GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2959
ANSWERED ON:07.12.2001
UNIFORM INTEREST RATE FOR LOANS
KUMUDINI PATNAIK

Will the Minister of FINANCE be pleased to state:

(a) the present prevalent rate of interest for bank loans in the country prescribed by RBI;

(b) whether the Government propose to ensure that same rate of interest is charged by all banks and financial institutions in the country;

(c) if so, the details thereof; and

(d) the deposits in different banks during each of the last three years are falling down during the post downward revision period and the steps taken by the Government to reduce the intermediary cost of the loans as per the recommendation of the Narasingham-II Committee?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a),(b)&(c): Reserve Bank of India has deregulated the lending rate structure of the commercial banks. Banks havebeen given the freedom to determine their lending rates including their Prime Lending Rate (PLR) after duly takinginto consideration their cost of funds, transaction costs, etc. However, interest rates on loans upto Rs.2 lakh should not exceed the banks` PLR.

Overall lending rate structure has come down substantially in the last two years. The PLR of public sector banks,which were ranging between 12.0-14.0 per cent in March 1999 and 12.0-13.5 per cent in March 2000, softened to 10.0-13.0 per cent in March 2001 and further to 10.0-12.5 per cent by November 2001. In addition, the bank are permitted to lend to their prime customers including exporters at sub-PLR rates effective April 19, 2001.

(d): Aggregate deposits of scheduled commercial banks for the last three years and also for the current year up to November 16, 2001, are given below :

Year ending	Aggregate deposits (Rs. crore)
March 26, 1999	7,14,025
March 24, 2000	8,13,344
March 23, 2001	9,62,618
Current Year upto Nov.16, 2001	10,56,897

In view of certain structural characteristics of our financial system, the scope for reducing the intermediation cost of banks and other financial intermediaries is limited. Some of the measures taken are :

? Banks have been given the freedom to offer `variable` interest rates on longer-term deposits.

? The average cost of funds is high due to the non-interest operating expenses in the form of relatively high overhang of non-performing assets (NPAs). A number of steps were taken to reduce the NPA of banks, such as, one time settlement of NPA.