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Measures by Central Banks to Curb the Economic Impact of COVID-19

Can SBP Do More to Assist SMEs?

The world is preparing for an economic slowdown of unprecedented proportions. The COVID-19 pandemic is evolving with each passing day. With more than 2 million confirmed cases, and fatalities approaching the 160,000 mark, COVID-19 has emerged as a global health catastrophe initially affecting China, and now engulfing at least 213 countries in six continents[1]. The number of affected cases is mounting exponentially, especially in Europe and North America, with the death toll expected to remain high in the coming days and weeks.

Concerns of entering a global economic meltdown are escalating, with many economists citing the start of a global recession. To ensure against the collapse of national health systems, governments across the world have been enforcing lockdowns and pushing citizens to stay at home. This has created a decrease in consumption and demand, with expectations of sharper reductions in the days ahead as employees are laid off and buying power declines. Analysts and think tanks across the globe have been busy estimating the potential economic losses to global output.

The Organization for Economic Co-operation and Development (OECD) forecasts that the ongoing pandemic can slow down global GDP growth by half a percent to 2.4% (from its previous forecast of 2.9%). In a worst-case scenario, where the virus persists and lockdowns become more intensive, global growth for 2020 can even contract to 1.5%[2]. Similarly, an article published in the Bloomberg estimates that the world economy could lose up to USD 2.7 trillion, equivalent to the entire GDP of the United Kingdom (UK); slowing down global GDP growth to 2.3% (earlier consensus was of 3.1%) which in a more intense situation can go down to 1.2%[3]. The Asian Development Bank (ADB), in its recent issue of the Asian Development Outlook (ADO) 2020, projects global losses in the range of USD 2 – 4.1 trillion and predicts a substantial impact on developing Asia with growth declining to 2.2% in the region from the earlier estimate of 5.2%.

Governments across the globe are formulating discretionary fiscal and monetary easing policies to bail out hard-hit sectors and businesses to prevent a surge in bankruptcies and unemployment. Countries with a high debt burden and inadequate fiscal flexibility are in a tough spot with limited options in hand to tackle this pandemic. The Chief Economist of the Bloomberg also mentioned that *"If the outbreak comes quickly under control, and economies spring rapidly back to life, fiscal sustainability won't be an issue. If either of those conditions don't hold, policy makers could quickly find themselves running out of options"*[4].

Pakistan is no different. The situation is escalating quickly with confirmed cases crossing the 9,000 mark and nearly 200 recorded deaths[5]. Provincial governments across the country have imposed partial to full lockdown to contain the spread of the virus. The already weak economic outlook now looks bleaker. Businesses, especially micro, small and medium enterprises (MSMEs) with limited resources to absorb such shocks face a major challenge, currently, in terms of falling demand, contracted revenue and augmenting operational and financial pressures.

As per the official estimates of the Ministry of Planning, economic losses are projected at PKR 2- 2.5 trillion, while employment is expected to contract by ~12 - 18.5 million people[6].

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[1] (As of 15 Apr, 2020) https://www.who.int/emergencies/diseases/novel-coronavirus-2019
[2] https://www.oecd.org/berlin/publikationen/Interim-Economic-Assessment-2-March-2020.pdf
[3] https://www.bloomberg.com/graphics/2020-coronavirus-pandemic-global-economic-risk/
[4] https://www.bloomberg.com/news/articles/2020-03-25/economies-already-look-totally-different-from-the-pre-virus-age
[5] Figures as of 15 Apr, 2020
[6] https://www.thenews.com.pk/print/638689-pandemic-losses-can-reach-rs2-5-trillion-experts

Exhibit 1: Ministry of Planning Estimates of Impact of COVID-19

	Limited Lockdown	Moderate Lockdown	Curfew Situation
Losses (PKR trillion)	1.2	1.96	2.5

Another independent estimate projects domestic economic losses at PKR 0.9 - 1.6 trillion, long-term loss of ~3-5 million jobs and temporary unemployment of 10.5 million workers due to lockdown, with all this resulting in a GDP loss ranging from 4.6% to 9.5%, depending upon less severe to more severe shocks[7].

