

## A look at the factors behind banks not passing benefits of RBI's rate cut to customers

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In the past three years, the central bank has reduced the policy rate by 200 basis points, but the weighted average lending rates have fallen by 145 basis points.

Two days after State Bank of India chairman Arundhati Bhattacharya slashed savings bank deposit rates in an unprecedented fashion, Kotak Mahindra Bank executive vice chairman Uday Kotak tweeted, 'borrowers matter, so do savers,' and declared that his bank was in no hurry to lower rates. The action and reaction of the two top bankers reflect the paradox of the Indian banking industry. Between the two events, the [Reserve Bank of India](#) said banks' conduct in passing on the benefits of lower interest rate through the so-called Marginal Cost of Funds based Lending Rate, or [MCLR](#), has not been 'entirely satisfactory' and announced the constitution of a study group to ensure the concept works.

Indian banking is vertically divided into the loss-making state-owned banks and a bunch of highly profitable private sector ones looking to gain market share at the cost of the leaders who have benefited from state support.