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State Bank of Pakistan announces three measures to address the economic and health challenges posed by the spread of COVID-19

First, the Monetary Policy Committee (MPC) of the SBP cut its policy rate by 75 basis points. As noted in the accompanying Monetary Policy Statement, the dominant development since the last MPC meeting has been the outbreak of the Coronavirus pandemic. This has precipitated a slowdown in world demand and volatility in global financial markets, as well as a steep fall in global oil prices. Together with the domestic deceleration in food prices and significant decline in consumer price expectations, the outlook for inflation in Pakistan has therefore improved, paving the way for today's rate cut. The current market volatility being experienced in Pakistan is externally driven and the strengthening in the fundamentals of Pakistan's economy that drove the improvement in Pakistan markets before the Coronavirus outbreak remains intact. As a result, volatility is likely to subside as global risk aversion reduces. The SBP stands ready to take whatever additional actions that may be necessary to safeguard price and financial stability and support economic growth.

Second, the SBP announced a "Temporary Economic Refinance Facility (TERF)" and its Shariah compliant version to stimulate new investment in manufacturing. Under this scheme, the SBP will refinance banks to provide financing at a maximum end-user rate of 7 percent for 10 years for setting up of new industrial units. The total size of the scheme is Rs 100 billion, with a maximum loan size per project of Rs 5 billion. It can be accessed by all manufacturing industries, with the exception of the power sector, where an SBP refinance facility for renewable energy projects already exists. In line with the SBP's other refinancing schemes, the credit risk will be borne by banks and the selection of projects to finance will also be determined by them. This scheme will help counter any possible delays in the setting up of new projects that investors were planning prior to the Coronavirus outbreak. It will be available for one year only, requiring a letter of credit (LC) to be opened by end-March 2021.

Third, the SBP announced a "Refinance Facility for Combating COVID–19 (RFCC)" and its Shariah compliant version to support hospitals and medical centers in combating the spread of COVID–19. Under this scheme, the SBP will refinance banks to provide financing at a maximum end-user rate of 3 percent for 5 years for the purchase of equipment to detect, contain and treat the Coronavirus. The SBP will provide this facility to banks at 0 percent. All hospitals and medical centers registered with federal or provincial health agencies and which are engaged in the control and eradication of COVID-19 will be eligible for this facility. The total size of the scheme is Rs 5 billion, with a maximum financing limit per hospital or medical center of Rs 200 million. This scheme will help contain the spread of the Coronavirus and reduce its human toll. It is available until end-September 2020.

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