The **Marginal Cost of Funds-based Lending Rate** (MCLR) refers to the minimum interest rate of a bank below which it cannot lend. The MCLR was introduced in April 2016, replacing the existing base rate system.

Reserve Bank of India will link the base rate with the Marginal Cost of Funds based Lending Rates (MCLR). **RBI decided to shift from base rate to MCLR because the rates based on marginal cost of funds are more sensitive** to changes in the policy rates.