

RBI/2004-05/301

RPCD. No. Plan. BC.64 / 04.09.01/2004-05

December 15, 2004

**The Chairman/ Managing Director/ Chief Executive Officer
All scheduled commercial banks (including RRBs)**

Dear Sir,

Priority Sector Lending – Investment in special bonds issued by specified institutions

Please refer to our Master Circular on Lending to Priority Sector dated July 20, 2004 in terms of which investments made by the scheduled commercial banks in special bonds issued by specified institutions, viz. State Financial Corporations (SFCs)/State Industrial Development Corporations (SIDCs), Rural Electrification Corporation (REC), NABARD, SIDBI, The National Small Industries Corporation Ltd. (NSIC), NHB and HUDCO, subject to certain conditions, are reckoned as indirect finance to agriculture/SSI/housing as the case may be within the priority sector lending.

2. With a view to rationalising the banks' investments under priority sector lending and encouraging banks to increasingly lend directly to the farmers/other priority sector borrowers, it has been decided that:

- (i) The extant guidelines in respect of classifying the investments by banks in the bonds issued by the specified institutions as under priority sector lending may continue up to March 31, 2005.
- (ii) The investments that may be made by banks on or after April 1, 2005 in the bonds issued by the specified institutions (except NABARD), i.e. REC, SFCs/SIDCs, SIDBI, NSIC, NHB and HUDCO shall not be eligible for classification under priority sector lending.
- (iii) The investments, which have already been made/to be made by banks up to March 31, 2005, in the special bonds issued by the above

specified institutions (except NABARD), shall not be eligible for classification under priority sector lending with effect from April 1, 2006.

- (iv) The investments in the special bonds issued by NABARD shall not be eligible for classification under priority sector lending with effect from April 1, 2007.

3. The other terms and conditions laid down in the above circular remain unchanged. The banks are, therefore, advised to align their priority sector lendings/investments suitably so as to comply with the above guidelines.

4. Please acknowledge receipt.

Yours faithfully,

(C S Murthy)

Chief General Manager-in-Charge