

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:2288  
ANSWERED ON:23.07.2004  
DISPARITY IN INTEREST RATE  
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**Will the Minister of FINANCE be pleased to state:**

- (a) whether small borrowers get raw deal from banks as the benefits of lower interest rates have been passed on to the top borrowers;
- (b) if so, the details thereof;
- (c) whether difference between minimum and maximum rates for demand loans has widened to 6.25 to what prevailed in the quarter ended March, 2004 with rates in March, 2003:
- (d) whether the difference between the lending rates of public sector and private sector banks is also widening; and
- (e) if so, the steps taken to remove the discrimination in rates vis-a-vis the small borrowers?

**Answer**

MINISTER OF STATE FOR THE MINISTRY OF FINANCE (SHRI S.S.PALANIMANICKAM)

(a) & (b): The lending rates of the commercial banks have been deregulated since October 1994. Commercial Banks are now free to determine their lending rates on alternative forms of credit including demand and term loans subject to the approval of their Boards. However, banks are required to announce their Benchmark Prime Lending Rate (BPLR). Since the prime-lending rate serves as a benchmark rate, banks are allowed to lend at sub-PLR rates to the creditworthy borrowers including exporters. However, BPLR continues to be the ceiling for loans upto Rs.2 lakhs, which presently is in the range of 10.25 to 11.5% for Public Sector Banks.

(c) & (d): RBI has reported that the spread between the maximum and minimum lending rates widened between March 2003 and March 2004, although there is a general decline in lending rates, both for demand and term loans. However, the decline is sharper for public sector banks (PSBs) vis-a-vis private sector banks. The range of lending rates for various banks group for advances across tenors excluding 5% of business contracted at extreme rates as also advances at which the bulk of business (at least 60%) is contracted between the two period is furnished below:

(at 5% contracted) (60% contracted)

Bank Group	Demand loans March 2004	Demand Loans March 2003	Demand Loans March 2004
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PSBs	6.00-16.00	4.00-15.50	8.50-15.75
Private Banks	5.40-19.00	4.50-19.50	5.40-17.50

(e) RBI has advised banks to announce the maximum and minimum lending rates along with PLR for customer protection and meaningful competition.