

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

STARRED QUESTION NO:466  
ANSWERED ON:26.04.2002  
COMPOUND INTEREST ON AGRICULTURAL LOANS  
UMMAREDDY VENKATESWARLU

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

- (a) whether RBI has allowed commercial banks to charge compound interest on all agricultural loans ;
- (b) whether the RBI has issued a circular in this matter in May, 2001 ;
- (c) if so, the details thereof ;
- (d) whether this decision adversely affected the farmers; and
- (e) if so, the steps proposed to be taken by the Government to ensure that farmers do not pay penal rates of interest on their loans?

**Answer**

THE MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI YASHWANT SINHA)

(a) to (e) Reserve Bank of India (RBI) has reported that in May 2001 a circular was issued by them regarding adoption of 90 days` norm by commercial banks for recognition of loan as a non-performing asset (NPA) from the year ending March 31, 2004 with a view to moving towards best international practices. Further, to facilitate this measure, banks were also advised to move over to charging of interest at monthly rest by April 1, 2002. Subsequently, on receipt of representations from some banks, in consultation with IBA, it was clarified by RBI vide circular dated March 9, 2002 that charging of interest on monthly rest would not be applicable to agricultural advances.