

Annex - 1

Chronology of Policy Changes with Regard to PLR

October 1994	Banks would determine their own lending rates for credit limits over Rs. 2 lakh. However, banks were required to declare their Prime lending rate (PLR) with the approval of their Boards taking into account their cost of funds, transaction cost, etc.
February 1997	To enable a smooth transition to the loan system as opposed to cash credit system of credit delivery. PLRs for the cash credit and demand loan component might be declared separately.
October 1997	Banks allowed to announce, with the approval of the their Boards separate Prime Term Lending Rates (PTLR for term loans of 3 years and above.
April 1998	In order to remove the disincentive to the flow of credit to small borrowers below Rs.2 lakh, instead of prescribing a specific rate uniformly for all banks, PLR was converted a ceiling rate on loans up to Rs.2 lakh. Banks were allowed to charge fixed/floating rate loan at or above PLR for credit limit of over Rs.2 lakh.
April 1999	The concept of Tenor linked Prime Lending Rates (TPLRs) was introduced to give the Scheduled Commercial Banks more operational flexibility.
October 1999	Banks were given the flexibility to charge interest rates without reference to the PLR in respect of certain categories of loans/credit like discounting of bills, lending to intermediary agencies, etc.
April 2000	Banks were given the freedom to offer loans on fixed or floating basis. However, for small loans up to Rs. 2 lakh, the stipulation of not exceeding PLR (of relevant maturity) continued.
April 2001	Keeping in view the international practice and to provide further operational flexibility to commercial banks in deciding their lending rates, it was decided to make PLR a benchmark rate. Accordingly, commercial banks were allowed to lend at sub-PLR rate for loans above Rs.2 lakh.
April 2002	The Reserve Bank had indicated the intention of collecting PLR as well as the maximum and minimum interest rates on advances charged by the banks and place the same in public domain for customers' protection and meaningful competition. Accordingly, the bank-wise information on the same is disseminated in the RBI web site for each quarter starting from the quarter ended June 2002.
April 2003	In order to enhance transparency in banks' pricing of their loan products, the Reserve Bank advised banks to announce a benchmark PLR with the approval of their Boards. Banks were advised to consider their (i) actual cost of funds, (ii) operating expenses and (iii) a minimum margin to cover regulatory requirement of provisioning/capital charge and profit margin, while arriving at the benchmark PLR to ensure that the PLR truly reflects the actual cost. Since all other lending rates can be determined with reference to the benchmark PLR arrived at, as above, by taking into account term premia and/or risk premia, the system of tenor-linked PLR was proposed to be discontinued.
November 2003	IBA Advisory on adoption of BPLR

Annex – 2

An Analysis of the Responsiveness of BPLRs to the Policy Rates and Liquidity Conditions

An AR(1) estimation of the changes in modal BPLR to changes in policy rates and weighted average call money rate was attempted for the period 2004 Q1 to 2009 Q1. For the purpose of analysis the policy rates changes and weighted average call money rates were bifurcated into episodes of tightening and easing of policy rates. The contemporaneous and lagged impacts of an increase and a decrease in policy rates and weighted call money rates on BPLRs were estimated to analyse the responsiveness of BPLR of various bank groups to movements in policy rates.

The results of an AR(1) estimation on changes in modal BPLR with respect to changes in repo rate for the period 2004 Q1 to 2009 Q1 is given below:

Public Sector Banks		Sample 2004Q1 - 2009Q1	
Dependant Variable : Change in Modal BPLR			
Explanatory Variables	Contemporaneous Repo Rate Change	Repo Rate Change in Previous Quarter	Repo Rate Change in two Quarters before
Increase in Repo Rate	...	0.89 (2.06)*	...
Decrease in Repo Rate	0.66 (2.96)*	...	...
DW statistic : 2.02		R bar squared : 0.47	
Private Banks		Sample 2004Q1 - 2009Q1	
Dependant Variable : Change in Modal BPLR			
Explanatory Variables	Contemporaneous Repo Rate Change	Repo Rate Change in Previous Quarter	Repo Rate Change in two Quarters before
Increase in Repo Rate	1.05 (2.05)*	...	1.94 (2.82)*
Decrease in Repo Rate	...	...	...
DW statistic : 2.36		R bar squared : 0.33	
5 Major Foreign Banks		Sample 2004Q1 - 2009Q1	
Dependant Variable : Change in Modal BPLR			
Explanatory Variables	Contemporaneous Repo Rate Change	Repo Rate Change in Previous Quarter	Repo Rate Change in two Quarters before
Increase in Repo Rate	0.77 (2.00)*	...	...
Decrease in Repo Rate	...	...	...
DW statistic : 1.69		R bar squared : 0.17	
Note: * denotes t value at 5 per cent level of significance ... : Not significant at 5 per cent level			

