



Moratorium: A detailed analysis of its impact on Indian banks and NPAs and merits and demerits of moratorium

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Abstract

This article tells us what is moratorium and it will clearly establish the reason for imposing moratorium during COVID-19 in most of the countries. COVID-19 affects our country badly. This is just a review paper. The main objective of this paper to understand the meaning of moratorium in debts and also identify the impact of moratorium on the Indian banks and on the NPAs. Though this moratorium is a good initiative, it obviously comes with drawbacks and even those are dealt with in this paper and few suggestions are also given accordingly. Research methodology is descriptive as well as analytical in nature. This research based on secondary data and data collected from published sources.

Keywords: moratorium, Covid-19, NPA

Introduction

Bank play an crucial role in our economy because they provide vital services for both consumers and businesses. Banking means the accepting the deposits for the purpose of lending or investment, of deposits of money from the public and repayable on demand. Banks is an mediator between savers and borrowers. Banks also provides credit opportunities for people and corporations. The money you deposit at the bank-short –term cash-is used to lend to others for long –term debt such as car loans, credit cards facilities, mortgages, and other debt vehicles. This process helps creates liquidity in the market-which creates money and keeps the supply going. Banks advance loans mostly for productive purposes. In the month of april, 2020 covid-19 had arises and the situation of unemployment had arises. People were fired their jobs, financial problems had comes and peoples are not in condition to repayment their loans. A major pressure had come on the governments and commercial banks because people are not having incomes. In view off all these, RBI had decide to announce the moratorium.

When wo look at the origin of the word ‘moratorium’ it originates in Roman Law and is derived from the word ‘prescript moratoria’, which is meant as a deferment of payment granted by an imperial edict. The word ‘moratorium’ is derived from the Latin verb ‘moror’ meaning ‘to delay’ and the effect of a moratorium being created by an authority is that payment on bills and notes is extended until the expiration of time named in the statute creating the moratorium. Moratorium means a legally authorized period of delay in the performance of a legal obligation or the payment of a debt. A stopping of an activity for an agreed amount of time. In the terms of banking, A moratorium period is the time during a loan term when the borrower is not required to make any repayment. Borrowers who had opted for the loan moratorium were not required to pay EMIs during this period. During the moratorium period, the interest is not waived off and will continue to accrue on the outstanding amount.

In Indian law, the word moratorium is used in the banking regulation act, 1949, regarding suspension of business and winding up of banking companies. This is used during the temporary moratorium officially authorizes the debtor to legally postpone payments for a specified time to enables him to adjust to the financial conditions. This paper is just a review paper. This paper seeks to identify that what are the merits and demerits of moratorium? And also identify the impact of moratorium on the Indian banks. Also identify the impact of bank moratorium on the NPA.

Review of Litratue

Many developed and developing countries offered moratoriums to the debtors because this moratorium gives relief to citizens. Some important countries like Malaysia, Singapore, Thailand, Britain, the United states, Canada are a few major countries working on a moratorium.

Malaysia

Malaysia gave a long-term moratorium of six months from April 1,2020. The National Bank of Negara in Malaysia announced moratorium on all the loans and financing which are not in arrears of more than 90 days but this doesn't apply to credit card balances. The National Bank of tNegara also said that it will allow its customers to change the outstanding credit card balance to term loan for not more than 3 years. And after this statement, many other banks in Malaysia said that they wouldn't compound any interest towards the six-month moratorium period.

United Kingdom

Mortgages may request a payment freeze on loan instalments for three months. At the same time, overdraft facilities with no interest for an amount of up to \$500 may be requested. For the time being, there are no mandatory provisions on these issues.

The measures taken by the Financial Conduct Authority-FCA are implemented by banks, which may specify certain conditions for the qualification of debtors for the 'mortgage holiday' measures.

Croatia

In Croatia, a voluntary rescheduling of loan repayment obligations, along with the introduction of a three-month grace period, applicable to all debtors, is proposed.

The United States of America

Through there is no official step by the American government regarding moratorium, some companies which give maximum house loans in America had offered to give the benefit of halting the home loan or repayment for up to 12 months.

Canada

Even in Canada, the banks gave a period of 6 months to repay the loan amount and for this 6 banks came forward to give the relief. And this moratorium was not only restricted to loans but it also extended to credit card repayments and to extensions on mortgages' amortization periods. So, this relief is given to a vast number of people and it would help many of them.

Italy

In Italy, as part of a legislation with a broader application, measures have also been taken to postpone the repayment of loan instalments. Thus, the repayment of instalments will be suspended for companies until 30 September and for consumers, the suspension will operate for up to 18 months.

Objective of this paper

1. To understand the concepts of moratorium related to banking sector in debts.
2. To identify the impact of bank moratorium on the NPA instead of consumers.
3. To identify the impact of moratorium on the Indian banks.
4. To identify the merits and demerits of moratorium.

Research Methodology

For present study, research design is descriptive as well as analytical in nature.

