SBP's measures for COVID-19

This alert is intended to provide our clients with a brief overview of the steps taken by the State Bank of Pakistan (SBP) to dampen the effect of the economic dislocation(s) caused by COVID-19.

INTRODUCTION

As country-wide lockdowns take effect across the world including Pakistan, businesses and other companies are coming under increasing financial strain. Global supply chains have been disrupted making both large as well as small and medium-size manufacturing units particularly vulnerable to liquidity issues. This includes businesses not just in the manufacturing sector but also those in construction, logistics, FMCG, tourism and automobile.

In order to ensure that liquidity issues do not translate into solvency issues, SBP has moved promptly by issuing a number of circulars to reduce the impact of COVID-19 on economic growth by improving access to credit and easing certain regulatory controls in the financial sector. This client briefing provides a snapshot of the changes made by SBP for the benefit of ABS & Co's select clients.

RELIEF FOR BUSINESSES & COMPANIES

Payment of Principal on Loan Obligations Deferred for 1 Year

- Banks, microfinance banks, and development finance institutions (DFIs) can **defer the payment of principal on loans for obligor by one year** provided that the mark-up amount continues to be serviced.
- **A written request must be made to the bank(s) before 30th June 2020** to avail this relief.
- The **deferment will not affect the credit history of the obligor** & will not be reported in the eCIB as restructuring.
- Such deferment by Banks and DFIs cannot be availed on non-performing loans as of 31-Dec-2019.

Criteria for Restructuring/Rescheduling of Loans Relaxed

- **For borrowers/obligors whose financial conditions require relief beyond the extension of principal repayment for one year, SBP has relaxed the regulatory criteria for restructuring/rescheduling of loans**.
- The loans that are re-scheduled/restructured within 180 days from the due date of payment will not be treated as defaults.
- Banks would also not be required to suspend the unrealized mark-up against such loans.
- This applies to Banks/DFIs as well as microfinance institutions.

Facilitating New Investment Through TERF

- A Temporary Economic Refinance Facility (TERF) has been announced which will **provide**

concessionary refinance for setting up new industrial units.

- The facility caters to the post-pandemic scenario and is available at Banks/DFIs.
- **Maximum limit is Rs. 5 billion per project**.

Margin Call Requirements against Bank Financing have been Reduced

- Considering the volatility in the stock market, the **margin requirement has temporarily been reduced from 30 percent to 20 percent for exposure against shares of listed companies**.
- **The margin calls have been reduced from 30 percent to 10 percent for exposure against shares of listed companies**.
- The above margin call requirements are reduced **temporarily till September 26, 2020**.

Taking Exposure on Borrowers against the Shares of their Group Companies

- Due to market volatility, **Banks/DFIs have been permitted to take exposure on any person against the shares issued by its group companies**, provided the tenor of the financing facilities does not exceed one year.
- Such exposure is temporarily available until September 26, 2020.

Criteria for Classification of "Trade Bills" Relaxed by Six Months

- Keeping in view supply chain disruptions, the timeline for "Trade Bills" has been extended from 180 days to 365 days.
- Banks/DFIs can now classify "Trade Bills" as "Loss" only when the payment obligation is not repaid/adjusted within 365 days of the due date.

Banks' Overall Pool of Loanable Funds Increased

- To incentivize banks to provide additional loans to retail SMEs the existing regulatory retail limit of Rs. One Hundred Twenty-Five Million per SME has been permanently enhanced to Rs. One Hundred Eighty Million.

RELAXING CREDIT REQUIREMENTS FOR EXPORTERS & IMPORTERS

Relaxation in Conditions for LTFF

- Previously, exporters who wanted to avail credit under Long Term Financing Facility (LTFF) were required to have exports worth 50 percent of total sales, or USD 5 million of exports to become eligible. This **limit has been reduced to 40 percent or USD 4 million for all the borrowings under LTTF during the period January 01, 2020, to September 30, 2020**.
- Another period of one year has also been granted to meet export performance requirements.
- Applies to ILTFF as well.

Relaxation of Performance Requirement under EFS (Part II)

- To avail cheaper credit under EFS (Part II), exporters were required to export twice the amount of borrowed funds during FY 2019-20 on a daily average product basis. **SBP has now reduced the performance requirement from twice to one-and-a-half times** that will be effective for the current year as well as for FY21.

Extension of Time to Meet Performance Requirements for EFS (Part II)

- SBP has allowed six more months for exporters under EFS (Part II) to meet required export performance. Previously, performance was considered until end June 2020. This period has been **extended by six months to Dec. 2020**. Since the additional period will also be counted towards setting new limits, this will help the exporters in availing higher limits for FY21.