The results of an AR(1) estimation on changes in modal BPLR with respect to changes in reverse repo rate for the period 2004 Q1 to 2009 Q1 is given below:

Public Sector Banks		Sample 2004Q1 - 2009Q	
Dependant Variable : Change in Modal BPLR			
Explanatory Variables	Contemporaneous Reverse Repo Rate Change	Reverse Repo Rate Change in Previous Quarter	Reverse Repo Rate Change in two Quarters before
Increase in Reverse Repo Rate	...	...	...
Decrease in Reverse Repo Rate	...	...	...
DW statistic : 2.07		R bar squared : 0.37	
Private Banks		Sample 2004Q1 - 2009Q1	
Dependant Variable : Change in Modal BPLR			
Explanatory Variables	Contemporaneous Reverse Repo Rate Change	Reverse Repo Rate Change in Previous Quarter	Reverse Repo Rate Change in two Quarters before
Increase in Reverse Repo Rate	...	...	...
Decrease in Reverse Repo Rate	...	...	...
DW statistic : 2.43		R bar squared : 0.02	
5 Major Foreign Banks		Sample 2004Q1 - 2009Q	
Dependant Variable : Change in Modal BPLR			
Explanatory Variables	Contemporaneous Reverse Repo Rate Change	Reverse Repo Rate Change in Previous Quarter	Reverse Repo Rate Change in two Quarters before
Increase in Reverse Repo Rate	...	...	...
Decrease in Reverse Repo Rate	...	...	...
DW statistic : 1.69		R bar squared : 0.17	
Note: * denotes t value at 5 per cent level of significance ... : Not significant at 5 per cent level			

The results of an AR(1) estimation on changes in modal BPLR with respect to changes in weighted average call money rate for the period 2004 Q1 to 2009 Q1 is given below:

Public Sector Banks		Sample 2004Q1 - 2009Q1	
Dependant Variable : Change in Modal BPLR			
Explanatory Variables	Contemporaneous Weighted Average Call Money Change	Weighted Average Call Market Change in Previous Quarter	Weighted Average Call Market Change in two Quarters before
Increase in Weighted Average Call Money Rate	0.38 (2.92)*	...	...
Decrease in Weighted Average Call Money Rate	...	...	0.27 (2.10)*
DW statistic : 1.73		R bar squared : 0.37	
Private Banks		Sample 2004Q1 - 2009Q1	
Dependant Variable : Change in Modal BPLR			
Explanatory Variables	Contemporaneous Weighted Average Call Money Change	Weighted Average Call Market Change in Previous Quarter	Weighted Average Call Market Change in two Quarters before
Increase in Weighted Average Call Money Rate	0.32 (2.74)	...	...
Decrease in Weighted Average Call Money Rate	-0.30 (-2.52)	0.40 (3.42)	...
DW statistic : 2.16		R bar squared : 0.54	
5 Major Foreign Banks		Sample 2004Q1 - 2009Q	
Dependant Variable : Change in Modal BPLR			
Explanatory Variables	Contemporaneous Weighted Average Call Money Change	Weighted Average Call Market Change in Previous Quarter	Weighted Average Call Market Change in two Quarters before
Increase in Weighted Average Call Money Rate	0.33 (3.52)	...	...
Decrease in Weighted Average Call Money Rate	...	...	...
DW statistic : 1.99		R bar squared : 0.37	
Note: * denotes t value at 5 per cent level of significance ... : Not significant at 5 per cent level			

Annex 3: Outstanding Sub-BPLR lending of SCBs

(Percentage of share in total loans excluding small loans and export credit)