Quantitative Easing – Need of the Hour

Given the projected economic slowdown and its far-reaching implications on employment, trade and consumption, central banks across the globe have been introducing expansionary monetary policies to provide a stimulus to the financial system, restrict capital flight and ensure price stability. An assessment of the responses by apex banks shows a focus on designing policies to: i) support liquidity pressures faced by financial institutions and encourage them to continue lending to in sectors or projects which are otherwise credit/investment worthy, ii) ease cashflow pressures witnessed by businesses due to disruptions, primarily for MSMEs, iii) inject inexpensive or subsidized funding to enable businesses to revive revenue and outputs and iv) encourage flow of capital to private sector through extension of risk-sharing arrangements for various lending schemes.

Following suit, the State Bank of Pakistan (SBP) has also introduced measures to support domestic financial institutions and businesses including MSMES, and enhance uptake of digital financial services. This note summarizes key monetary measures taken by central banks across different countries to minimize the disruptions faced by MSMEs. The note also includes input on the support sought by local business players. Based on these global measures, a set of recommendations for Pakistan are included, with the express aim of supplementing the support already being provided to MSMEs.

China

Policy/Bank Rate (%)	Inflation Rate (CPI) (%)	GDP per Capita (USD)
1 Year Medium Lending Facility (MLF)[8]: 2.95% *1 Year Loan Prime Rate[9]: 3.85%*	*4.3%[10]*	*USD 10,099[11]*

The People's Bank of China (PBC) took massive quantitative easing measures to pump liquidity into the local financial system. In February 2020 the Bank undertook massive reverse repo operations to inject Yuan 1.2 trillion (~USD 170 billion[12]) in the banking system[13]. Later PBC also set aside a special loan facility of Yuan 300 billion (USD 43 billion), specifically for organizations extending medical and daily essential items. To support MSMEs, PBC announced a moratorium in March 2020 on principal as well as interest payments and allowed that any payments that are due since and after January 25, 2020 can be deferred until June 30, 2020[14].

The bank also announced an additional Yuan 500 billion (USD 71 billion) relending facility for MSMEs and the agricultural sector, reduced the official relending rate for the facility (benchmark rate) by 25 bps to 2.5% and directed that banks extending such loans at a rate not higher than 50 bps above the benchmark rate will be eligible to apply for the new government funding by June 2020[15]. Via this mechanism, the PBC intended to encourage domestic banks to increase financial support to MSMEs at reduced rates and enabled the qualifying banks to access more liquidity in future. Similarly, state owned policy banks were directed to enhance their preferential rate schemes for MSMEs by another Yuan 350 billion[16].

[7] https://www.brecorder.com/2020/03/31/585150/coronavirus-economic-impact-and-relief-package/
[8] MLF is the facility under which PBC lends to financial institutions. The Loan Prime Rate is loosely pegged to the interest rate on the MLF.
[9] Loan Prime Rate is the interest rate that banks charge their most credit worthy clients. PBC directs commercial lenders to reference the loan prime rate when pricing their new loans.
[10] YoY reading for Mar 2020; http://data.stats.gov.cn/english/easyquery.htm?cn=A01
[11] World Economic Outlook, Oct 2019 (International Monetary Fund)
[12] Exchange Rates for US$ conversions are taken as at 21 Apr, 2020
[13] http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3966122/index.html
[14] http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3980072/index.html
[15] http://www.gov.cn/premier/2020-02/25/content_5483215.htm
[16] Ibid

PBC also released Yuan 550 billion (USD 78 billion) by reducing the reserve requirement ratio by 0.5-1% for large commercial banks that have met their inclusive financing targets[17] and 1% for joint-stock commercial banks.

The Chinese economy shrank 6.8% YoY in the first quarter of 2020 as the virus and tough containment measures cut down output and put millions out of work. This is the first contraction since 1992, when quarterly records were first published. In response, PBC lowered the one-year Loan Prime Rate (LPR) by 20 bps to 3.85% while the five-year LPR was cut by 10 bps to 4.65%. Earlier PBC had also lowered the interest rate on its Medium-Term Lending Facility (MLF), which serves as the guide to the LPR, for financial institutions. The interest rate on one-year MLF now stands at 2.95%[18].

United Kingdom

Policy/Bank Rate (%)	Inflation Rate (CPI) (%)	GDP per Capita (USD)
0.1%	*1.7%*[19]	*USD 41,030*[20]

In March 2020, The Bank of England (BoE) cut the interest rate to 0.1%, and decided to inject GBP 200 billion (~USD 248 billion) via increasing its holding of government bonds and investment-grade corporate bonds[21]. In addition, the Bank announced a Term Funding Scheme with additional incentives for SMEs (TFSME), available to local banks over the next 12 months. With TFSME, BoE aims to provide low cost liquidity to financial institutions encouraging them to pass on the lower interest rates to final consumers.

