

Union Cabinet approves Rs 34,856 crore towards interest subvention scheme for agriculture loans

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With RBI hiking the lending rate, the Union Cabinet on Wednesday earmarked Rs 34,856 crore towards the interest subvention scheme to help banks provide short term agriculture loans of up to Rs 3 lakh at a rate of 7 per cent.

Information and Broadcasting Minister Anurag Singh Thakur said the Cabinet has decided to restore interest subvention on short term agriculture loans to 1.5 per cent for all financial institutions.



The interest subvention of 1.5 per cent will be provided to lending institutions for financial years 2022-23 to 2024-25 for short term loans of up to Rs 3 lakh to the farmers.

The interest subvention support requires additional budgetary provisions of Rs 34,856 crore for the period of 2022-23 to 2024-25 under the scheme, an official statement said.

Thakur said the government's support to banks for the interest subvention scheme was stopped in May 2020 as lenders were themselves able to provide short term agriculture loan at 7 per cent.

However, with the Reserve Bank of India (RBI) increasing the repo rate or short-term lending rate thrice by 140 basis points in recent months, it became necessary to compensate banks so that they can continue providing agriculture loans at 7 per cent.

Thakur also said the government has not let the fertiliser prices to rise despite the increase in global prices.

Further, the minister said the fertiliser subsidy in the current fiscal year is likely to be more than Rs 2 lakh crore.

In the Union Budget for 2022-23, the fertiliser subsidy was estimated at Rs 1.05 lakh crore. The subsidy was Rs 1.62 lakh crore in the last financial year.

On the interest subvention scheme, the official statement said the government support will ensure sustainability of credit flow in the agriculture sector as well as ensure financial health and viability of the lending institutions, especially regional rural banks and cooperative banks.

Banks will be able to absorb the increase in the cost of funds following the hike in repo rate by RBI and will be encouraged to grant loans to farmers for short term agriculture requirements.

This will also lead to generation of employment since short term agriculture loans are provided for all activities including animal husbandry, dairying, poultry, and fisheries, the statement said.

The government had introduced Interest Subvention Scheme (ISS), now renamed as Modified Interest Subvention Scheme (MISS), to provide short term credit to farmers at subsidised interest rates.

Under the scheme, short term agriculture loan of up to Rs 3 lakh is available to farmers engaged in agriculture and other allied activities at 7 per cent. An additional 3 per cent subvention (Prompt Repayment Incentive – PRI) is also given to the farmers for prompt and timely repayment of loans.

Source: <https://www.financialexpress.com/economy/union-cabinet-approves-rs-34856-crore-towards-interest-subvention-scheme-for-agriculture-loans/2633485/>