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Defence Deal



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DRDO is lead organisation for design and development of the SR-SAM for Indian Navy, while Bharat Dynamics Ltd is ministry's missile production enterprise.

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SBI welcomes new base rate calculation methodology

By PTI | Updated: Dec 17, 2015, 11:10 PM IST

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MUMBAI: [State Bank of India](#) **BSE -0.70%** (SBI), which controls close to quarter of the financial system, today welcomed the final guidelines on marginal cost of funds-based methodology for interest rate calculation, saying with this the domestic banking sector has moved closer to global practices.

The nation's largest lender also said though the Reserve Bank directive on the new pricing methodology is for fresh loan pricing only, existing SBI customers can migrate to the latest system.

"SBI welcomes the final guidelines on marginal cost of funds methodology for [interest rates](#) on advances issued today by the Reserve Bank," Chairperson Arundhati Bhattacharya said.

"With the marginal cost of funds, including tenor premium, we have moved closer to international manner of benchmark rates," she added.

She said while the guidelines will benefit the new customers, "existing (SBI) customers will also have an option to shift to the new regime with some conditions."

After a fortnight's delay, the **RBI**, which was peeved at the banks' reluctance to lower their lending rates despite a 125 bps cut by it since January this year, today issued the final guidelines for calculating their cost of funds to fix their base rates (minimum lending rate). Banks have only cut an average of 60 bps this year.

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The new methodology will be effective April 1, 2016.

RBI Governor Raghuram Rajan had on December 1 said the guidelines for new base rate

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The move, apart from ensuring better transmission of RBI rate cuts to borrowers, will also help borrowers reap the benefit of lower rates as it will improve transparency in the methodology followed by banks for determining interest rates on advances.

"The guidelines are also expected to ensure availability of bank credit at interest rates which are fair to the borrowers as well as the banks. Further, marginal cost pricing of loans will help banks become more competitive and enhance their long run value and contribution to economic growth," RBI said in a circular.

As per the guidelines "all rupee loans sanctioned and credit limits renewed from April 1, 2016 will be priced with reference to the marginal cost of funds based lending rate, which will be the internal benchmark for such purposes".

Banks currently follow average cost of funds or 'blended cost of funds (liabilities) method' for calculating the base rate, while a few already take into account the proposed measure of 'marginal cost of funds'.

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