

RBI eases project funding norms; mandates provisioning at 1-1.25%

ACTION PLAN. The asset provisioning requirements can be reduced when the project enters operational phase

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The Reserve Bank of India on Thursday eased final project finance norms, mandating lenders to maintain 1 per cent standard asset provisioning for under-construction project finance loans, compared with the 5 per cent provisioning requirement as stipulated in the initial draft norms released in May 2024. The norms will come into effect on October 1.

According to the final norms, lenders will be required to maintain 1.25 per cent provision for under construction commercial real estate exposures. In case of a delay in commencement of commercial operations, the provisions will be gradu-



MORE CLARITY. Projects that have been financed will continue under the existing provisioning model to ensure smooth implementation REUTERS

ally increased each quarter.

Most importantly, projects that have been financed will continue under the existing provisioning model to ensure a smooth implementation. The asset provisioning requirements can be reduced when the project enters operational phase.

"During operational phase, the standard asset provisioning requirement shall stand reduced to 1 per cent for CRE (commercial real estate); 0.75 per cent for CRE-RH (CRE- residential housing) and 0.40 per cent for other project exposures, respectively," the RBI said.

Businessline had in May reported that in-line with the accommodative and consultative stance adopted by RBI Governor Sanjay Malhotra, the regulator is likely to relax final norms on project finance loans, asking lenders to maintain 1-2.5 per cent provision for loans extended to under-construction projects.

EASING NORMS

Since taking charge, Malhotra has rolled back higher risk weights on bank loans to NBFCs, eased liquidity coverage ratio (LCR) proposed norms and also relaxed final guidelines on gold loans, among others.

AM Karthik, Senior Vice President & Co-Group Head, Financial Sector Ratings said, "Final guidelines on

project finance comes as a relief to the lenders, as for operational projects the extant requirement continues at 0.4 per cent, which is lower than 1 per cent/2.5 per cent indicated in the earlier draft. For under construction project finance provisions are kept at 1 per cent *vis-a-vis* 5 per cent suggested in the draft. This is however higher than 0.4 per cent applicable at present for banks. Limited impact expected on NBFCs as sufficient provisions are provided as per the expected credit loss assessment and provisioning at present is closer to the requirement as per the guidelines. Also, the provisions are applicable prospectively, from October 2025 and, thus overall impact for lenders shall be limited."