Under TFSME participating banks will be allowed a minimum funding of 10% of their respective stock of real economy lending that is priced at or close to the Bank Rate while additional funding will be available to banks that increase their SME lending. The tenure for TFSME funding is set at four years. For this purpose, the BoE has set a one-year Reference Period (December 2019 to December 2020) to monitor the additional lending made by participating banks. Initial allowance will be 10% of Base Stock[22] while additional allowance shall be equal to the sum of:

(i) 1 times non-SME Net Lending over the Reference Period to UK resident households, Private Non-Financial Corporations (PNFCs) and Non-Banking Credit Providers (NBCPs) that are not part of the participant's Group, and

(ii) 5 times Net Lending to SMEs over the Reference Period.

In addition, in partnership with HM Treasury, the BoE introduced a fresh lending scheme named Covid Corporate Financing Facility (CCFF). The aim of this facility is to support short term liquidity among larger firms, helping them to bridge coronavirus disruption to their cash flows through the purchase of short-term debt in the form of commercial paper. For SMEs a separate scheme called the Coronavirus Business Interruption Loan Scheme (CBILS) of GBP 350 billion (USD 435 billion) has been designed which will be operated by the state-owned British Business Bank. This scheme provides SMEs (business with a turnover of up to GBP 45 million) with access to loans, overdrafts, invoice finance and asset finance of up to GBP 5 million (USD 6.2 million) for up to six years. The scheme also offers Business Interruption Payment facility, to cover the first 12 months of interest payments and any lender-levied fees. A sovereign guarantee of 80% shall also be available on each loan,[23] although there is pressure to increase the guarantee to 100% based on slow uptake as by April 18 only GBP 1 billion has been disbursed under CBILS to an estimated 6,000 businesses, compared to 98,000 in Switzerland and 300 times as much lending in the US. On April 18, 2020 the Governor of the BoE conceded that an extension of 100% government guarantee to lenders could speed up the delivery of loans under the scheme to cash strapped businesses.

[17] Inclusive finance covers financial institutions' services for small businesses, farmers, those on low-incomes, the disabled and senior citizens.
[18] https://www.reuters.com/article/us-china-economy-lpr/china-cuts-key-rate-for-second-time-this-year-more-easing-likely-idUSKBN22203J
[19] YoY reading for Feb 2020; https://www.ons.gov.uk/economy/inflationandpriceindices
[20] World Economic Outlook, Oct 2019 (International Monetary Fund)
[21] https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/monetary-policy-summary-for-the-
[22] special-monetary-policy-committee-meeting-on-19-march-2020
The "Base Stock" will be determined at the start of the Reference Period and defined as loans made by a Participant to UK resident: households, Private Non-Financial Corporations (PNFCs) and Non-Banking Credit Providers (NBCPs) outside of the Participant's Group.
[23] https://www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19/covid-19-support-for-businesses

Mr. Ed Miliband, Shadow Secretary of State for Business, Energy and Industrial Strategy stated that *"we face a looming insolvency crisis if uptake is not improved dramatically. The Government must go further and urgently reform the scheme to guarantee 100% loans to small businesses."* [24]

The BoE also announced reduction in the countercyclical buffer (CCyB) rate to 0% with immediate effect for at least 12 months[25] which, following a pre-existing path would have been 2% by December 2020[26].

Box A: The Countercyclical Capital Buffer*

"The regulatory instrument best suited to supporting lending during a downturn is the Basel III countercyclical capital buffer. The instrument is designed to induce banks to accumulate capital in good times so that they can draw it down in bad ones. The aim is to strengthen banks' resilience, but the tool may also have the side benefit of dampening lending cyclicality. And while the adjustments are discretionary, based on indicators of increasing vulnerabilities, they are part and parcel of the framework. One problem is that, unless the authorities have activated the buffer with sufficient vigour in good times, the resources that can be released are limited, taking the wind out of the measure's sails. In fact, few countries utilised the buffer actively or anywhere close to its full potential before Covid-19."

