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RBI Plans to Review MCLR Guidelines

The Reserve Bank of India has said it will review guidelines on the marginal cost of funds based lending rate that could potentially be preparation to do away with the lending rate calculation system introduced less than three years ago, reports **Joel Rebello**. ▸▸ 11

RBI may Soon Do Away with MCLR

Bankers say a review is immiment MCLR system has not reflected the changes in rates

Joel.Rebello@timesgroup.com

Mumbai: The Reserve Bank of India (RBI) has said that it would review guidelines on the marginal cost of funds based lending rate (MCLR), potentially preparing to do away with the system for lending rate calculation less than three years after it was introduced.

In its 2017-18 annual report, RBI said it would review the MCLR guidelines as well subsidiarisation of foreign banks "for the purpose of fostering competition and re-orienting the banking structure in India." It did not give more details.

Bankers said a review was imminent because the MCLR system had not reflected the changes in rates. "World over, the bank rates have moved to an external benchmark which leads to uniform pricing. Currently banks in India calculate based on their internal benchmark which can be disputed and leads to a difference in rates between banks. This is likely to be changed," said PK Gupta, managing director at SBI.

The new MCLR regime was implemented in the fiscal year starting April 2016 and is closely linked to bank deposits rates. All new floating rate loans are now linked to MCLR. Since April 2018 RBI asked banks to harmonise all old loans linked to the base rate to MCLR.

An October 2017 report by an RBI committee to review MCLR recommended linking bank lending rates to a market benchmark, in a bid to hasten monetary policy transmission as well improve transparency in rate setting by lenders. The panel has suggested a risk-free curve involving

rates on treasury bills, or certificate of deposits rates or the central bank's policy repo rate. This report is still under consideration at the central bank.

RBI has also indicated a review of its policy seeking subsidiarisation of foreign banks operating in India, more than seven years after it first proposed the idea in a discussion paper in January 2011. RBI had lured foreign banks to open local subsidiaries in exchange for more branches. However only Singapore's DBS and State Bank of Mauritius (SBM) have so far applied to open local units. Large foreign lenders like Citibank, HSBC, Standard Chartered and Deutsche Bank have shied away from opening subsidiaries.

"With digitisation bank branches have become insignificant which explains why the large foreign banks do not see the advantage of opening a local unit in India. One needs greater clarity on the review RBI is planning but the situation on the ground has not changed since the last few years," said Abizer Diwanji, partner, financial services, EY.