Emergency Credit Line Guarantee Scheme (ECLGS) 5.0

Prelims: *Current events of national and international importance | Economy*

Why in News?

Recently, The Union Cabinet, has approved the ***Emergency Credit Line Guarantee Scheme (****ECLGS 5.0) to provide targeted credit support to MSMEs and airlines facing liquidity stress.*

- **ECLGS** – A government-backed initiative offering collateral-free, low-cost credit to help businesses withstand economic shocks
- **Aim –** To provide targeted liquidity support for MSMEs and airlines facing stress from the West Asia conflict and rising Air Turbine Fuel prices.
- **Launched in –** May 2020; 5th edition approved in May 2026.

Introduced in 2020 to support the financial distress due to COVID-19 as a part of Aatmanirbhar Bharat Abhiyan package.

- **Nodal Agency –** Ministry of Finance
- **Implementing by –** National Credit Guarantee Trustee Company Limited (NCGTC) under Department of Financial Services (DFS).

Features

- **Eligibility –** Available to existing borrowers with a Standard account status (non-defaulters) as of March 31, 2026.
- **Credit Limits (MSME) –** Additional credit up to 20% of peak working capital utilised during Q4 FY 26, capped at Rs.100 crore.
- **Funded Interest Term Loan (Airline) –** Loans allow conversion of up to 50% of interest into a FITL (50% of their unpaid interest into a new loan).
- **Government guarantee** - Enables banks to offer credit without collateral or guarantee fees.
- **Moratorium –** Borrowers receive a 1 – 2 year moratorium where they are exempt from principal repayments.
- **Interest Caps –** Lending rates are strictly capped at 9% for Banks and 13% for NBFCs to prevent overcharging.
- **Validity** – The scheme applies to all loans sanctioned by NCGTC from the issue date until March 31, 2027.

Feature	MSMEs	Airlines
Max Loan	Rs. 100 Crore	Rs. 1,500 Crore
Guarantee Cover (NCGTC)	100% (Zero risk for bank)	90% (Bank keeps 10% risk)
Repayment Term	5 Years	7 Years
Moratorium	1 Year (Interest only)	2 Years (Interest only)

- **Financial Outlay -** Out of the total additional credit flow of ₹2,55,000 crore, **₹5,000 crore** is specifically earmarked for airlines.
- Rs. 5,000 crores allocated to aviation sector, with Rs. 1,000 crores loan per airline plus Rs. 500 crores on equivalent equity infusion.

Equivalent equity infusion – The airline must invest an equal amount of its own capital to get the additional loan.

- **Significance**
  - **Operational Stability –** Maintains continuity despite global disruptions and exchange rate volatility.
  - **Employment Protection –** Safeguards jobs within the aviation ecosystem.
  - **Sovereign Guarantee –** Enhances lender confidence, ensuring steady credit flow to high-risk sectors.

References

1. PIB | ECLGS
2. Indian Express | ECLGS
3. Economic Times | ECLGS

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