ERD/M&PRD/PR/01/2020-47 May 6, 2020

Ministry of Finance and State Bank of Pakistan introduce risk-sharing mechanism to support bank lending to SMEs and small businesses to avail SBP's Refinance Facility to Support Employment

Taking cognizance of the SMEs finding difficulties in arranging adequate collateral and banks' risk averseness in taking exposures for such lending under the SBPs Refinance Scheme to Support Employment and Prevent Layoff of Workers, Ministry of Finance has stepped forward to shoulder risk sharing with banks. Accordingly, the Federal Government has allocated Rs30 billion under a credit risk sharing facility for the banks spread over four years to share the burden of losses due to any bad loans in future. Under thisrisk sharing arrangement, Federal Government will bear 40% first loss on principal portion of disbursed loan portfolio of the banks. This facility will incentivize banks to extend loans to collateral deficient SMEs and small corporates with sales turnover of upto Rs2 billion to avail financing under SBP refinance scheme.

Under the SBP's Refinance Scheme to Support Employment and Prevent Layoff of Workers due to the impact of COVID-19, businesses that commit to not lay off workers in the next three months can avail credit through banks for the three months of wages and salaries expenses at a concessional markuprate.

The risk-sharing mechanism being introduced today, that is expected to increase the banks' incentive to lend to SMEs and small corporate under this scheme, was developed on the basis of feedback received from relevant stakeholders and in collaboration between MOF and SBP. Ministry of Finance's swift approval ofthe subsidy to provide risk coverage to banks has made it possible for the SBP to launchthis credit risksharing facility for which relevant circular has been issued today.

SBP will continue to monitor the implementation of the scheme.

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