

May 7, 2013

### **State Bank issues revised Prudential Regulations for SME Financing**

The State Bank of Pakistan issued revised Prudential Regulations (PRs) for Small and Medium Enterprise (SME) financing today, to ensure smooth flow of funds to the sector. The revised PRs focus more on **Small Enterprise**, and formulate more specific and simpler regulations for them.

The new set of Regulations is believed to further improve the current Regulatory Environment and will boost the efforts to meet financing needs of SMEs. The revised regulations underscore importance of cash flow analysis and other tools assessing the primary source of repayment of SME borrowers. It also emphasizes the use of technology and documentation for disciplined credit control for monitoring of credit quality.

Since Medium Enterprises are relatively less credit constrained in accessing loans compared to Small Enterprises, the Regulations governing them have not been changed. However, the definition for Medium Enterprises has been changed and their individual & aggregate borrowing limits revised upwardly.

After review, the *SME Prudential Regulations* have now the following structure:

- i. General Prudential Regulations that apply on both Small and Medium Enterprises
- ii. Specific Prudential Regulations for Small Enterprise Financing
- iii. Specific Prudential Regulations for Medium Enterprise Financing

The Revised PRs are applicable with immediate effect for the fresh financing facilities. However, since the banks/DFIs need to segregate their existing SME portfolio according to the new definitions and revised classification criteria, Banks/DFIs are allowed a maximum implementation period up to September 30, 2013 for the existing portfolio.

The new set of Prudential Regulations can be accessed at SBP web-site <http://www.sbp.org.pk>.

\*\*\*\*\*