** Bank of International Settlements. Reflections on Regulatory Responses to the COVID-19 Pandemic. Pg.6. April 2020 https://www.bis.org/fsi/fsibriefs1.pdf*

The boards of domestic banks have also decided to suspend dividends to their shareholders till the end of 2020 and are also expected to cut any cash bonuses to their senior staff. This is anticipated to pump in additional GBP 190 billion (USD 236 billion) of bank lending to businesses which is more than 13 times the net amount they lent to businesses in 2019[27].

United States of America

Policy/Bank Rate (%)	Inflation Rate (CPI) (%)	GDP per Capita (USD)
0 – 0.25%	*1.5%*[28]	*USD 65,112*[29]

While quoting that the fundamentals of the US economy stand strong, the Federal Reserve (FED) announced a rate cut of 50 bps in early March to bring down the range of federal funds rate to 1-1.25%[30]. Later the FED enhanced its daily overnight repo offerings by ~USD 75 billion and the two-week term repo operations by USD 25 billion, injecting a total of USD 100 billion into the banking system[31]. The FED also enhanced the long-term repo offering of one and three months to ~USD 1 trillion[32].

In mid-March, news reports quoted that ~3 million Americans filed for unemployment[33] (22 million by mid-April)[34]. The FED announced a new monetary policy statement, acknowledging that effects of the coronavirus will weigh on domestic economic activity in the near term and pose risks to the economic outlook. Accordingly, the federal funds rate was cut by a further 1% to bring the range to 0 – 0.25%.

Simultaneously the FED also announced that it is employing a full suite of options to support the flow of credit to households and businesses alike, to promote maximum employment. A new facility—Commercial Paper Funding Facility (CPFF)—was announced to support the short-term funding requirements of local businesses. CPFF aims to provide liquidity cover to domestic issuers of commercial paper through a Special Purpose Vehicle (SPV), that will purchase unsecured and asset-backed commercial paper rated A1/P1[35]. The Department of Treasury will make a USD 10 billion equity investment and this facility will continue to operate till March 2021.

[24] https://www.bbc.com/news/business-52331445
[25] https://www.bankofengland.co.uk/news/2020/march/boe-announces-supervisory-and-prudential-policy-measures-to-address-the-challenges-of-covid-19
[26] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19
[27] https://www.bankofengland.co.uk/coronavirus
[28] YoY reading for Mar 2020; https://www.bls.gov/news.release/cpi.nr0.htm
[29] World Economic Outlook, Oct 2019 (International Monetary Fund)
[30] https://www.federalreserve.gov/newsevents/pressreleases/monetary20200303a.htm
[31] https://www.newyorkfed.org/markets/opolicy/operating_policy_200309
[32] https://www.newyorkfed.org/markets/opolicy/operating_policy_200312a
[33] https://www.nbcnews.com/business/business-news/unemployment-claims-hit-3-million-last-week-n1169266
[34] https://www.washingtonpost.com/business/2020/04/16/unemployment-claims-coronavirus/
[35] https://www.federalreserve.gov/newsevents/pressreleases/monetary20200317a.htm

A Primary Dealer Credit Facility (PDCF) has also been established which will allow primary dealers[36] with cost-effective short-term funding to support smooth market functioning and facilitate the availability of credit to businesses and households[37]. Loans under this facility will be made available for a term of up to 90 days, collateralized by a broad range of investment grade debt securities, including commercial paper and municipal bonds, and a broad range of equity securities. Another facility is named Money Market Mutual Fund Liquidity Facility (MMLF), under which the Federal Reserve Bank of Boston will make loans to eligible financial institutions secured by high-quality assets purchased by the borrowing financial institution from money market mutual funds. This facility shall improve liquidity among money market funds and will assist them in meeting demands for redemptions by households and other investors. Similar to CPFF, USD 10 billion have been set aside for this facility[38].

In addition to the aforementioned liquidity enhancement measures, the FED announced the Primary Market Corporate Credit Facility (PMCCF) and Secondary Market Corporate Credit Facility (SMCCF) with the aim to facilitate capital flows to companies so that they are better able to maintain business operations and capacity during the period of disruption related to the pandemic. PMCCF is open to investment grade companies and will provide bridge financing for up to four years. The facility will allow borrowers to defer interest and principal payments during the first six months of the loan in order to have additional cash. SMCCF is designed to support the secondary market of already issued bonds by investment grade companies and supports credit flow to businesses by providing liquidity to the market for their outstanding corporate bonds. The Department of Treasury will make a USD 10 billion worth of equity investment in SPVs established in connection to both these facilities. Both these programs shall remain operational until September 2020.

