



## External Relations Department

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### **SBP and PBA issue Relief Package for households and businesses to cope with impact of COVID-19 Pandemic**

Amid growing concerns about the potential economic impact of the COVID – 19 pandemic, State Bank of Pakistan (SBP) with the collaboration of Pakistan Banks Association (PBA), has announced a comprehensive relief package. This package will help relevant stakeholders including households and businesses (microfinance, SMEs, corporates, commercial, retail, and agriculture) to manage their finances through this temporary phase of disruption. Key highlights of the package are as follows:

**Banks' overall pool of loanable funds has been increased.** To support the banking sector to supply additional loans to businesses and households, SBP has reduced the Capital Conservation Buffer (CCB) from its existing level of 2.50% to 1.50%. This will enable banks to lend an additional amount of around Rs. 800 billion, an amount equivalent to about 10% of their current outstanding loans. The reduced CCB level will remain applicable till further instructions by SBP.

**The regulatory limit on extension of credit to SMEs has been permanently increased.** SMEs typically bear the brunt of credit supply contractions during periods of heightened risk aversion and economic downturn. Therefore, as a tool to incentivize banks to provide additional loans to retail SMEs, the existing regulatory retail limit of Rs. 125 million per SME has been permanently enhanced to Rs. 180 million with immediate effect. This measure will facilitate banks to provide more loans to SMEs, which currently stand at around Rs. 470 billion.

**Borrowing limits for individuals have been increased for one year.** The capacity to borrow from banks for individuals is limited by their capacity to bear the burden of debt, defined in terms of a percentage of their income and known as a Debt Burden Ratio (DBR). SBP has relaxed the DBR for consumer loans from 50% to 60%. This measure will allow about 2.3 million individuals to borrow more from banks in this time of need.

**Payment of principal on loan obligations will be deferred by banks.** Banks and DFIs will defer the payment of principal on loans and advances by one year. To avail this relaxation, borrowers should submit a written request to the banks before 30<sup>th</sup> June 2020. They will, however, continue to service the mark-up amount as per agreed terms and conditions. The deferment of principal will not affect borrower's credit history and such facilities will also not be reported as restructured/rescheduled in the credit bureau's data. The total amount of principal coming due over the next year is about Rs. 4,700 billion.

**Regulatory criteria for restructuring/rescheduling of loans have been temporarily relaxed till 31<sup>st</sup> March 2021.** For borrowers whose financial conditions require relief beyond 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



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such loans. In addition, the timeline for classification of “Trade Bills” has been extended from 180 days to 365 days.

**Margin call requirements against bank financing have been reduced.** Keeping in view the steep decline in share prices, margin call requirement of 30% vis-à-vis banks’ financing against listed shares has been significantly reduced to 10%. Banks have also been allowed to take exposure on borrowers against the shares of their group companies. Banks have currently extended loans in excess of Rs. 100 billion against listed shares.

SBP and PBA expect that the measures above will help households and businesses in dealing with financial problems arising due to COVID-19. SBP will keep monitoring the economic situation and credit conditions faced by households and businesses closely, and stands ready to take additional needed measures in coordination with PBA to steer the economy during this period of temporary disruption.

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