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Market Watch

Indian banks to appeal for relief on bad loans amid coronavirus concerns

BY SUGATA GHOSH, ET BUREAU | MAR 18, 2020, 06.38 AM IST

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MUMBAI: Large banks had an emergency meeting on Monday evening to explore ways to lend a helping hand to businesses hit by the Covid-19 outbreak. At the hurriedly called videoconference attended by close to 20 senior bankers, there were discussions on possible credit lines and special benefits that could be given to certain sectors such as transportation, travel and tourism, exports and MSMEs.

The meeting was called by the Indian Banks' Association, the industry lobby.

"Banks are collating information, and IBA will then forward the recommendations to RBI," said IBA chief executive Sunil Mehta. He said IBA and member banks are planning to come out with advisories to create customer awareness and promote contact-less banking. IBA will also assure clients that institutions are putting in place business continuity plans, and encourage banks to have flexible working hours.

Trade Bodies Reach Out to Banks, RBI

Many trade bodies have reached out to lenders as well as the banking regulator, drawing attention to the plight of industries — particularly those dependent on imported raw materials and having exposure to markets such as the US, Europe, Middle East and China.

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“Several businesses are stuck... there are so many cases where letters of credit have been opened, payments made, but shipments have not arrived,” said another banker. “Some of the banks felt that the present circumstances may call for regulatory forbearance as many borrowers could find it difficult to service loans in time,” said the person.

Some of the trade associations are pleading for waiver of interest on packing (or, pre-shipment) and post-shipment credit for a six-month period beginning January 1, 2020, and extension of packing credit availed for manufacturing or procurement of goods meant for exports by at least 180 days. In most cases, an exporter is required to receive payments within 180 days.

After dispatching goods to foreign buyers, an exporter hands over shipping documents to his bank. The exporter's bank (wherever post-shipment credit limits have been put in place) pays the shipment amount to the exporter after deducting bill discounting. The shipment documents are then sent to the foreign buyer's bank by the exporter's bank.

“Where the amount is payable upfront and no credit is allowed by the exporter to foreign importer, the foreign bank will collect the amount and release the shipping documents to the importer. The buyer's bank will then remit the amount to the exporter's bank. The entire cycle normally takes 90-180 days. Sometimes, if the local exporter does not have credit limits with the local bank or if the limit is full and no more room is available to discounting more export bills, the exporter will ask his bank to send the shipping documents on 'collection' basis. Here, the exporter receives the money only after the foreign buyer has paid. In such cases, the entire credit risk on foreign importer is borne by the local exporter unless ECGC (Export Credit Guarantee Corporation of India) has guaranteed the amount.

The period of 180 days should be extended by the RBI as this is a force majeure situation,” said veteran banker PH Ravikumar.

A note from the China Banking Association — circulated among Indian lenders — said banks in China have taken steps such as waiver of transfer fees for donations or remittances, providing 24X7 services through e-platforms, rescheduling repayment plans for affected lenders, disinfecting brick-and-mortar branches and bank notes, besides providing regular updates.

In many cases, Indian banks have told borrowers that extending pre-shipment or post-shipment credit facilities in the current situation would require regulatory approval.

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