

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:2003

ANSWERED ON:31.07.2015

Cut in Interest Rates

Dev Km. Sushmita

**Will the Minister of FINANCE be pleased to state:**

- a) whether the Government has reduced interest rates on various schemes;
- (b) if so, the details thereof along with the objective laid down by the Government for reduction in the interest rates; and
- (c) whether the reduction in the interest rate might impact the banks ability to manage NPAs and 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) & (b): The Reserve Bank of India (RBI) has deregulated the interest rates on term deposits from October, 1997. Accordingly, banks are now free to fix the interest rates on term deposits subject to the approval of their respective Boards. The Reserve Bank has also deregulated the savings bank deposit interest rate with effect from October 25, 2011. Accordingly, banks are now free to determine their savings bank deposit interest rate, subject to the following two conditions:

(i) Each bank is required to offer a uniform interest rate on savings bank deposits up to Rs.1 lakh;

(ii) For savings bank deposits over Rs.1 lakh, a bank may provide differential rates of interest, if it so chooses. However, there should not be any discrimination from customer to customer on the interest rates for similar amount of deposit.

With the introduction of Base Rate system since July 1, 2010, all rupee lending rates (including advances up to Rs. 2 lakh) have been deregulated. In a deregulated environment, banks have complete freedom in deciding their spread, risk premia, term premia and other customer specific charges as considered appropriate on the loans and advances based on their commercial judgment. However, there are some exceptions where the loans can be priced without reference to the Base Rate viz: Differential Rate of Interest (DRI) advances, loans to banks' own employees and loans to banks' depositors against their own deposits.

(c): As far as managing NPAs is concerned, Reserve Bank of India (RBI) and Government has taken several legal and procedural steps towards better recovery of loans from different sectors and for improvement in asset quality of banks. Banks have been instructed to have a Board approved loan recovery policy and take recourse to legal mechanisms like SARFAESI Act, 2002, Debt Recovery Tribunals and Lok Adalats apart from information sharing and systems of early detection of distress for which RBI has issued guidelines on 30th January, 2014.

\*\*\*\*\*