Credit Type	Mar-02	Jun-02	Mar-03	Dec-03	Sep-04	Dec-04	Mar-05	Sep-05	Mar-06	Sep-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
i) Cash Credit	5.4	5.3	6.5	6.6	9.5	6.2	7.7	10.3	11.7	12.6	13.2	14.0	12.5	13.3	14.0	13.9	12.9	12.4	12.4
ii) Consumer Credit	0.6	1.5	3.3	8.1	7.7	6.5	8.7	10.7	8.1	10.3	10.7	9.0	8.9	10.5	8.9	8.1	8.7	7.5	3.7
iii) Demand Loan (including bill discounting)	5.9	8.6	6.9	7.3	7.6	5.8	8.2	7.8	7.4	5.7	6.4	6.5	6.4	8.3	8.5	11.4	8.2	6.0	6.9
iv) Term Loans	16.5	22.7	21.0	26.7	31.3	46.5	34.4	38.0	41.9	46.7	46.6	46.3	50.1	44.2	44.3	44.2	46.9	46.1	43.9
a) 1-180 days	2.8	7.3	3.0	2.3	1.7	2.0	2.6	2.3	3.4	2.8	2.9	3.3	3.1	4.6	5.7	4.2	3.6	3.0	3.1
b) 180 days-1 year	1.0	2.9	1.0	1.3	1.8	1.5	2.1	1.6	1.9	2.0	1.9	1.7	1.7	2.0	2.3	2.1	1.9	2.0	2.2
c) 1-3 years	1.6	2.9	1.9	3.0	3.4	2.7	4.6	4.5	5.6	5.8	5.2	5.3	5.3	6.3	6.1	7.7	6.3	5.8	5.3
d) 3-5 years	1.4	2.4	4.8	10.4	10.9	10.1	11.2	14.5	14.0	18.2	17.7	17.2	20.1	9.8	11.7	10.0	17.9	15.7	15.7
e) above 5 years	6.4	3.4	6.6	5.3	8.9	27.1	10.2	11.2	12.6	13.6	14.7	14.9	12.7	17.1	13.7	15.4	13.3	13.3	13.7
f) Others	3.5	3.9	3.8	4.4	4.7	3.2	3.7	3.9	4.5	4.3	4.3	3.9	7.3	4.5	5.0	4.8	3.9	6.3	4.0
Total (i to iv) as percentage of all loans	28.4	38.0	37.7	48.7	56.1	65.1	58.9	66.8	69.2	75.3	76.9	75.8	77.9	76.3	75.8	77.6	76.7	72.0	66.9

Annex 4: Outstanding Sub-BPLR lending of PSBs
(Percentage of share in total loans excluding small loans and export credit)

Credit Type	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
i) Cash Credit	14.3	15.6	13.4	15.4	15.5	14.3	12.9	12.6	12.2
ii) Consumer Credit	1.3	1.1	1.0	1.7	1.0	2.7	2.5	2.2	2.2
iii) Demand Loan (including bill discounting)	5.9	6.3	5.9	8.0	8.0	12.6	7.7	5.2	6.3
iv) Term Loans	51.7	50.2	54.8	47.5	46.7	44.3	50.0	48.7	43.6
a) 1-180 days	1.9	2.5	2.0	3.3	5.3	3.1	2.8	2.3	2.6
b) 180 days-1 year	1.4	1.4	1.3	1.8	1.7	1.9	1.4	1.6	1.9
c) 1-3 years	5.0	4.8	4.8	6.5	5.7	7.8	5.8	5.1	4.8
d) 3-5 years	22.4	21.3	24.9	11.3	13.3	10.1	22.2	18.4	17.3
e) above 5 years	16.0	15.5	12.7	19.0	14.7	16.1	13.2	13.6	12.6
f) Others	5.0	4.7	9.0	5.5	6.0	5.3	4.6	7.7	4.4
Total (i to iv) as percentage of all loans	73.2	73.2	75.0	72.6	71.2	73.8	73.1	68.7	64.2

Annex 5: Outstanding Sub-BPLR lending of Private Banks
(Percentage of share in total loans excluding small loans and export credit)

