



# Supreme Court order on loan moratorium, Ban on NPA lifted

- By Ankit Agrawal

## Loan moratorium case: Waiver of complete interest not possible, says SC



Supreme Court passes judgment in loan moratorium case. (Mint)

ankitmay28@gmail.com

PDF on Facebook



24-03-2021

ankitmay28



ankitmay28



ankitmay28





**Ankit Agrawal Official**

50,386 subscribers



[t.me/ankitagrawalofficial](https://t.me/ankitagrawalofficial)

Link

Educator

Instagram-

<https://www.instagram.com/ankitmay28/>

Facebook-

<https://www.facebook.com/ankitmay28>

Description

24-03-2021



**Telegram**

taking back our right to privacy





# UPSC/IAS

## (Pre + Mains)

Smart Course

No Cost EMI  
Available



Visit [studyyiq.com](https://studyyiq.com) or Download The APP



## WHAT HAS HAPPENED?

The Supreme Court today **refused to interfere with the government and the Reserve Bank of India's (RBI) loan moratorium policy and declined to extend the six months loan moratorium period.**

The apex court said that the **waiver of complete interest is not possible** as it affects depositors.

Banks can finally **start declaring their NPAs** or bad loans.

Loans which have **not been repaid for 90 days** or more.

In an **interim order on 3 September, 2020**, the Supreme **Court had directed banks not to classify those loans** which hadn't been classified as bad loans as of 31 August, **as bad loans**.

This meant that **since 1 September**, banks **have been unable to categorize** their bad loans as bad loans.

In an order earlier **today**, the Supreme Court **vacated this stay**.

As it said in its order: “Interim relief granted earlier not to declare the accounts of respective borrowers as NPA stands vacated.”

**Further, the court ruled** that the banks **cannot charge interest on interest** (compound interest) on the outstanding loans during the moratorium period of **1 March to 31 August, 2020**.



The **central government had made a policy** decision **not to charge** interest on interest for retail loans and loans made to micro, small and medium industries (MSME), **up to a loan size of ₹2 crore.**

The **Supreme Court said** that there was **no justification in limiting relief only to retail** and MSME borrowers and **up to a loan of ₹2 crore.**

“We are of the opinion that there shall not be any charge of interest on interest/penal interest for the period during the moratorium from any of the borrowers.”

# IMPACT OF THIS SUPREME COURT ORDER

The **government will now have to compensate banks** for not charging an interest on interest **on all loans** during the moratorium period.

As per rating agency ICRA, the interest on interest for a period of six months is **expected to be ₹13,500-14,000 crore.**

Of this, waiver of interest on interest on loans of up to ₹2 crore is expected to have cost the government ₹6,500 crore.

An extra ₹7,000-7,500 crore will have to be spent with the Supreme Court removing the ₹2 crore limit.

While the government will end up spending a lot of money in order to fund this Supreme Court decision, on the whole, it is an exercise in futility, given that it barely helps at an individual loan level.

Take the case of a **loan of ₹2 crore** being repaid at **interest of 8%**

The **interest on interest** on this for a period of **six months** amounts to **₹13,452**.

This **amounts to ₹2,242 per month**.

If **an individual** or an institution taking a loan of ₹2 crore does **not have the ability to repay** a little over **₹2,200 per month**, he shouldn't have been given the loan in the first place.



## WAIVER OF INTEREST

Thankfully, the demand for waiver of interest during the moratorium period, which was something that some of the petitioners had demanded, wasn't considered.

This waiver would have cost the government ₹6 trillion and would have led to the destabilization of the financial system in general and banks in particular.

## MORAL HAZARD

Also, the decision has created a moral hazard where business associations now know that in the future,

