$\downarrow \gamma \gamma$

$\int$

RRR = Reverse Repo Rate

↓

A rate at which the RBI

↓

absorbs

↓

excessive liquidity
(of comm. banks)

Under it, banks can deposit their excessive liquidity with the RBI

In this respect, the RBI is to give G-sec. as collaterals to the banks with the promise of repurchase.

Note : With the launch of the SDF rate, the RRR has lost its importance in a big way. This is the reason that the RBI has not been changing it since a long time. It is fixed at the level of 3.35%. It is also being known as FRRR.

fixed Reverse Repo Rate

SDF Rate

Standing Deposit Facility

It was introduced in April 2022 on the recommendations of -

$\boxed{\text{The Urjit Patel Committee, 2014}}$

MSF Rate

Marginal Standing facility

- Overnight lending rate to be charged by the RBI from banks.
- Presently, banks can borrow under it to the extent of 2% of their NDTL.

Various Rates

- RBI v/s Banks
  - Bank Rate
  - Repo Rate
  - RRR / FRRR
  - SDF Rate
  - MSF Rate
- Banks v/s Customer
  - BPLR
  - Base Rate
  - MCLR
  - EBLR

BPLR

Benchmark Prime Lending Rate

a lending rate to be charged by commercial banks from $\boxed{\text{good-borrowers}}$.

Base Rate : 2010 ; Deepak Mohanty Committee

floor

↓

a rate below which banks can not fix their BPLR.

↓

Introduced → To ensure

↓

Healthy competition among banks.

Note –

Apart from various other factors, the average cost of funds is the most important factor to be used in the calculation of the base rate.

The concept of the base rate was replaced by the concept of MCLR in 2016.

MCLR : Introduced → 2016

Marginal Cost of funds based Lending Rate.

Under it, the BPLR is determined in such a manner that it does not go below the marginal cost of funds collected by the banks.

In the calculation of the marginal cost of funds, interest rates of only new deposits are taken into account after the change in the repo rate.

EBLR : Introduced → Oct. 2019

↓

External Benchmark-based Lending Rate

↓

The Janakraj Committee (2017)

↓

Floating Rate Loans

- Retail
- Auto
- Housing
- Personal
- MSMEs

Under it, any of the following external benchmarks can be used to fix the BPLR-

(i) Repo Rate. → $\underline{\underline{\text{RLLR}}}$

(ii) Yield Rate of the TBs of 91-days.

(iii) Yield Rate of the TBs of 182 days.

Production	Total cost	Average cost	Marginal cost
1.	₹ 10	₹ 10	–
2.	₹ 18	₹ 9	₹ 8
3.	₹ 24	₹ 8	₹ 6

Extreme

Cost + Mark-up

$\downarrow$

Price

Loan

$\downarrow$

Price

$\downarrow$

Interest rate

- Presently, the RBI is maintaining the policy of keeping the MSF rate higher than the Repo Rate by 25 basis points (0.25%).

Presently, the MSF Rate

↓

6.75%

(Repo Rate → 6.50%)

Under it, the RBI can deposit excessive liquidity of banks without submitting collaterals. This is the reason that it is also called as the UDF.

↓

Uncollateralised Deposit facility

Note -

Under the SDF rate, banks can deposit money with the RBI for overnight by using e-kuber, an electronic trading platform run by the RBI.

According to the present policy of the RBI →

The SDF Rate is kept 25 basis points (0.25%) lower than the

Bank

$\downarrow$

Ex. liquidity

RR .... 6.50 %

SDF Rate ———————— 6.25 %

FRRR ———————— 3.35 %

Since, the present Repo Rate is 6.50%, therefore –

The present SDF Rate

$\downarrow$

$\underline{\underline{6.25\%}}$