Credit Type	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
i) Cash Credit	11.7	11.0	11.1	10.2	11.8	13.3	13.9	13.3	16.0
ii) Consumer Credit	38.3	32.3	33.5	32.3	28.1	25.3	23.3	23.3	5.1
iii) Demand Loan (including bill discounting)	7.3	6.0	5.9	6.4	8.6	7.4	7.2	6.9	6.5
iv) Term Loans	33.9	38.7	37.6	37.5	40.1	42.9	45.1	44.5	55.8
a) 1-180 days	4.2	3.6	4.4	5.3	4.6	6.5	5.5	4.7	4.2
b) 180 days-1 year	2.4	2.1	2.2	2.0	3.1	2.2	2.5	2.5	3.7
c) 1-3 years	5.0	6.4	6.1	5.8	7.2	7.0	8.0	8.3	8.1
d) 3-5 years	7.1	8.6	8.0	7.5	9.5	10.4	9.6	9.9	11.2
e) above 5 years	13.0	16.0	14.8	15.1	13.3	14.1	17.1	16.2	25.7
f) Others	2.2	2.0	2.2	1.9	2.4	2.8	2.4	2.8	2.9
Total (i to iv) as percentage of all loans	91.2	88.0	88.2	86.4	88.7	89.0	89.5	87.9	83.5

Annex 6: Outstanding Sub-BPLR lending of Foreign Banks
(Percentage of share in total loans excluding small loans and export credit)

Credit Type	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
i) Cash Credit	7.1	7.0	7.8	5.2	7.6	9.3	10.3	6.7	6.8
ii) Consumer Credit	21.0	17.9	22.4	21.0	21.7	7.2	23.1	21.2	24.3
iii) Demand Loan (including bill discounting)	9.0	9.9	13.3	15.9	12.6	14.4	15.8	13.2	16.0
iv) Term Loans	33.5	31.4	35.1	35.8	35.8	50.2	21.2	20.4	20.5
a) 1-180 days	8.1	9.7	10.6	13.5	13.0	12.6	5.6	6.4	7.3
b) 180 days-1 year	5.5	3.7	3.6	3.3	4.5	4.7	4.4	5.3	3.5
c) 1-3 years	7.5	6.8	7.9	5.7	6.3	10.3	6.2	5.7	6.2
d) 3-5 years	3.0	3.1	3.5	3.5	3.5	3.8	1.8	1.6	1.7
e) above 5 years	6.6	5.9	6.4	6.2	5.4	9.1	1.3	1.0	1.1
f) Others	2.7	2.3	3.2	3.7	3.2	9.8	2.0	0.4	0.7
Total (i to iv) as percentage of all loans	70.6	66.3	78.5	77.9	77.6	81.2	70.5	61.5	67.5

**Annex 7: Spread on Interest rate excluding 5% business for term loan
contracted at extreme rate**

(per cent)

Year	PSBs			Private Sector Banks			Five Major Foreign Banks		
	Modal BPLR	Max Spread	Min Spread	Modal BPLR	Max Spread	Min Spread	Modal BPLR	Max Spread	Min Spread
Mar 04	11.00	5.00	-5.25	12.00	9.50	-9.00	12.75	9.25	-9.40
Jun 04	11.00	5.00	-6.20	12.00	10.25	-8.00	12.75	10.00	-7.8
Sep 04	11.00	5.00	-6.00	12.00	10.25	-8.00	12.75	10.00	-9.65
Dec 04	11.00	8.50	-7.00	12.00	11.00	-8.50	12.75	10.00	-8.05
Mar 05	11.00	4.50	-7.00	11.50	8.50	-8.50	12.75	10.00	-8.52
Jun 05	11.00	5.00	-7.00	11.50	11.44	-8.00	12.75	12.00	-7.74
Sep 05	11.00	4.50	-7.00	12.00	8.50	-8.00	12.75	12.00	-9.89
Dec 05	11.00	5.00	-7.00	12.00	7.00	-8.00	12.75	11.00	-9.89
Mar 06	11.00	5.00	-7.00	12.00	7.00	-8.00	12.75	13.25	-7.74
Jun 06	11.25	4.50	-7.50	12.50	13.50	-8.50	12.75	12.00	-7.74
Sep 06	11.50	4.50	-7.50	13.00	11.50	-8.50	12.75	10.00	-7.74
Dec 06	11.50	4.50	-7.50	13.00	11.00	-8.50	12.75	10.75	-7.74
Mar 07	12.50	4.50	-8.50	14.00	11.00	-10.50	13.50	12.75	-8.93
Jun 07	13.25	4.50	-9.25	15.00	11.00	-10.43	14.50	12.50	-8.6
Sep 07	13.25	4.50	-9.25	14.00	9.50	-11.00	14.50	12.50	-8.5
Dec 07	13.25	4.50	-9.25	15.00	7.00	-11.00	14.50	11.50	-8.5
Mar 08	13.25	5.00	-9.25	15.00	7.00	-11.00	14.25	12.50	-8.2
Jun 08	13.00	5.00	-9.25	15.25	9.75	-10.94	14.50	5.5	-8.79
Sep 08	14.00	4.50	-7.50	16.00	7.00	-11.94	15.50	4.25	-9.79
Dec 08	13.25	4.50	-6.50	15.75	13.00	-11.44	15.50	4.75	-9.29
Mar 09	12.50	4.50	-6.85	16.75	10.00	-11.44	15.25	4.75	-9.29

