



Demand for Interest Waiver

 drishtiias.com/printpdf/demand-for-interest-waiver

Why in News

Recently, the **Supreme Court (SC)** has heard a batch of **petitions seeking interest waiver** during the **loan moratorium period**.

The **Reserve Bank of India (RBI)** granted a **six-month loan moratorium** earlier this year, letting **borrowers defer payments on loans** and EMIs. The move was intended **to provide borrowers relief** during the **Covid-19 pandemic**.

Key Points

- **Central Government's Stand:**

- **Huge Cost:** It revealed that **a blanket waiver of interests on debts** incurred by all borrowers for the moratorium period will mean forgoing an estimated **over Rs. 6 lakh crore.**
- **Possible Impact on Banks:** If the **banks were to bear this burden**, then it would **necessarily wipe out a substantial and a major part of their net worth**, rendering most of the lenders unviable and raising a very serious question mark over their very survival.
- **Deposits vs. Loans: Continued payment of interest to depositors** is not only one of the most essential banking activities but is a huge responsibility that can never be compromised as most of the depositors are bound to be **small depositors, pensioners etc. surviving on the interest from their deposits.**

In the Indian banking system, **for every loan account, there are about 8.5 deposit accounts.**

- **Use of Financial Resources:** There is **a need to conserve and rationally use financial resources** to deal with the economic effects of pandemic over an uncertain and indeterminate time frame.

It also **pointed out the sector-specific relief measures** taken by the Centre for the small and mid-sized business/MSMEs including from sectors such as restaurants and hotels.

- **Relief Measures Taken by the Centre:**

- **For Power Sector:**

The government had sanctioned over **Rs. 90,800** crore liquidity injection for the power distribution companies. This would **enable them to pay their outstanding dues** to power producers and transmission companies.

- **For Real Estate Sector:**

An advisory was issued allowing the extension of registration and completion dates of projects under Real Estate Regulatory Authorities by treating **Covid-19** as an event of **force-majeure**.

From a contractual perspective, a force majeure clause provides **temporary reprieve** to a party from performing its obligations under a contract upon occurrence of a **force majeure event**.

- **For Micro, Small and Medium Enterprises (MSME) Sector:**

An **emergency credit line (ECLGS) of up to Rs. 3 lakh crore**, backed by 100% government guarantee to enable the MSMEs to get back to regular operations.

- **For Small Borrowers:**

The Centre has decided that the **relief on waiver of compound interest** during the six-month moratorium period shall be limited to the most vulnerable category of borrowers who availed loan up to **Rs. 2 crore**.

The RBI has classified “**big borrowers**” having the loan account of **Rs. 1500 crores and above** and rest as “not big borrowers”.

- **For Big Borrowers:**

The **Kamath Committee set up by the RBI** has recommended financial parameters for **debt restructuring of 26 sectors** affected by Covid-19.

- **Other Measures:**

- The **Insolvency & Bankruptcy Code (IBC)** was **suspended** for a period of **six months** in order to protect companies in distress due to the pandemic being dragged into bankruptcy tribunals.
- The **Security and Exchange Board of India (SEBI)** has issued circulars to relax the “**recognition**” of defaults committed during moratorium.

Source:TH