



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](#)

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