Annex 8

Representatives from Industry Associations

Shri Ajit Ranade	Chief Economist, Confederation of Indian Industry
Shri V.Kumaraswamy	CFO, JK Papers Ltd, Federation of Indian Chamber of Commerce & Industry
Shri. M.V. S. Seshagiri Rao	Dir(Fin), Jindal Vijaynagar Steel Ltd Associated Chamber of Commerce & Industry of India
Shri Thakkar	Co Chairman of Committee on Finance & Banking, Indian Merchant Chamber
Dr Dhananjay Samant	O-in-C, Banking & Finance Committee, Indian Merchant Chamber
Shri Sharad Kumar Saraf	VP & Chairman (WR), Federation of Indian Export Organisation
Shri Anand Ladsarya	Managing Committee Member, Federation of Indian Export Organisation
Shri Ramesh Iyer	Chairman of Bkg. & Fin. Committee, Bombay Chamber of Commerce & Industry
Dr Atindra Sen	Dir.Gen., Bombay Chamber of Commerce & Industry
Dr Shubhada M Rao	Chairman of Economic Policy & Corporate Strategy, Bombay Chamber of Commerce & Industry
Shri S.J.Balesh	Co-Chairman, Bkg.&Fin. Committee, Bombay Chamber of Commerce & Industry
Shri Ravi	Chief Fin.Officer, M&M Fin.Services, Bombay Chamber of Commerce & Industry
Shri K. Chandra Sekar	Sr. VP. Corp Fin, Bombay Chamber of Commerce & Industry
Shri Chandrakant Salunkhe	President, Small & Medium Business Development Chamber of India
Shri S.K.Sarkar	Member, Federation of Indian Micro and Small & Medium Enterprises
Shri S. S. Rathi	National President, Federation of Association of Small Industries of India
Shri Avinash Dalal	Ex Comm, Federation of Association of Small Industries of India
Shri Purushottam	Thane Small Scale Industries Association

Annex 9

People who Contributed Suggestions to the Working Group

Abhishank Jajur	abhishank.jajur@gmail.com
Ajay Garg	M/S Ajay Garg and Associates, Faridabad
Anupam Shah	President, Merchant Chambers of Commerce, Kolkatta
Anand	anand186@rediff.com
Ashok K	ashokk018@yahoo.com
Ajit Rathore	ajit.rathore@gmail.com
Chanderpur Works Pvt. Ltd	
Gopalan T R	Tata Consultancy Services
Gupta	Gupta31641@rediffmail.com
Hirnesh B Havsar	hirnesh@rediffmail.com
Indian Bank	ibhocredit@dataone.in
K G K Subba Rao	
K. Kanagasabapathy	EPW Research Foundation, Mumbai
Mahendra Dohare	Mahendra_dohare@yahoo.co.in
P Balagopala Kurup	General Manager, Indian Overseas Bank, Central Office, Chennai
P C John	Integrated Risk Management Department, Federal Bank, Alwaye
P D Sharma	President, Apex Chamber of Commerce and Industry (Punjab)
P S Nagarsheth	President, Iron Steel Scrap & Shipbreakers Association of India
Punit Srivastava	Senior Vice President, Banking & Finance, Daiwa SMBC Securities
R. K. Gupta	Faridabad
S H Prashad	
S Ramesh Kumar	Senior Vice President, Asit C Mehta Investment Intermediates Ltd.
Dr. T V Gopalakrishnan,	Bangalore
V Harikrishnan	vharikrishnan@yahoo.com

