

Following Clarification/Rebuttal was issued to Dawn in response to an Editorial published on March 28, 2020 entitled: ‘Debt Plan’

Apropos your editorial “**Debt Plan**” published on March 28, 2020 wherein you asserted, “Banks might need more specific guidance on how to treat those parties who seek to avail the terms being offered. If a request to defer principal payments by one year is treated by the banks as ‘rescheduling’, and thereby adversely impacts a borrower’s credit rating, it will serve as a disincentive to step forward. For the success of the scheme — which must be measured in the number of parties availing its benefits — it is important that those participating in it not be left with an adverse report on their credit rating”.

It is pertinent to mention here that our instructions addressed to the regulated entities clearly mention that deferment of principal amount for twelve months or rescheduling / restructuring of financing facilities for a period exceeding twelve months will not affect the credit history of the obligors. This information was also specifically provided in our press release on 26th March, 2020. The relevant extracts of BPRD Circular No. 12 of 2020 dated March 26, 2020 are reproduced below:

- “Deferment will not affect the credit history of the obligor and accordingly will not be reported in the ECIB as restructuring”.
- If rescheduling / restructuring is done within 180 days of the loans being past due, such financing facilities will continue to be treated as regular and reported in the ECIB accordingly”.

We acknowledge that your editorial on the subject appreciated the measures taken by SBP, but unfortunately missed this point. We expect that abiding by the high standards of journalism that your organization always practice, you would publish our clarification with same prominence as that of captioned Editorial. Doing so would help ensure that information on the SBP’s Relief Package, designed in collaboration with Pakistan Banks’ Association, is presented in fair, objective, and accurate manner to enable the stakeholders draw intended interpretations.

Following Editorial published in Dawn, Karachi on March 28, 2020

Debt plan
Editorial, March 28, 2020

THE State Bank and the country’s banks have moved fast to pre-empt rising calls for a moratorium on debt repayments from individuals and businesses. The key now lies in how many parties step forward to avail themselves of the benefits being offered. Chief among these benefits is the option to delay all repayment on principal by one year, for individuals and

businesses, but continue the interest payments. Given that Rs4.7tr worth of principal is due over the next year, this is by far the biggest plank in the debt relief plan chalked out by the State Bank and the Pakistan Banks Association. Coupled with the coming reduction in domestic interest rates that will be reflected in the Karachi Interbank Offered Rate, or Kibor, by the end of March, this could amount to significant relief for local enterprises. There is a high possibility that more will be required in the weeks to come, particularly on the interest rates, but for now the ball has passed to the court of the borrowers, who must now vote on the plan with their actions. If we see a large uptake on the terms being offered, we will know it has been successful. If very few step forward we will know there is a problem.

Banks might need more specific guidance on how to treat those parties who seek to avail the terms being offered. If a request to defer principal payments by one year is treated by the banks as 'rescheduling', and thereby adversely impacts a borrower's credit rating, it will serve as a disincentive to step forward. For the success of the scheme — which must be measured in the number of parties availing its benefits — it is important that those participating in it not be left with an adverse report on their credit rating. Businesses are facing a unique challenge with the lockdowns and certainly have a valid case for getting relief. The extent to which this relief does not become a burden on state finances is important since those funds will be required to underwrite social protection as well as significant investments in healthcare provision. Giving debt relief in the form of deferred repayment of the principal has the benefit of not placing any burden on government finances to provide relief to industry. This is the way forward should further measures be required to support industry, which must not be allowed to become a burden on the state.