Data types and collection of data

This research based on secondary data and data collected through published sources.

Scope of this study

This study is towards an awareness of Moratorium given by banks and has been attempted to know the impact on the Indian banks and NPAs.

Impact of moratorium on the Indian banks

Banking sector performance had improved in FY20. Several banks reported growth in earnings. Gross NPA declined to 8.5% in 2020 from 9.3% in 2019. It is expected to increase to 12.5% in FY21. Private sector banks same is expected to increase to 15.7% in 2021 from 11.7%. Total Banks lending was Rs 86 trillion in 2019, up from Rs 77 trillion in 2018. RBI had decided to announce the moratorium due to covid-19.

Gross NPA is expected to be 25-30% of total bank lending due to moratorium till August 31st. The Reserve bank of India had initially allowed for a 3 month loan moratorium beginning March allowing term loan borrowers to defer payment of principal and interest and later had extended to August 31st.

Net NPA is expected to grow from 3.7% in 2020 after 6% in 2019 to 5-6% in 2021 due to covid-19. Credit growth to agriculture and services generates 9% and 13% GNPA annually. Credit growth to agriculture increased by 5.4% in July 2020 as compared with a growth of 6.8% in July 2019. Credit to the services sector continued to grow at a high rate of 10.1% in July 2020 and 15.2% in growth in July 2019. Credit growth to corporate form 37% of the total bank assets and generates 73% of NPAs. Credit growth to industry slowed to 0.8% in July 2020 as compared with 6.1% growth in July 2019. Personal loans continued to perform well registering a growth of 11.2% in July 2020, as compared with 17% in growth in July 2019. So NPAs from this segment will be low and banks will enjoy higher margins.

However, credit growth to chemicals and chemical products, plastic and their products, infrastructure, jewellery, glass and glassware and beverage and tobacco declined. So we see that credit growth to sectors hit by pandemic will generate high NPAs.

Impact of bank moratorium on the NPA

The banking sector has reported lower non-performing assets (NPAs) during the quarter ended September 2020.

Despite the lockdown, layoffs and closure of many in the wake of the covid-19 pandemic, gross NPAs of 31 banks declined by Rs 43,848 crore to Rs 7,91,088 crore as of September 2020 from Rs 8,34,936 crore in June 2020—a decline of 5.25 per cent in absolute terms as the central bank allowed relaxation in the computation of bad loans and announced a loan restructuring scheme. However, gross NPAs have gone up by Rs 44,782 crore from Rs 7,46,306 crore in the March quarter, according to figures compiled by Care Ratings. Despite the fact that percentage of advances, there has been improvement in the gross NPA ratio in September at 7.7 percent compared with 8.2% in June and 7.9 percent in March, the RBI and analysts have warned against a pin in bad loans in the coming months.

All the banks warranted an improvement in this ratio in September over June. For public sector banks including IDBI Bank, the NPA ratio was down from 10.2% to 9.7%, said chief economist, Care Ratings.

State Bank of India (SBI), reported a lower NPA of Rs 1,25,862 crore in September from Rs 1,29,660 crore in June.

Punjab National Bank reported gross NPAs of Rs 96,313 crore in September quarter as against Rs 1,01,849 crore in June this year. Further, Bank of Baroda posted gross NPAs of Rs 65,698 crore down from Rs 69,132 crore.

In its financial stability report released this July, the RBI warned that the gross NPA ratio of all scheduled commercial banks (SCBs) may increase from 8.5% in March 2020 to 12.5% by March 2021.

Merits of moratorium

1. Moratorium will reduce financial stress of those facing income uncertainty due to the coronavirus crises.
2. If you avail moratorium, it will not be considered as default. So, your credit score would not be affected.

3. Banks will not charge any penalty for availing moratorium.

Demerits of moratorium

1. The moratorium is not a waiver, you will have to pay the EMIs later. Given that unpaid EMIs will be added to the principal amount, you will be required to pay a higher EMIs starting july for the reminder of your loan tenure. This is put additional burden on you.
2. Opting for moratorium will have tax implications. The tax reduction which you avail on interest payments will be affected if moratorium is opted for.
3. The interest payable on the loan will be higher when compared to the current interest amount.

Suggestions

The facility of the moratorium is not compulsory. Rather it is a relaxation one has keep in minds that moratorium does not mean a waiver in the amount due for payments.it is just a 3 months relaxation. the following suggestions are;

1. If the moratorium facility is optional for borrowers, it is better to repay the amount within the stipulated due date.
2. RBI must provide the relaxation of EMIs with free interest.
3. RBI should check details and conditions of a moratorium with concered banks, especially the interest rate which will be applied.

Conclusion

It must be understood that at this time of the pandemic the whole world is attacked Every aspects have own pros and cons. The term moratorium effect the NPA as well as banks. This paper just a review paper. The main objective of this paper to understand the meaning of moratorium in banking terms in debts way and also identify the impact of moratorium on the Indian banks as well as NPAs. Our suggestions would be helpful for both banks and the debtors.

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