Extension in Time Period to Ship Goods under EFS (Part I)

- **Six months' extension in shipment period has been allowed to the exporters** availing EFS (Part I) whose date of shipment fell within the period between January 2020 to June 30, 2020. **The exporters will not be liable to pay penalties due to a breach of not shipping their goods during January 2020 to June 2020**.
- In the case where penalty has already been paid against shipment falling due from January 01, 2020, the penalty will be refunded.

Extension in Time for Realization of Exports Proceeds

- For exporters, **SBP has allowed banks to enhance the time period for realization of exports proceeds from the existing requirement of 180 days to 270 days on a case by case basis where the delay is related to COVID-19**. The exporter must submit a satisfactory explanation along with supporting evidence showing delay in realization of export proceeds was due to COVID-19.
- This move is intended to support exporters to provide extended time to their buyers in making payment.
- For importers, **SBP has extended the time-period for import of goods into Pakistan against advance payment from the existing requirement of 120 days to 210 days**. However, the importer must submit a satisfactory explanation along with supporting evidence showing delay in the import of goods was due to COVID-19.

Direct Dispatch of Shipping Documents

- Previously, exporters could only dispatch shipping documents directly to foreign buyers if the export consignment was of value up to USD 100,000. **Now the exporters can dispatch the shipping documents directly to the foreign consignees or their agents without any limit**. However, this is **subject to the condition that the exporter's export over-dues are less than one percent and the exporter has exports of at least USD 5 million during the previous three years**.
- The exporters who do not have the exports of USD 5 million during the previous three years can dispatch the shipping documents directly to their foreign buyers if the consignment is of value up to USD 1,000,000, export over dues are between 1 and 3% and has exports of at least USD 2.5 million during previous three years.
- For small exporters who do not have exports of USD 2.5 million during the previous three years, they can also dispatch shipping documents directly to their foreign buyers if the consignment is of value up to USD 500,000, export over-dues are between 3 and 5 % and has exports of at least USD 250,000 during previous three years.
- Please refer to detailed terms and conditions given in EPD Circular No. 05 of March 19, 2020.

Limits on Advance Payment for Imports Increased

- In addition to the relief given in January 2020, SBP **has now enhanced the existing limit on advance payment of USD 10,000 per invoice to USD 25,000** in order to facilitate manufacturing & industrial concerns and commercial importers for import of raw material, spare parts, and machinery.

RELIEF FOR INDIVIDUALS

Payment of Principal Amount for Borrowers Deferred for 1 year

- Banks and development finance institutions (DFIs) can **defer the payment of principal comportment of installments at no fee or increase in mark-up rate** provided the borrower continues to service the mark-up amount as per agreed terms and conditions.
- **A written request must be made to the bank(s) before 30th June 2020** to avail this relief. Deferment cannot be availed on non-performing loans as of 31-Dec-2019.

- The deferment of the principal component in installments or rescheduling/restructuring **shall not affect the credit history of the borrower**, and therefore is not to be reported in the eCIB/ private credit Bureau as restructuring.
- Also available on housing finance and applies to both Banks/DFIs and microfinance institutions.

Borrowing Limits for Individuals Increased for 1 Year

- The capacity to borrow from banks for individuals is limited by their capacity to bear the burden of debt, defined in terms of Debt Burden Ratio.
- SBP has **temporarily relaxed the Debt Burden Ratio (DBR)** for **consumer loans from 50% to 60%**.

Excess Over Limit of up to 15% Allowed

- The banks/DFIs may allow temporary Excess over Limit (EOL) of up to 15 percent of the original sanctioned limit.
- **However, the customer must specifically request for EOL.**

The Regulatory Limit on Extension of Credit to SMEs Permanently Increased

- Banks can now supply additional loans to businesses and households. The Capital Conservation Buffer (CCB) has been reduced from its current level of 2.50% to 1.50%.
- Now **banks can lend an additional amount of around Rs. 800 billion**, an amount equivalent to about 10% of their current outstanding loans.

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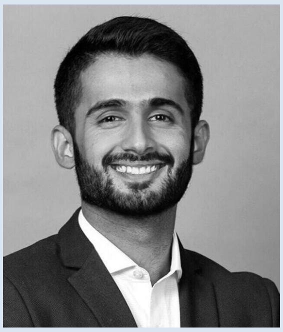

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Please do not hesitate to reach out to us or any of our team members for further clarity.

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