

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:5230
ANSWERED ON:24.04.2015
TRANSPARENCY IN INTEREST RATES
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Will the Minister of FINANCE be pleased to state:

- (a) whether the Government/Reserve Bank of India have decided to take new initiative for ensuring more transparency in banks interest rates;
- (b) if so, the details thereof ;
- (c) whether the Government/ RBI has any proposal to lower the bank interest rate on agricultural loans in view of the losses to farmers caused by unseasonal rains; and
- (d) if so, the details thereof along with the steps taken by the Government in this regard?

Answer

The Minister of State in the Ministry of Finance (SHRI JAYANT SINHA)

(a) and (b): The Reserve Bank of India (RBI) introduced Base Rate system with effect from July 1, 2010 to enhance transparency in Bank's lending rates. Banks are required to review the Base Rate at least once in a quarter with the approval of the Board or the Asset Liability Management Committees (ALCOs) as per the bank's practice.

Based on the recommendations of the Working Group on pricing of Credit which was formed to suggest measures for transparent and suitable pricing of credit under a floating rate regime, RBI has issued additional guidelines on January 19, 2015 to all Scheduled Commercial Banks. As per these guidelines, banks will have the freedom to calculate cost of funds either on the basis of average cost of funds or on marginal cost of funds or any other methodology in vogue, which is reasonable and transparent provided it is consistent and made available for supervisory review/scrutiny as and when required. Banks should have a Board approved policy delineating the components of spread charged to a customer.

(c) and (d) In the wake of recent unseasonal rains and hailstorm, the Government has issued an advisory on 20.3.2015 to all State level Banker's Committee (SLBC) convenors and Public Sector Banks advising them to ensure all necessary measures as per the guidelines issued by RBI/Government, so as to mitigate the hardship of farmers on account of unseasonal rains/hailstorms. Besides, the Government of India has introduced a provision in the Interest Subvention Scheme 2014-15 that in order to provide relief to the farmers on occurrence of natural calamities, the interest subvention of 2% may continue to be available to banks for the first year on the restructured amount and such restructured loans may attract normal rate of interest from the second year onwards as per the policy laid down by RBI.

Further, the RBI on 25.3.2015 has issued guidelines to banks on the relief measures to be taken for the benefit of farmers in areas affected by natural calamities which, inter alia, include conversion and restructuring of agricultural loans in such areas.