

Government may consider one-time recast of MSME loans

Government of India has suspended fresh applications under Insolvency and Bankruptcy Code (IBC) to protect MSMEs that are facing temporary cash flow issue from being dragged into insolvency proceedings. Under IBC, financial or operational creditor can file insolvency proceedings against MSMEs if the latter default on financial dues

In order to prevent the risk of winding up of small enterprises because of temporary liquidity problem, the government moved an ordinance recently. This ordinance prevents an application from being filed for initiation of a Corporate Insolvency Resolution Process under Sections 7, 9 and 10 of the Code for a default occurring on or after March 25 till September 25 (which may be extended to March 25, 2021).

The rationale behind the Ordinance is that the COVID-19 crisis has brought uncertainty and stress to businesses for reasons which are beyond their control, there has been a nationwide lockdown from March 25 to combat the spread of the pandemic which has caused disruption of normal business activity, and it will be difficult to find adequate number of resolution applicants to rescue the corporate entities that will default on debt obligation due to this unprecedented crisis.

Apart from this, the RBI has extended the moratorium on payment of installments in respect of term loans outstanding as on March 31, 2020, till August 31, 2020. While these measures are aimed at preventing businesses from slipping into bankruptcy due to the untoward circumstances, it may so happen that many business loans will turn into NPAs once the relaxation period expires.

This is because these enterprises are facing loss of income owing to the lockdown. And the deferment of the period of recognising bad loans may just be a postponement of the problem. However, given the extraordinary circumstances, we cannot allow most businesses to fail. The RBI should, therefore, consider debt restructuring methods such as reducing the interest rate on existing loans or increasing the repayment period of the outstanding debt at existing interest rates, for genuine accounts that become NPAs.

It is time that these schemes be revived to support MSMEs overcome the challenges of meeting their expenses such as rent, salaries and other statutory payments, as also rebuild their businesses once the lockdown is over as demand may take a while to rebound. Further, the debt restructuring instruments should not be restricted to MSMEs, but should also include large corporates, as any corporate failure at this time will have a contagion effect on the rest of the economy.

Notifications

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<https://pib.gov.in/PressReleasePage.aspx?PRID=1633367>

Update on COVID 19

<https://pib.gov.in/PressReleasePage.aspx?PRID=1633287>

DGFT

Amendment in export policy of PPEs/masks

https://dgft.gov.in/sites/default/files/Noti%2014%20Eng%20ss_0.pdf

Issuance of preferential certificate of origin for exports to Vietnam

<https://dgft.gov.in/sites/default/files/Trade%20Notice%2015%20COO%20go-Live%20Viet%20Nam.pdf>