RBI allows one-time recast of retail loans to soften Covid blow

MUMBAI/NEW DELHI: The Reserve Bank of India (RBI) kept interest rates on hold on Thursday and gave lenders the power to restructure certain loans — including individual as well as corporate loans — as it sought to strike a balance between helping revive growth in pandemic-battered economy and keeping rising inflation in check.

RBI governor Shaktikanta Das sounded a note of caution that a prolonged spread of Covid-19 poses “downside risk” for the domestic economy, but assured that the central bank will use the available monetary space “judiciously” to boost growth.

“At the end of its deliberations, the monetary policy committee (MPC) voted unanimously to leave the policy repo rate unchanged at 4% and continue with the accommodative stance of monetary policy as long as necessary to revive growth and mitigate the impact of Covid-19, while ensuring inflation remains within the target going forward,” Das said after the rate-setting panel concluded its three-day meeting.

Das warned India’s real gross domestic product (GDP) growth is set to contract in 2020-21, but did not give a specific forecast.

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“An early containment of the Covid-19 pandemic may impart an upside to the outlook. A more protracted spread of the pandemic, deviations from the forecast of a normal monsoon and global financial market volatility are key downside risks,” he said.

The repo rate was left at 4.0% and the reverse repo rate at 3.35%. To ease debt pressure on borrowers hit by a fall in earnings as well as lenders staring at bad debt, the RBI said it would allow restructuring of corporate and retail loans, a move that was widely awaited by the industry.

Banks can strike rescheduling agreements with borrowers that were on track to repay their loans on March 1, in the early days of the coronavirus outbreak. The move came ahead of the expiry of a blanket loan moratorium later this month.

Industry estimates peg the total quantum of loans coming up for recast at ₹5-8 trillion, or 5-8% of the ₹101 trillion loan book.

“A large number of firms that otherwise maintain a good track record under existing promoters face the challenge of their debt burden becoming disproportionate, relative to their cash flow generation abilities,” Das said.

Borrowers will be eligible for resolution under this framework if they were classified as standard, but not in default for more than 30 days with any lending institution as on March 1, 2020.

The central bank said the resolution plan may be invoked till December 31, 2020 and shall have to be implemented within 180 days (90 days for retail accounts) from the date of invocation.

The central bank set up an expert committee under the chairmanship of veteran banker KV Kamath to make recommendations to RBI on the required financial parameters, along with the sector-specific benchmarks for the special window.

The underlying theme of the plan “is the preservation of the soundness of the Indian banking sector,” Das added.

Banks have been struggling with stagnating credit growth to revive the economy, which is set for its first annual contraction in more than four decades.

The decision to slow forbearance differs from Australia — where policy makers granted hard-pressed borrowers a further four months before they must repay their loans — and China, which extended some relief through March 2021.

“IT is good that the RBI didn’t extend the moratorium because it was purely kicking the can down the road,” news agency PTI quoted Ananth Narayan, a professor of finance at SP Jain Institute of Management and Research and regional head of financial markets for South Asia at Standard Chartered Plc as saying.

“With restructuring, disclosures from banks and financial institutions will improve dramatically. The RBI is trying to give relief, at the same time make sure the package is credible and is not seen as dilution of norms,” he added.

While economic activity started to recover from the lows of April-May, a surge in fresh infections forced several states to return to lockdowns, the governor said during the RBI press briefing.

The MPC sees upside risks to food prices and elevated headline inflation during July-September, which would ease in the second half of 2020-21 fiscal, and forecasts a contraction in real GDP growth for April 2020 to March 2021 fiscal, the central bank head added.

Former Reserve Bank of India governor Raghuram Rajan, speaking at an event in Mumbai on Thursday, called on policymakers to focus on protecting the economy instead of being overly focused on what ratings agencies think.

“It is also important to convince both domestic and international investors that after the crisis associated with the pandemic is over, we will return to fiscal responsibility over the medium term, and the government should do more to convince them of that,” Rajan told the Global Markets Forum.

“The RBI and government have certainly been cooperating, but it seems like it is elsewhere, the ball is in the government’s court to do more,” he added.