Annex 10: PLR - International Experience

	United States	Japan	Russia
1	2	3	4
1. % of bank lending linked to PLR	Between 10% and 25%	It is mostly for housing loans and small companies & not for small corporates	Between 10% and 25%
2. Presence of sub-PLR lending	significant lending below the US Prime Rate	Sub-BLPR lending exist	Hardly any sub-PLR lending
3. Determination of PLR	Prime Rate generally set at Fed Target plus 300bp	Cost plus	Cost plus
4. Frequency in review of PLR	As FOMC changes their Fed Target rate (approx 8 times a year)	LT rate is set monthly. ST rates are reviewed as needed	No
5. The range and dispersion of PLR amongst various players (lenders / banks)	Banks have almost the same PLR	Dispersion in a narrow range 2	Dispersion over a moderate range 3
6. Elasticity of PLR in relation to deposit costs in your country	Elasticity is very high 1	Elasticity is high 2	Moderate 3
7. Correlation of PLR to the observable interest rate market benchmarks	Low correlation 4	High correlations 2	Low Correlation 4
8. Correlation of PLR to the Central Bank's policy rates	Very high correlation 1	High Correlation 2	Moderate Correlation 3
9. Do multiple Prime lending rates exist	No	No	No
10. Is there different PLRs for wholesale borrowers		No	No
11. Tenor-wise term structure of PLR		Yes Short-term and long term	Yes
12. Is the PLR computation done bottoms-up	Fixed spread over the fed target rate (at 300bps)	Yes	No

Source : Survey by Citibank, India

Note: On a Scale of 1 to 5 - 1 implies dispersion in a tight range and 5 implies dispersion in a wide range for question 5. For Questions 6, 7, 8 on a scale of 1 to 5, 1 implies very high correlation and 5 implies very low correlation.

Annex 10: PLR – International Experiences (continued)

	Brazil	Hong Kong	Malaysia	Poland
1	5	6	7	8
1. % of bank lending linked to PLR	CDI is the interbank overnight rate	Between 10% and 25%	Between 50% and 75%	Between 10% and 25%
2. Presence of sub-PLR lending	Hardly any sub-PLR lending	Sub-PLR lending exists	Sub-PLR lending exist	Sub-PLR lending exist
3. Determination of PLR	CDI is always very close to SELIC rate, Central bank monitors CDI to avoid discrepancy between the two	Cost plus and also determined by competitive forces	PLR can be changed, however reasons for it have to be given to central bank	WIBOR determined by competitive forces. Spread takes into account mainly cost of funding, type and tenor of the loan
4. Frequency in review of PLR	No	No	No	No
5. The range and dispersion of PLR amongst various players (lenders / banks)	Dispersion is in a very tight range 1	Dispersion is in a very tight range 1	Dispersion in a tight range 2	Dispersion in a tight range 2
6. Elasticity of PLR in relation to deposit costs in your country	Very high correlation 1	High Correlation 2	Very highly correlated with corporate short-term deposit. Low correlation with retail deposit	High Correlation 2
7. Correlation of PLR to the observable interest rate market benchmarks	Very high correlation 1	Very low correlation 5	Very low correlation 5	Moderate Correlation 3
8. Correlation of PLR to the Central Bank's policy rates	Very high correlation 1	High correlation	Very high correlation 1	Moderate Correlation 3
9. Do multiple Prime lending rates exist	Yes	No	No	Yes
10. Is there different PLRs for wholesale borrowers	No	No	No	Yes
11. Tenor-wise term structure of PLR	No	Yes	No	Yes
12. Is the PLR computation done bottoms-up	No. CDI is the average rate of all overnight interbank loans	Based on funding cost, credit cost, operating cost and competition	No	Total PLR rate includes funding costs, credit costs, operational costs

Source : Survey by Citibank, India

Annex 10: PLR – International Experiences (continued)

