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FINANCIAL SUPPORT TO PRIVATE BANKS AND NBFCS

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

Ministry of Finance

Financial support to private banks and NBFCs

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There is no proposal currently under consideration of the Government to capitalise private banks. This was stated by Shri Anurag Singh Thakur, Union Minister of State for Finance & Corporate Affairs, in a written reply to a question in Rajya Sabha today.

He further stated that capital infusion provision of Rs. 10,000 crore in India Infrastructure Finance Company Limited (IIFCL) and Rs. 200 crore in Industrial Finance Corporation of India Limited (IFCIL) is part of the Union Budget proposals for the financial year 2020-21.

Shri Thakur further enumerated a number of steps that have been taken to increase credit flow, including, *inter-alia*, the following:

i. Bank credit to Non-Banking Financial Companies (NBFCs) other than Micro-Finance Institution NBFCs for on-lending has been made eligible for classification as priority sector up to a limit of five percent of individual bank’s total priority sector lending and up to Rs. 10 lakh per borrower for agriculture and up to Rs. 20 lakh per borrower for micro and small enterprises and for housing.
ii. Scheduled commercial banks other than Regional Rural Banks and Small Finance Banks have been allowed to engage with Non-deposit Taking Systemically Important NBFCs to co-originate loans for creation of priority sector assets.
iii. National Housing Bank (NHB) has launched a Liquidity Infusion Facility (LIFt) for refinance to Housing Finance Companies (HFCs) for financing affordable housing sales.
iv. Partial Credit Guarantee Scheme has been launched for providing guarantee to Public Sector Banks (PSBs) for purchasing pooled assets rated BBB+ or higher from financially sound NBFCs/HFCs.
v. To address working capital needs of Micro, Small and Medium Enterprises (MSMEs), PSBs are offering up to 25% enhancement in the existing working capital limits in standard MSME accounts as a Standby Line of Credit.
vi. Trade Receivables electronic Discounting System (TReDS) has been introduced to address cash flow problems faced by MSMEs due to delayed payments, and till 24.1.2020, 6.22 lakh trade receivable bills/invoices amounting to Rs 15,095 crore, have been discounted on TReDS.
vii. RBI has permitted one-time restructuring of existing loans to MSME accounts that were in default but classified as standard as on 1.1.2019 and continue to be classified as standard as on the date of implementation of restructuring.
viii. Single-borrower exposure limit for NBFCs (excluding gold loan companies) has been increased from 15% to 20% of tier-I capital of the bank.
ix. Risk weights as per credit agency assigned ratings have been made applicable to bank exposures to NBFCs other than Core Investment Companies.
x. Risk weight on consumer loans (excluding credit card receivables) has been reduced from

125% to 100%.

xi. To enable creation of requisite headroom for borrowing, equity support has been provided to IIFCL, enabling it to finance big-ticket infrastructure projects.

xii. Capital has been infused in Exim Bank Limited to enable it to support export and import finance.

xiii. Banks have been allowed to issue long-term bonds for financing infrastructure and affordable housing loans.

xiv. Debts due to the lenders in case of public-private partnership projects are allowed to be considered as secured to the extent assured by the project authority in terms of the concession agreement.

xv. In case of availability of escrow accounts in respect of infrastructure lending, unsecured infrastructure loan accounts classified as sub-standard attract 20% provisioning as against 25% provisioning applicable for other unsecured sub-standard accounts.

xvi. Banks have been permitted to lend to Infrastructure Investment Trusts (InvITs), subject to certain safeguards.

xvii. Considering the complexities involved in large-scale projects, relaxation has been given for retaining standard asset classification, where the date of commencement of commercial operations is extended beyond the original date.

Giving more details, Shri Thakur said that standby credit facility to fund cost overruns, up to a maximum of 10% of the original project cost in addition to the 'interest during construction' that may arise on account of delay in completion, has been introduced in respect of project finance.

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