

RBI/2004-05/70

RPCD. Plan. BC. No. 9 /04.09.01/2004-05

July 26, 2004

**The Chairman/ Managing Director/
Chief Executive Officer**

(All domestic scheduled commercial banks)

Dear Sir,

Priority Sector Lending – Achievement of target/sub-targets

As you are aware, a target of 40 per cent of Net Bank Credit has been stipulated for lending to priority sector by domestic scheduled commercial banks within which sub-targets of 18 per cent and 10 per cent of Net Bank Credit have been stipulated for lending to agriculture and weaker sections. Moreover, the domestic scheduled commercial banks are also required to lend 1 per cent of previous year's aggregate advances under the Differential Rate of Interest (DRI) scheme.

2. It is, however, observed that most of the banks have not achieved the stipulated targets/sub-targets under priority sector lending. Various Standing Committees of the Parliament have also shown concern over the poor performance of the banks in achievement of targets/sub-targets.

3. Further, as per the interest rate policy of Reserve Bank of India, interest rates on loans given by commercial banks have been deregulated, except that the interest rate on loans up to Rs 2 lakh should not exceed the banks' Prime Lending Rate (PLR). Subsequently in April 2001, the stipulation of PLR being the floor rate of loans above Rs 2 lakh has been withdrawn and banks are now free to lend at sub- PLR rates to creditworthy borrowers based on an objective and transparent policy subject to the approval of their Board. However, it has been

brought to our notice that some bank branches are demanding higher rates of interest even on loans up to Rs. 2 lakh.

4. Given the importance the Government of India and Reserve Bank of India attach to priority sector lending, you may please take appropriate steps to increase the flow of credit to priority sector, agriculture and weaker sections so that the stipulated targets are achieved at the earliest and also strictly observe the Reserve Bank directives on interest rates on loans. A suitable circular may also please be issued to your controlling offices and branches reiterating the instructions relating to interest rates on advances.

4. Please acknowledge receipt.

Yours faithfully,

(C. S. Murthy)

Chief General Manager-in-Charge