Public Sector Lenders Raise MCLR

Source: IE

Public sector lenders like **State Bank of India and Bank of Baroda** have raised their **Marginal Cost of funds based Lending Rates (MCLR)**. This will lead to higher **Equated Monthly Instalments (EMIs)** for borrowers.

- The Marginal Cost of Fund based Lending Rate refers to the minimum interest rate a bank must charge for lending. The bank cannot grant any loan below that rate, except in certain cases permitted by the Reserve Bank of India (RBI).
    - MCLR is an "internal benchmark" which varies from bank to bank. It is calculated based on the marginal cost of funds.
    - Main components of MCLR:
        - Marginal cost of funds
        - Negative carry on account of CRR
        - Operating costs
        - Tenor premium
- If the **cost of funds goes up, the MCLR increases**, and the loans linked to any MCLR tenor get more expensive. Similarly, if the MCLR comes down, loans get cheaper.
- In 2019, the **Reserve Bank of India (RBI)** introduced the **External Benchmark Based Lending Rate (EBLR)**, to replace the MCLR regime.
- Consequently, all retail loans and floating-rate loans to **Micro, Small, and Medium Enterprises (MSMEs)** are now linked to the EBLR.

Read More: External Benchmarks Lending Rate

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