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Market Watch

Banks set to seek NPA relaxation, guarantees from RBI

BY JOEL REBELLO, ET BUREAU | APR 16, 2020, 06.35 PM IST

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Mumbai: Staring at a double blow of rising delinquencies and falling loan demand, [banks](#) are all set to request the [Reserve Bank of India \(RBI\)](#) for extraordinary relaxations in accounting of non performing assets (NPAs) and could also ask government guarantees for loans to small and medium enterprises (SMEs).

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These proposals are set to be okayed at the managing committee meeting of the Indian Banks' Association ([IBA](#)) on Saturday and will then be forwarded for the consideration of the RBI.

On the table is a relaxation of the [NPA](#) recognition timeline to 180 days from 90 days, which would give banks more time to assess damage and cushion impact on their financial metrics, especially capital and provision coverage, three persons familiar with the deliberations said.

The suggestions also include a possible government guarantee of first loss for funding SMEs to provide relief to those that have shuttered without cash flows and a separate liquidity window for lower rated non-banking finance companies (NBFCs) through which RBI can directly buy bonds of these companies, which are finding it difficult to attract funds.

"The focus is to ensure we push credit flow where it is most needed whenever the lockdown is lifted. Growth has suffered no doubt, but we need to get back on track and ensure enough credit so that things pick up fast. The idea for a sovereign credit guarantee is to ensure that banks have the confidence to lend and are insulated from defaults, specially to SMEs which form the backbone of the economy," said one person cited above.

A sovereign guarantee would also evaporate risk weights for banks, bringing down their cost of funds which will push more credit to these

sectors, the persons said. The proposal has already been discussed with the finance ministry which is inclined to provide such a guarantee, the persons quoted earlier said.

The RBI is also keen for banks to come up with suggestions that can be implemented as provision of liquidity has so far had a limited impact on some sectors.

The government already runs a corporate guarantee fund trust for micro and SMEs, which provides guarantees for loans up to Rs 2 crore. The eligibility for this guarantee could be extended to Rs 5 crore to get more companies under its purview.

"Liquidity measures like long term repos are available but only large and higher rated companies have been able to access funds through it. The need is more at a lower end particularly with regards to NBFCs. There is also a suggestion that RBI can invest directly into instruments of these companies since banks have been tied down because of their own risk assessment guidelines and individual company and sector limits," said another person cited above.

On Wednesday, RBI capped banks' investments in a particular company's bonds or a group company's bonds at 10 percent of the total funds raised through the so called Targeted Long Term Repo Operations (TLTRO) due to fears that these funds would be cornered by the top rated firms and state backed ones that have top credit rating and enjoy better relationships with banks.

RBI has earmarked Rs 1 lakh crore to banks under the TLTRO mechanism to ease funding pressure for corporates. That was to be invested in primary and secondary market bonds and commercial papers in equal measure. It has so far concluded Rs 75,000 crores of lending and the remaining Rs 25,000 crores would be auctioned on Friday.

"If the RBI buys these instruments there will be no question on ratings and risk, which banks have to face, especially the public sector ones that have to face a government vigilance audit," said the first person cited above.

The IBA managing committee is most likely going to finalise these proposals and send them to the RBI on Saturday.

"These are important measures to get credit flowing. We are faced with an extraordinary situation. There is also lack of clarity from the central bank on whether to extend the moratorium to NBFCs or not. Moratorium would be a better option instead of allowing banks to take

more exposure in these companies whose financial position no one is sure of," said a third person.

The RBI is also inclined to listen to banks but it might choose to be judicious about which measures to greenlight.

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