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Interest-Free Moratorium - RBI's Stance

Why in news?

The Supreme Court has asked the finance ministry for its opinion on an interest-free moratorium.

What is the case about?

- The RBI has allowed lenders to extend a moratorium on term loans till August 2020-end, following the extension of lockdown.
- However, the levy of interest during the moratorium period has been challenged.
- It is said to create hardships to the borrowers and create hindrance and obstruction in 'right to life' guaranteed by the Constitution of India.
- In this light, the Court asked for the government's opinion on waiver of interest on loans during the ongoing moratorium period.
- The Court also observed that it could not prioritise economics over health issues.

What is the RBI's stance?

- The RBI has filed an affidavit in this regard.
- It has argued that a forced waiver of interest would affect banks badly.
- It would also endanger the interests of depositors.

How valid is RBI's argument?

- Covid-19 and the lockdown have resulted in significant hardships for most economic agents.
- However, the basic rules of economic and financial governance cannot be discarded.
- A waiver would result in about a Rs 2-trillion hit for the banking system.
- Lenders are expecting bad loans to rise because of the pandemic.
- But, a waiver could affect confidence in the banking system.
- The government has suspended the Insolvency and Bankruptcy Code for 6 months.

- This is again likely to increase problems for lenders.
- The Indian banking system was anyway not in good form even before the Covid-19 crisis.
- So, in all, it is difficult to find fault with the RBI's argument.

How important are the depositors?

- If the borrowers are given an interest waiver, the banks' role to service the depositors would be at stake.
- Banks have an obligation to serve their depositors too and not just borrowers.
- There is no concrete reason why the system should serve only the interests of the borrowers at the cost of the depositors and investors.
- Their right to life is no less important than that of the borrowers.
- Thus, it is important to strike a balance.

What other measures has the RBI taken?

- To be fair, the RBI on its part has taken several steps to support borrowers.
- Apart from the moratorium, the central bank has lowered interest rates.
- This has infused significant amounts of liquidity.
- Besides, it is widely expected that the RBI would allow a one-time restructuring of debt.

What is the way ahead?

- A waiver of interest for the entire system cannot be a solution.
- Besides banks, several non-banking financial companies (NBFCs) may not be able to handle this shock.
- Failure of NBFCs will increase financial-stability risks.
- However, the government may believe that certain sections of the borrowers need to be given more relief.
- In that case, the support should come from the Budget, not the banking system.
- The health of the financial system cannot be ignored, as the government needs a stable financial system and a functioning economy to fulfil its obligations.

Source: Business Standard



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