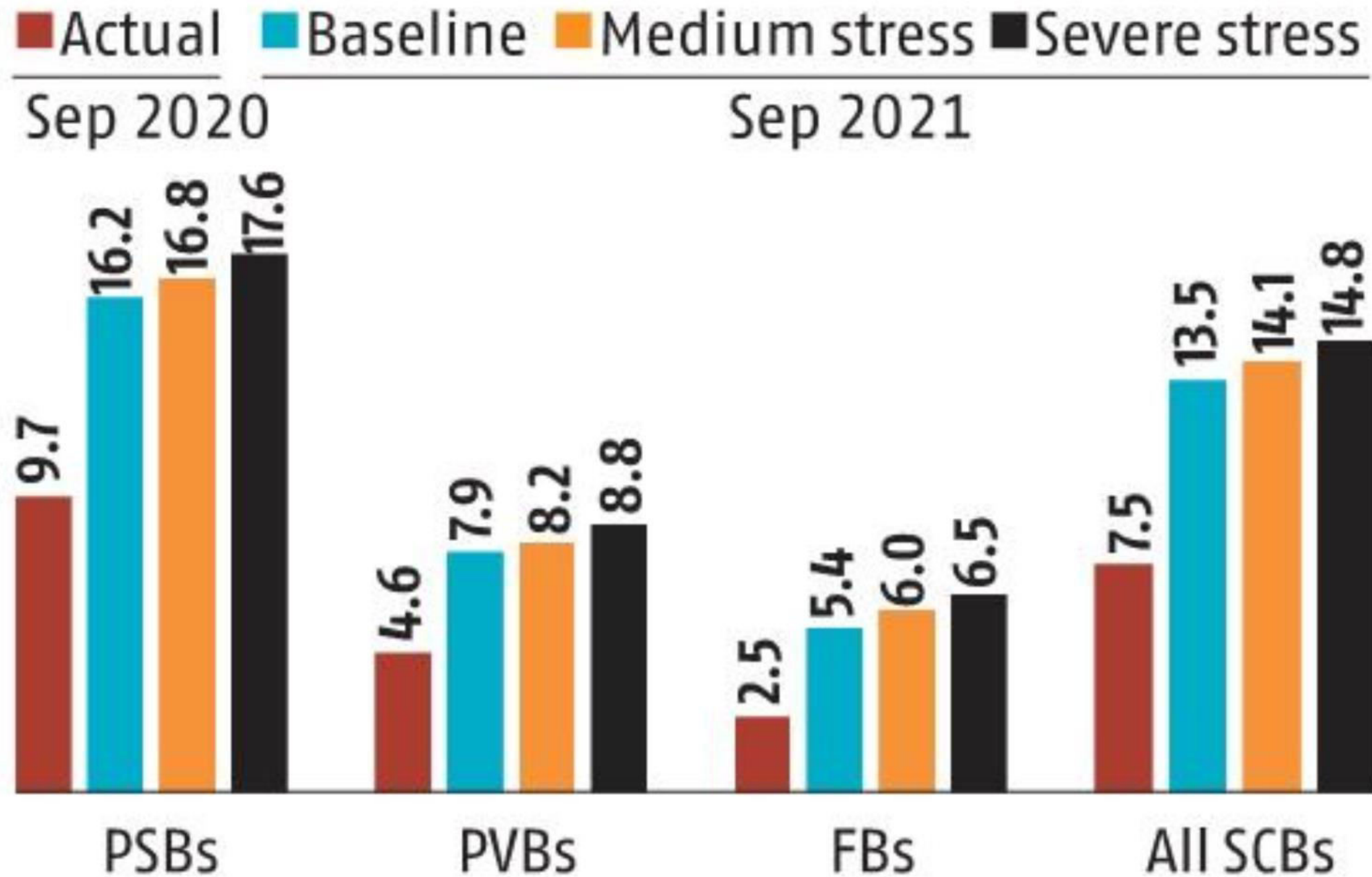
They can petition the courts to intervene, to force the banks and the government to give them a better deal, which isn't possibly a good thing.

## NPA OR BAD LOANS

ICRA estimates that if the Supreme Court hadn't intervened in August, the bad loans of banks would have been higher by ₹1.3 trillion and

Would have amounted to ₹8.7 trillion or 8.3% of bank advances as of 31 December, 2020.

The RBI expects bad loans of banks to touch 13.5% by September 2021





As of now, the good part is that banks can start recognizing their bad loans as bad loans.

The only way to solve a problem is to first recognize that it exists.

**Q. Which of the following is not the monetary tool?**

A) CRR

B) SLR

C) Deficit financing

D) Open market operations



# Supreme Court order on loan moratorium, Ban on NPA lifted

- By Ankit Agrawal

# 1000 MCQS ECONOMY

for UPSC/State PCS  
by Ankit Agrawal

LAUNCHED







# Daily UPSC MCQs

by Ankit Agrawal



Flat **50%+**

**10% Extra**  
Discount

Use Code "ANKIT10"

Valid Till 28<sup>th</sup> Feb'21



Visit [studyyiq.com](https://studyyiq.com) or Download The APP



**Study IQ**  
Study IQ Education

Uninstall

Open

What's new •

Last updated 11-Apr-2020





ankitmay28

Edit Profile



199 posts

36k followers

196 following

Ankit Agrawal

Educator at StudyIQ

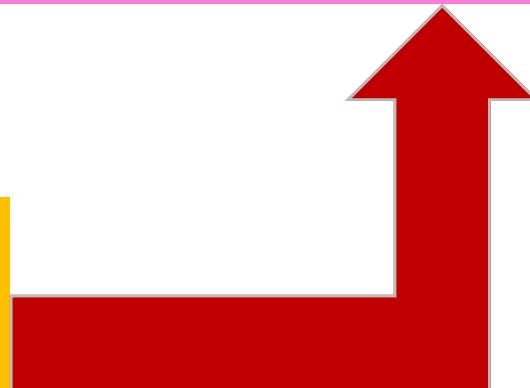
The only solution- 'EDUCATION'..

Knowledge makes you a better HUMAN..

Foodie...

[www.youtube.com/playlist?list=PL2TgM-3jib3klQTg3U\\_tRHub7mEqLMY8z](https://www.youtube.com/playlist?list=PL2TgM-3jib3klQTg3U_tRHub7mEqLMY8z)

**Playlist**  
**For all my Videos.**



ankitmay28

Ankit Agrawal Official

53,726 subscribers

