

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:3177

ANSWERED ON:07.08.2015

Losses incurred by Cooperative Banks

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

- (a) whether the Cooperative Credit Institutions/Banks have suffered losses on account of crop loans extended to the farmers at concessional rates and inclusion of their agriculture income into tax net;
- (b) if so, the details thereof along with the losses incurred by the banks during the last three years and the current year;
- (c) whether the Government has any proposal to provide tax rebate to cooperative credit institutions on their agriculture income;
- (d) if so, the details; and
- (e) the action taken/being taken by the government in this regard?

Answer

**Answer**

The Minister of State in the Ministry of Finance  
(Shri Jayant Sinha)

(a) to (e): In order to provide credit to farmers at affordable interest rates, the Government is implementing the Interest Subvention Scheme under which short-term crop loans upto Rs.3 lakh are made available to the farmers at an interest rate of 7% p.a. by the banks, for which banks are given a subvention of 2% by the Government in respect of their own funds. Besides, a further subvention of 3% is given to prompt payee farmers reducing the effective interest rate for such farmers to 4%.

In terms of Reserve Bank of India (RBI)'s Master Circular on "Interest Rates on Advances", Scheduled Commercial Banks (SCBs) have been prohibited from lending below their Base Rate w.e.f. July 1, 2010. However, certain exemptions have been provided in this regard and SCBs are allowed to lend below their Base Rates on account of Government of India's Interest Subvention Scheme on Crop Loans or grant export credit (where subvention is available) below their Base Rates. The current Base Rates of the SCBs range around 10% or more. The cost of funds and operating cost vary from bank to bank. Hence, it is possible that some SCBs may be lending below the cost by around 1% or more below the Base Rate as far as the crop loans up to Rs.3.00 lakh, which are eligible for Interest Subvention, are concerned. However, this loss gets cross-subsidized through other profitable loans above Base Rates.

As regards Cooperative Credit Institutions, under the Interest Subvention Scheme for Short Term Crop Loans upto Rs.3.00 lakh, the Cooperative Banks are given a subvention of 2% by the Government in respect of their own involved funds, for providing crop loans at 7% to farmers. Further, the cooperative banks get short term refinance from National Bank for Agriculture & Rural Development (NABARD) at the interest rate of 4.5% to the extent of 30%-60% (depending on factors such as NPA level, location, etc.) of ground level credit flow. Thus, NABARD's refinance allows cooperative banks to earn 0.5% more as compared to the cases when their own funds are involved.

Agricultural Income is exempt from income tax as per clause (1) of section (10) of the Income-tax Act, 1961. As regards the losses incurred by banks on account of applicability of income tax on their other income, the same is not reported/maintained.

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