI) in its statement on monetary policy on June 2, 2015 reduced the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 7.50 per cent to 7.25 per cent. With this, the policy repo rate has been reduced by a cumulative 75 basis points since January 2015.

(b) & (c): The findings of International Monetary Fund (IMF) Working Paper of June 2015 on "Monetary Policy in India: Transmission to Bank Interest Rates" are as under:

"----- the analysis finds significant, albeit slow, pass-through of policy rate changes to bank interest rates in India. There is evidence of asymmetric adjustment to monetary policy: the lending rate adjusts more quickly to monetary tightening than to loosening. In addition, the speed of adjustment of deposit and lending rates to changes in the policy rate has increased in recent years".

Following the reduction in the RBI's policy rate by 75 basis points in three equal steps on January 15, March 4, and June 2, 2015, out of a total 89 scheduled commercial banks(SCBs) (excluding RRBs), 58 banks (27 PSBs, 14 private sector bank and 17 foreign banks) reduced their base rates (lending rate) in the range of 10-75 basis points so far (up to July 15, 2015) as given in Table below:

Bank Groups Reduction in Base Rate since January 15, 2015

(basis points)

Public Sector Banks 10 - 35

Private Sector Banks 15- 40

Foreign Banks 15 -75

SCBS (Excluding RRBs) 10- 75

Source: RBI

(d) and (e): RBI in its First Bi-monthly Monetary Policy Statement of April 7, 2015 has announced the following regarding monetary policy transmission

"For monetary transmission to occur, lending rates have to be sensitive to the policy rate. With the introduction of the Base Rate on July 1, 2010 banks could set their actual lending rates on loans and advances with reference to the Base Rate. At present, banks are following different methodologies in computing their Base Rate – on the basis of average cost of funds, marginal cost of funds or blended cost of funds (liabilities). Base Rates based on marginal cost of funds should be more sensitive to changes in the policy rates. In order to improve the efficiency of monetary policy transmission, the Reserve Bank will encourage banks to move in a time-bound manner to marginal-cost-of-funds-based determination of their Base Rate. Detailed guidelines will be issued shortly.

The Financial Benchmarks India Pvt. Ltd., jointly floated by the Fixed Income Money Market and Derivatives Association of India (FIMMDA), the Foreign Exchange Dealers' Association of India (FEDAI) and the Indian Banks' Association (IBA), has been established as an independent benchmark administrator. Once it starts publishing various indices of market interest rates, the Reserve Bank will explore the possibility of encouraging banks to use the indices as an external benchmark for pricing bank products".
