

**भारतीय रिज़र्व बैंक**  
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**RBI Working Paper No. 10 /2022: Monetary Transmission in India under the Base Rate and MCLR Regimes: A Comparative Study**

Today the Reserve Bank of India placed on its website a Working Paper titled, "[Monetary Transmission in India under the Base Rate and MCLR Regimes: A Comparative Study](#)" under the Reserve Bank of India Working Paper Series<sup>1</sup>. The Paper is co-authored by Sadhan Kumar Chattopadhyay and Arghya Kusum Mitra.

This paper compares the degree of pass-through of monetary policy action to lending interest rates of domestic banks under two different regimes - base rate and the MCLR using system GMM dynamic panel data model developed by Arellano and Bover (1995). The study covers the period 2012-13:Q4 to 2018-19:Q2. By taking nine individual bank-specific characteristics, nine different models were set up to examine the impact of individual bank-specific characteristics on monetary transmission. The results suggest that a 100 basis point change in the policy repo rate leads to 26-47 basis point change in the weighted average lending rate on fresh rupee loans sanctioned by banks over the long run during the MCLR regime as against only 11-19 basis point during the base rate regime. Different models generate different estimates of the pass-through reflecting the relative strength of the respective individual bank-specific characteristics in influencing the transmission process. It is observed that irrespective of the model chosen, transmission is higher during the MCLR regime than that during the base rate regime. The alignment of liquidity management with the monetary policy stance, introduction of the flexible inflation targeting (FIT) framework and the deceleration in economic activity reducing credit demand could be contributory factors for better transmission during the MCLR regime.

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**(Yogesh Dayal)**  
Chief General Manager

<sup>1</sup> The Reserve Bank of India (RBI) introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the RBI and at times also those of external co-authors when the research is jointly undertaken. They are disseminated to elicit comments and further debate. The views expressed in these papers are those of the authors and not necessarily those of the institution(s) to which they belong. Comments and observations may please be forwarded to the authors. Citation and use of such papers should take into account its provisional character.