SBI linked its interest rate to the Repo rate

- **State Bank of India** (SBI), the country's largest bank, **linked its interest rates on savings bank deposits and short term loans to the repo rate** of the Reserve Bank of India (RBI).
  - The repo rate - the interest rate at which the RBI lends funds to banks - is currently 6%.
- SBI has linked savings bank deposits with balances of more than Rs 1 lakh to the repo rate.
- This will **replace the previous practice of linking these deposits to the Marginal Cost of Funds based Lending Rate** (MCLR), **an internal benchmark**.
  - Marginal Cost of Funds based Lending Rate (MCLR) is the minimum interest rate, below which a bank is not permitted to lend, though RBI can give authorization for the same in exceptional cases. It depends on factors such as fixed deposit rates, source of funds and savings rate.
- **Advantage of external benchmark linking:** It is expected that the new system of external benchmark will bring in more transparency in fixing interest rates, and help in faster transmission of rates.

RBI's proposal

- In its December 2018 monetary policy meet, the **RBI had proposed the benchmarking/ linking of fresh floating-rate** on retail loans and loans to micro and small enterprises **to an external benchmark** like repo rate or Treasury Bill rate, from April 1, 2019.
  - Treasury Bill is a short term (up to 1 year) debt issuance from the Government of India. These instruments are issued at a discount and redeemed at the face value on maturity, which provides the interest rate return on the security.
- However, **on April 4**, the **RBI** announced that it has **put on hold its proposal** to link interest rates on deposits and short-term loans to an external benchmark like the repo rate or Treasury Bill **following the opposition from other banks.**