

India Code

The Interest Act, 1978

(ACT NO. 14 OF 1978)

[*As on the* 08*th September* 2026]

LIST OF ABBREVIATIONS USED

G.S.R.	*for*	General Statutory Rules.
S.O.	„	Statutory Order.
Notifn.	„	Notification.

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THE INTEREST ACT, 1978

ARRANGEMENT OF SECTIONS

SECTIONS

1. Short title, extent and commencement.
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THE INTEREST ACT, 1978

ACT NO. 14 OF 1978

[31*st March,* 1978.]

An Act to consolidate and amend the law relating to the allowance of interest in certain cases.

BE it enacted by Parliament in the Twenty-ninth Year of the Republic of India as follows:—

1. Short title, extent and commencement.—(*1*) This Act may be called the Interest Act, 1978.

(*2*) It extends to the whole of India except the State of Jammu and Kashmir.

(*3*) It shall come into force on such date[1] as the Central Government may, by notification in the Official Gazette, appoint.

2. Definitions.—In this Act, unless the context otherwise requires,—

(*a*) "court" includes a tribunal and an arbitrator;

(*b*) "current rate of interest" means the highest of the maximum rates at which interest may be paid on different classes of deposits (other than those maintained in savings account or those maintained by charitable or religious institutions) by different classes of scheduled banks in accordance with the directions given or issued to banking companies generally by the Reserve Bank of India under the Banking Regulation Act, 1949 (10 of 1949).

Explanation.—In this clause, "scheduled bank" means a bank, not being a co-operative bank, transacting any business authorised by the Banking Regulation Act, 1949 (10 of 1949);

(*c*) "debt" means by liability for an ascertained sum of money and includes a debt payable in kind, but does not include a judgment debt;

(*d*) "personal injuries" includes any disease and any impairment of a person's physical or mental condition;

(*e*) all other words and expressions used herein but not defined and defined in the Reserve Bank of India Act, 1934 (2 of 1934), shall have the meanings respectively assigned to them in that Act.

3. Power of court to allow interest.—(*1*) In any proceedings for the recovery of any debt or damages or in any proceedings in which a claim for interest in respect of any debt or damages already paid is made, the court may, if it thinks fit, allow interest to the person entitled to the debt or damages or to the person making such claim, as the case may be, at a rate not exceeding the current rate of interest, for the whole or part of the following period, that is to say,—

(*a*) if the proceedings relate to a debt payable by virtue of a written instrument at a certain time, then, from the date when the debt is payable to the date of institution of the proceedings;

(*b*) if the proceedings do not relate to any such debt, then, from the date mentioned in this regard in a written notice given by the person entitled or the person making the claim to the person liable that interest will be claimed, to the date of institution of the proceedings:

Provided that where the amount of the debt or damages has been repaid before the institution of the proceedings, interest shall not be allowed under this section for the period after such repayment.

(*2*) Where, in any such proceedings as are mentioned in sub-section (*1*),—

(*a*) judgment, order or award is given for a sum which, apart from interest on damages, exceeds four thousand rupees, and

(*b*) the sum represents or includes damages in respect of personal injuries to the plaintiff or any other person, or in respect of a person's death,

then, the power conferred by that sub-section shall be exercised so as to include in that sum interest on those damages or on such part of them as the court considers appropriate for the whole or part of the

1. 19th August, 1981, *vide* notification No. S.O. 657(E), dated 19th August, 1981, *see* Gazette of India, Extraordinary, Part II, sec. 3(*ii*).

*. *Vide* Notification No. S.O. 3912 (E), dated 30th October, 2019, this Act is made applicable to the Union territory of Jammu and Kashmir and the Union territory of Ladakh.

period from the date mentioned in the notice to the date of institution of the proceedings, unless the court is satisfied that there are special reasons why no interest should be given in respect of those damages.

(*3*) Nothing in this section,—

(*a*) shall apply in relation to—

(*i*) any debt or damages upon which interest is payable as of right, by virtue of any agreement; or

(*ii*) any debt or damages upon which payment of interest is barred, by virtue of an express agreement;

(*b*) shall affect—

(*i*) the compensation recoverable for the dishonour of a bill of exchange, promissory note or cheque, as defined in the Negotiable Instruments Act, 1881 (26 of 1881); or

(*ii*) the provisions of rule 2 of Order II of the First Schedule to the Code of Civil Procedure, 1908 (5 of 1908);

(*c*) shall empower the court to award interest upon interest.

4. Interest payable under certain enactments.—(*1*) Notwithstanding anything contained in section 3, interest shall be payable in all cases in which it is payable by virtue of any enactment or other rule of law or usage having the force of law.

(*2*) Notwithstanding as aforesaid, and without prejudice to the generality of the provisions of sub-section (*1*), the court shall, in each of the following cases, allow interest from the date specified below to the date of institution of the proceedings at such rate as the court may consider reasonable, unless the court is satisfied that there are special reasons why interest should not be allowed, namely:—

(*a*) where money or other property has been deposited as security for the performance of an obligation imposed by law or contract, from the date of the deposit;

(*b*) where the obligation to pay money or restore any property arises by virtue of a fiduciary relationship, from the date of the cause of action;

(*c*) where money or other property is obtained or retained by fraud, from the date of the cause of action;

(*d*) where the claim is for dower or maintenance, from the date of the cause of action.

5. Section 34 of the Code of Civil Procedure, 1908 to apply.—Nothing in this Act shall affect the provisions of section 34 of the Code of Civil Procedure, 1908 (5 of 1908).

6. Repeal and saving.—(*1*) As from the commencement of this Act, the Interest Act, 1839 (32 of 1839) and any other law corresponding thereto in force in any State immediately before such commencement shall stand repealed.

(*2*) The provisions of this Act shall not apply to any suit or other legal proceeding pending at the commencement of this Act and the provisions of the corresponding law applicable immediately before such commencement shall, notwithstanding the repeal of such law by sub-section (*1*), continue to apply to such suit or other legal proceeding.

(*3*) The mention of particular matters in sub-section (*2*) shall not be held to prejudice or affect the general application of section 6 of the General Clauses Act, 1897 (10 of 1897), with regard to the effect of repeal.

STATEMENT OF OBJECTS AND REASONS

The Law Commission of India in its sixty-third Report had recommended the revision of the existing Interest Act, 1839. This Act is a very short one; besides a preamble, it contains only one section and a proviso. However, it is a statute of importance, since it prescribes the general law of interest which becomes applicable in the absence of any contractual or statutory provisions specifically dealing with the subject. According to the Commission, almost every phrase used in the Act has given rise to problems of interpretation and judicial decisions have disclosed divergence of views in respect of the same. The Commission has revised the Act comprehensively so as to make its provisions more precise, specific, unambiguous and juristically satisfactory. It Is proposed to replace, the existing Act by a new Act based on the recommendations of the Law Commission. The Bill seeks to achieve this object.

NEW DELHI; H. M. PATEL.

The 7*th December*, 1977.

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