

Rates of Interest on deposits/loans by Commercial Banks

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Will the Minister of FINANCE be pleased to state:

(a) whether rates of interest on deposits and loans by commercial banks are proposed to be reduced; if so, the decision taken in the matter; and

(b) the interest structure during 1994-95, 1995-96 and the current year (1996-97) and the profits/losses incurred under the regime?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI M.P. VEERENDRA KUMAR): (a) Reserve Bank of India (RBI) have reported that banks are free to determine their interest rates on term deposits with maturity of over one year and on credit limits of over Rs. 2 lakh. As per extant stipulations, the maximum interest rate on term deposits

of upto one year is prescribed at 'not exceeding 10.0 per cent per annum'. On savings deposits, interest is prescribed at 4.5 per cent per annum. Further, the lending rates prescribed for credit limits of upto Rs. 2 lakh (excluding Regional Rural Banks and Co-operative banks) are as follows:

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|------|--|--------------------------|
| (i) | Credit limits upto Rs. 25,000/- | 12.00 per cent per annum |
| (ii) | Credit limits over Rs. 25,000/- upto Rs. 2 lakh. | 13.50 per cent per annum |

(b) The interest rates prescribed for scheduled commercial banks during the years 1994-95, 1995-96 and 1996-97 is given in the enclosed Statement. (See below). The profits/losses of public sector banks for the last three years are as given below:

(Rs. crore)	
Year ending	Profit/loss(—)
March 31, 1994	—4348.96
March 31, 1995	1115.79
March 31, 1996	— 371.36

Statement

Interest rates prescribed for Scheduled Commercial Banks (1994-95 to 1996-97) (up to February 1997)

(Per cent per annum)

	1994-95	1995-96	1996-97
Effective March 1, 1994 October 18, 1994			
Term loans of 3 years and above			
Lending rates			
Size of credit Limits			
Upto Rs. 25,000/-	12.0	12.0	12.0
Over Rs. 25,000/- and upto Rs. 2 lakh	14.0	15.0	13.5
over Rs. 2 Lakh @	14.0	15.0*£	Fress*
	(minimum rate)		Fress*

	Prior to	Effective		Effective		Effective	
	Nov. 1 1994	Nov. 1 1994	Feb. 10 1995	April 18, 1995	October 1, 1995	July 2, 1996	Oct. 21, 1996
Deposit rates:							
category of Accounts							
1. Current	Nil	Nil	Nil	Nil	Nil	Nil	Nil
2. Savings	5.0	4.5	4.5	4.5	4.5	4.5	4.5
3. Term deposits							
46 days to	Not	Not	Not	Not	Not	Not	Not
3 years and above	Ex- ceeding 10.0	Ex- ceeding 10.0	Ex- ceeding 11.0	Ex- ceeding 12.0	Ex- ceeding 12.0**	Ex- ceeding 11.0***	Ex- ceeding 10.0***
4. Term deposits of over 2 years					Free		
5. Term deposits of over 1 year						Free	Free

***Applicable to term deposits of 30 days to upto 1 year.

@Banks are free to determine the rates for purchase of consumer durables Loans to individuals against shares and debentures/bonds and other non-priority sector personal loans.

*These rates are applicable to advances under the purview of selective credit controls.

£Effective interest rate on bill discounting facilities to this category of borrowers was one percentage point below the lending rate charged on cash credit overdraft facilities. The stipulation was withdrawn effective October 18, 1994.

*Effective October 18, 1994 banks are free to determine the rate for these category of borrowers. Banks are required to fix their Prime Lending Rate (PLR) which is the minimum rate applicable to this category of borrowers. The PLR is required to be approved by the board, be declared and be applicable uniformly in all branches of a bank.

**Applicable to term deposits of 46 days to upto 2 years.

Note: Between March 1, 1994 and May 20, 1994, on finance granted to intermediary agencies (including those for housing) for on lending to ultimate beneficiaries and agencies providing input support, the rate was 3 percentage point below the minimum lending rate prescribed for the category of borrowers of over Rs. 2 lakh. Effective May 20, 1994 the rate was revised to 1.5 percentage point below the minimum lending rate and housing finance agencies were excluded from this stipulation. Since October 18, 1994, the rate is 1.5 percentage point below the PLR of the concerned bank. Further, effective September 12, 1995 housing finance agencies have been again included for this stipulation.