

SC judgement on compound interest on loan waivers

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In News: Recently, the Supreme Court ruled in favour of waiving compound interest, ie, interest on interest during the six-month moratorium announced by the Reserve Bank of India last year.

SC Judgement

- The judgment was delivered by a Bench of Justices comprising Justice Ashok Bhushan, R Subhash Reddy and MR Shah.
- Banks will not charge compound interest or penal interest on any amount during the moratorium period for all borrowers
- Court further directed banks to credit or adjust the amount already charged by them from borrowers.
- The court added that it cannot do a judicial review of the Centre's financial policy decision unless it is malafide, arbitrary.
- Rejecting pleas for a complete waiver on interest the court opined that such a move would have consequences on the economy.
- The bench also said that interest waiver would affect depositors. Along with this, the court also rejected pleas for further relief in the matter.

How is this different from the last round of waiver announced in October?

- In October last year, the government had agreed to bear the burden of compound interest waiver for retail and small business loans up to ₹2 crore.
- This waiver pertains to interest payments during the moratorium period of March to August.

- The Reserve Bank of India (RBI) had allowed such a repayment deferment to aid borrowers tide over the adverse impact of covid-19 that left millions jobless.

Rationale for Loan Waiver

- More than 85% of small and marginal farmers in India possess less than 1-2 hectares of holdings and lack basic inputs for farming.
- Credit is a critical resource to farming households for carrying out crop production and meeting consumption & daily-life expenses. In India, the crop yield and production are highly dependent on monsoon.
- Farmers invest heavily in crops by taking loans. If the crop fails due to lack of rains or insufficient market demand, farmers will get trapped in debt. Due to this, there has been an increase in farmer suicides. Thereby, waiving farm loans address this humanitarian crisis.