	Singapore	Taiwan	South Africa
1	9	10	11
1. % of bank lending linked to PLR	Between 10% and 25%	Between 50% and 75%	Lending to individuals linked to PLR. Lending to corporate sector linked to floating rates (JIBAR) or PLR
2. Presence of sub-PLR lending	Sub-PLR lending exist	Sub-PLR lending does not exist	Banks lend at a fixed spread to PLR based on customer's credit quality
3. Determination of PLR	Cost plus as well as competitive forces	Cost plus	Industry body administers PLR, after extensive negotiations with Central Banks
4. Frequency in review of PLR	No	No	No. Linked to repo rate set by SA Reserve Bank
5. The range and dispersion of PLR amongst various players (lenders / banks)	Dispersion in a tight range 2	Dispersion in a wide range 4	Dispersion in a very tight range 1 It is same for all the banks
6. Elasticity of PLR in relation to deposit costs in your country	Low Correlation 4	Tight Correlation 2	Tight Correlation 2 Repo rate determined PLR. Deposit rates are heavily influence by repo rate , though liquidity condition also see deposit rate change
7. Correlation of PLR to the observable interest rate market benchmarks	Very Low Correlation 5	Low Correlation 4	Very Low Correlation 5
8. Correlation of PLR to the Central Bank's policy rates	Very low Correlation 5	Low Correlation 4	Very tight correlation 1
9. Do multiple Prime lending rates exist	No. Other BM like SIBOR, SOR exist for pricing loans etc.	No	No
10. Is there different PLRs for wholesale borrowers	No	Yes	No
11. Tenor-wise term structure of PLR	No	No	No PLR is an overnight rate
12. Is the PLR computation done bottoms-up	Main components are reserve cost and credit cost	Main components are deposit rate and operation cost	No It's a fixed spread to the Central Bank policy rate

Source : Survey by Citibank, India

Annex 11 : Base Rate : An illustration

Components	
a. One year Term Deposit rate	6.50%
b. Less: CASA Adjustment (Factor 1 +Factor 2)	1.31%
c. Negative Carry on CRR and SLR	0.96%
d. Unallocated Overhead Cost	0.99%
e. Average Return on Net worth	1.41%
Base Rate (a-b+c+d+e)	8.55%

Computation of the Base Rate : An illustration

1 Assumptions

Total Deposits	100	Rs. Crore
Savings Bank Deposits (SB)	22	Rs. Crore
Current Account Balances (CA)	10	Rs. Crore

2 Positive Carry on CASA

Savings Bank rate (SB rate)	3.50%
Difference (TD rate- SB rate)	3.00%
Proportion of Savings Bank Deposits (SBSHARE)	22.00%
Factor 1 (SBSHARE * Difference in TD and SB Rate)	0.66%
Proportion of Current Account (CASHARE)	10.00%
Factor 2 (CASHARE* TD rate)	0.65%

3 Negative Carry on CRR and SLR

Interest Cost on Deposits (1 year Deposit Rate)	6.50%	
Assuming that Total Deposits	100	Rs. Crore
Returns required from Deposits	6.50	Rs. Crore
CRR (as per cent of total deposits)	5.00%	
CRR Balances	5	Rs. Crore
SLR (as per cent of total deposits)	24.00%	
SLR Balances	24	Rs. Crore
Deployable Deposits	71	Rs. Crore
Deployable Deposits (as per cent of total deposits)	71.00%	
364 Treasury Bill Yield	5.00%	
Return on SLR Balances	1.20%	
Interest Cost on Deposits(1 year Deposit Rate) adjusted for SLR return	5.30%	
Returns required from Deployable Deposits to account for deposit interest cost	7.46%	
Negative Carry Charge on CRR and SLR	0.96%	

4 Unallocated Overhead Cost

Fixed Overheads comprise of HO and CO costs which cannot be allocated		
Total Unallocatable Cost	1	Rs. Crore
Assuming the total deposits (including CDs) are	100	Rs. Crore
Deposits Available for Deployment	71	Rs. Crore
Unallocated Fixed Overheads as a percentage of deployed funds	0.99%	

5 Average Return on Net Worth

Net Profit	1	Rs. Crore
Capital	0.5	Rs. Crore
Reserves (excluding Revaluation Reserves)	10	Rs. Crore
Net worth (Infused Capital or Equity)+ Reserves	10.5	Rs. Crore
Deposits Available for Deployment	71	Rs. Crore
Average Return on Equity	0.10	
Average Return on Net Worth = Return on Equity * Net Worth/Deployable Deposits	1.41%	