Easing the Pain

Why in news?

Recently RBI has announced series of measures to address the challenges posed by the ongoing second wave of COVID-19 pandemic.

What are the measures announced?

- RBI has timely intervened to alleviate any financing constraint for those impacted including the health-care sector, state governments and public.
- It provides a special liquidity window of ₹50,000 crore where banks can borrow up to three-year money at the repo rate to on-lend special Covid loans to priority sector classified scheme.
- Priority sector now includes entities of vaccine manufacturers, hospitals, pathology labs, suppliers of oxygen and ventilators, importers of COVID-related drugs and logistics firms.
- Small borrowers in the informal sector, micro enterprises and self-employed persons are worst hit by the localised lockdowns.
- So RBI has enhanced the provision of credit by allowing small finance banks to classify loans to small microfinance institutions.
- It has announced one-time restructuring concession which is limited to loans up to ₹25 crore.

What are the concerns?

- Though the scheme covers patients requiring treatment but RBI has failed to spell out how those most in need of financial assistance to cover their medical bills could borrow the funds.
- It is to be patiently seen that how much lending capital-stressed banks would be willing to write into their COVID loan books.
- The credit routed via banks cannot be substitute for direct income or livelihood support measures to households devastated by Covid.
- In the one-time restructuring scheme, ₹25-crore threshold may be too low to make a material difference to small/medium enterprises.
- Also borrowers who received relief last year or are already in default have been specifically excluded.
- Perhaps, RBI is of the view that restructuring demands from larger

borrowers can be evaluated by banks on a case-to-case basis.

What can we infer?

- RBI is mindful of its responsibilities as a regulator by avoiding instruments such as blanket loan moratoriums, interest waivers and loan classification standstills.
- Such measures dispense relief to borrower segments that don’t need them and increase risks for bank depositors and investors.
- Credit support, as opposed to direct grants can create a multiplier effect as it can give relief to genuine entities.

Source: The Hindu, Business Line