

LIQUIDITY LIFELINE: THE HINDU EDITORIAL ON NIRMALA SITHARAMAN'S MSME PACKAGE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

From an overall perspective, the first tranche of [announcements made by Finance Minister Nirmala Sitharaman](#) under the Atmanirbhar Bharat Abhiyan on Wednesday is impressive indeed. There are, and will be, many issues in the details but taken as a whole, the measures announced will go a long way in lifting the spirits of the two key and troubled sectors of MSMEs and non-banking finance companies. While for the former it is an existential crisis, for the latter it is one of liquidity. The massive 3-lakh crore collateral-free assistance handed out to MSMEs will help them crank up their operations. Ms. Sitharaman has done well in extending a sovereign credit guarantee for the complete amount as banks may otherwise have been reluctant to support troubled borrowers. The government could have specified the interest cap on these loans without leaving it to individual lenders as each of them has its own rate structure. Again, the scheme could have been extended until the end of this financial year instead of until October 31. India is now entering the monsoon season when activity is traditionally dull, so it is not clear how many borrowers will get the benefit. The 20,000 crore partially guaranteed subordinated debt programme and the 50,000 crore fund of funds scheme will help boost the equity portion on MSME finances but again, the finer details need to be clear.

NBFCs, housing finance firms and micro finance entities get a much required liquidity boost in the form of a 30,000 crore scheme wherein their debt paper will be fully guaranteed by the government. With this, and the partial credit guarantee scheme of 45,000 crore, the government has broken the logjam wherein banks were unwilling to extend credit despite the RBI's strong push. This should largely attenuate the liquidity crisis in the non-banking space for now. The Minister has also done well in addressing the liquidity issues of power distribution companies through a 90,000 crore infusion that will be securitised on their receivables and backed by a State government guarantee. Wednesday's announcements are focused on the liquidity part of the crisis. While the headline numbers appear big, the reality is that the government will be called upon to bear the liability only if the economic situation becomes hopeless; it may not come to that. What the announcements do is to break the confidence logjam in the credit market and give the assurance to lenders and borrowers that the government is willing to backstop their commitments. This is the signal that MSMEs and their lenders needed as liquidity was always there but only for the most credit worthy of borrowers. Here, the government has played its role to perfection.

Dear reader,

We have been trying to keep you up-to-date with news that matters to our lives and livelihoods, during these difficult times. To enable wide dissemination of news that is in public interest, we have increased the number of articles that can be read free, and extended free trial periods. However, we have a request for those who can afford to subscribe: please do. As we fight disinformation and misinformation, and keep apace with the happenings, we need to commit greater resources to news gathering operations. We promise to deliver quality journalism that stays away from vested interest and political propaganda.

Please enter a valid email address.

From the abrogation of the special status of Jammu and Kashmir, to the landmark Ayodhya

verdict, 2019 proved to be an eventful year.

To continue enjoying The Hindu, You can turn off your ad blocker or [Subscribe to The Hindu](#).

[Sign up for a 30 day free trial.](#)

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com

CrackIAS.com