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MORATORIUM PERIOD WILL NOT COUNT FOR NPA PURPOSE: RBI

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The Reserve Bank of India (RBI) has prescribed higher provisioning norms for all loans where banks have extended moratorium to their customers, by 10%, spread over two quarters — January-March and April-June.

The central bank said that it was cognisant of the risk build-up in banks' balance sheets on account of firm-level stress and delays in recoveries.

"With the objective of ensuring that banks maintain sufficient buffers and remain adequately provisioned to meet future challenges, they will have to maintain a higher provision of 10% on all such accounts under the standstill, spread over two quarters, i.e., March 2020 and June 2020," the RBI said, adding that these provisions can be adjusted later on against the provisioning requirements for actual slippages in such accounts.

The provisioning requirement was announced as RBI has allowed asset classification standstill for all such accounts from March 1, 2020 to May 31, 2020. This would mean an account will continue to be in the same status on June 1, 2020 as it was on February 29, 2019.

Brickwork Ratings estimated additional provision requirement could increase the total provisioning of banks by around Rs. 35,000 crore in the March-June 2020 period, assuming special mention accounts are about 4% of total banking advances and have been accorded moratorium.

Banks are allowed to extend moratorium to repayment for such loans that were standard as on February 29. "It has been decided that in respect of all accounts for which lending institutions decide to grant moratorium or deferment, and which were standard as on March 1, 2020, the 90-day NPA norm shall exclude the moratorium period, ie, there would be an asset classification standstill for all such accounts from March 1, 2020 to May 31, 2020," the RBI said.

"Providing relaxation to banks by allowing 90-day asset classification standstill for accounts covered under moratorium will imbibe banks with the desired operational flexibility to lend a helping hand to stressed accounts," SBI chairman Rajnish Kumar said.

The regulator has also provided extension in resolution timeline for stressed assets. Current norms stipulate lenders to hold an additional provision of 20% if a resolution plan has not been implemented within 210 days from the date of default. Now, the the period for resolution plan has been extended by 90 days.

According to stressed asset resolution norms, lenders are required to implement a resolution plan in respect of entities in default within 180 days from the end of review period of 30 days. Now, the RBI has said that for accounts within the review period as on March 1, 2020, the period from March 1, 2020 to May 31, 2020 will be excluded from the 30-day timeline.

Also, for accounts where the review period was over, but the 180-day resolution period had not expired as on March 1, 2020, the timeline for resolution will get extended by 90 days from the date on which the 180-day period was originally set to expire.

The RBI has also provided relief to banks by lowering the liquidity coverage ratio requirement, to 80% from 100%. The requirement will be gradually restored in two phases — 90% by October 1, 2020 and 100% by April 1, 2021. The RBI has also barred commercial and cooperative banks from making dividend payouts for the year ended March 31, 2020.

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