

Bankers suggest Covid-like moratorium for MSMEs

ILLUSTRATION: AJAYA MOHANTY



Flag cash-flow risks to RBI, Centre amid West Asia war

SUBRATA PANDA
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With the West Asia conflict nearing a month, bankers have suggested to the Reserve Bank of India (RBI) and the Centre that a time-bound moratorium on debt repayments for MSMEs and mid-corporates be considered to help them manage cash-flow disruptions without affecting asset quality, sources aware of the development said.

Lenders have suggested an opt-in framework under which borrowers facing cash flow stress can voluntarily avail themselves of the moratorium, instead of banks assessing stress on a case-by-case basis before extending relief, the sources said.

During the Covid-19 pandemic, the central bank had allowed a moratorium on debt repayments due to widespread business disruptions and the consequent strain on cash flows.

Bankers said a similar arrangement could be considered if the West Asia conflict persists, as several industries are likely to face challenges.

A freeze amid the boil

- Bankers suggest an opt-in framework, where borrowers facing cash flow stress can voluntarily avail of moratorium
- RBI seeking data from banks on their exposure to West Asia, and the industries that may be affected
- As of Jan 31, banks' MSME portfolio is ₹14.57 trn, according to the RBI
- Bankers say no asset quality issues on loan portfolio so far, but these may arise in Q1FY27 if conflict continues



WEST ASIA CONFLICT

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US indices fell on Thursday, as investors remained cautious while weighing prospects for de-escalation in the ongoing war.

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The banking regulator has sought data from lenders on their exposure to the region and the sectors that may be affected. The Centre has also taken stock of the situation and asked banks to submit suggestions, which are currently being compiled, sources said.

“They (RBI) are working out something with the government (on relief package), as this is a special situation. If the current conditions persist, many industries could face significant challenges. In such cases, due to cash flows getting impacted, some form of moratorium could be given, which would help them tide over the situation for a short period, say one or two months, until conditions normalise,” said a senior banker at a state-owned bank.

The ceramic cluster in Morbi (Gujarat) has been severely impacted, as it relies entirely on gas for tile manufacturing,” the person said.

“Similarly, glass industries, particularly those involved in bangle making, are facing disruptions. Rice exporters, especially those dependent on markets in West Asia, are also being affected. In addition, sectors, such as fertilisers, are experiencing challenges,” the person added.

Bankers said there were

no asset quality issues so far on their loan portfolio, but risks could emerge in the April-June quarter if the conflict continues.

According to RBI data, banks’ exposure to the MSME sector stood at ₹14.57 trillion as of January 31, 2026.

“We have suggesting an opt-in framework, meaning that any customer facing difficulty can choose to avail of the relief. Assessing each customer individually to determine whether they are under stress would be difficult, as this responsibility would fall on branches and relationship managers,” the banker quoted above said.

In the retail segment, lenders are closely monitoring gold prices that are correcting sharply. Borrowers are being asked to either pledge additional gold or repay part of the principal in cases where loan-to-value (LTV) thresholds are breached.

Gold-backed loans have seen strong growth in recent quarters, driven by a slowdown in unsecured lending amid rising asset quality concerns and higher prices. Gold loans have become the second-largest retail loan segment after housing, with a portfolio of ₹16.2 trillion as on December 31, 2025, growing 44.1 per cent year-on-year.