The US Senate also unanimously approved a historic USD 2 trillion stimulus package, primarily to tackle the economic blow of the pandemic for domestic workers and businesses. The plan is anticipated to designate a USD 367 billion scheme for SMEs (with fewer than 500 employees), where interest free loans of up to USD 10 million shall be extended to pay for employee salaries, rental costs and other expenses. These loans will be forgiven in proportion to the share of staff kept in employment[39].

In addition, a number of initiatives have been put in place by the Small Business Administration (SBA). One such initiative is the Economic Injury Disaster Loan Assistance program, where loan advance of up to USD 10,000 shall be provided to small businesses that are currently experiencing a temporary loss of revenue and this advance will not have to be repaid. Similarly, under its Debt Relief Program, SBA will automatically pay the principal, interest, and fees of current microloans for a period of six months and shall also automatically pay the principal, interest, and fees of new microloans issued prior to September 2020[40].

Early April, the FED took additional actions to provide up to USD 2.3 trillion in loans to support the economy and assist households and employers of all sizes[41]. The additional measures include:

- Announcement of the Paycheck Protection Program Liquidity Facility (PPPLF) aimed at increasing effectiveness of the Small Business Administration’s Paycheck Protection Program (PPP) by supplying liquidity to participating financial institutions. The PPPLF will extend credit to eligible financial institutions that originate PPP loans, taking the loans as collateral at face value.

- Rolling out of the Main Street Lending Program will enhance support for small and mid-sized businesses that were in good financial standing before the crisis by offering four-year loans to companies employing up to 10,000 workers or with revenues of less than USD 2.5 billion. Principal and interest payments shall be deferred for one-year. Loan originating banks will retain a 5% share, while selling the remaining 95% to the Main Street facility, which will purchase up to USD 600 billion of loans.

- USD 500 billion worth of Municipal Liquidity Facility to help state and local governments manage cash flow stresses caused by the coronavirus pandemic.

[36] Primary dealers are trading counterparties of the New York Fed in its implementation of monetary policy; detailed list available at https://www.newyorkfed.org/markets/primarydealers
[37] https://www.federalreserve.gov/newsevents/pressreleases/monetary20200317b.htm
[38] https://www.federalreserve.gov/newsevents/pressreleases/files/monetary20200318a1.pdf
[39] https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=Covid-19_SME_Policy_Responses
[40] https://www.sba.gov/funding-programs
[41] https://www.federalreserve.gov/newsevents/pressreleases/monetary20200409a.htm

Japan

Policy/Bank Rate (%)	Inflation Rate (CPI) (%)	GDP per Capita (USD)
- 0.1%	*0.4%*[42]	*USD 40,847*[43]

With pre-existing negative interest rates, the Bank of Japan (BoJ) expanded its monetary easing measures to ensure supply of sufficient funds in its financial system. The Bank announced increasing its holding of Japanese Government Bonds (JGBs) with an undisclosed but "ample" Yen funding. Furthermore, to facilitate corporate financing, BoJ has introduced a new initiative to provide loans against corporate debt as collateral at the interest rate of 0% with maturity up to one year. BoJ also enhanced its upper limits to purchase Commercial paper, Corporate bonds, Exchange Traded Funds and Japanese Real Estate Investment Trust (J-REITS)[44].

To support MSMEs, especially in the tourism sector, the government set aside a total of Yen 500 billion (USD 4.7 billion) for emergency lending and loan guarantees at the Japan Finance Corporation (JFC)[45]. These monetary measures were later enhanced to a Yen 1.6 trillion (USD 14.9 billion) package[46] with a special loan program under the Japan Finance Corporation, designed to provide real interest-free, unsecured loans for MSME operators who are facing a sudden decline in sales (declining more than 15%)[47]. The Japan Federation of Credit Guarantee Corporations (JFG) will be guaranteeing the full loan amount for SMEs under a specific guarantee program for firms affected by the outbreak and whose sales and other profits are declining[48].

The government has also established a scheme named Special Loans from Emergency Small Funds for household and individual business owners being forced to take leave or close their business temporarily due to the spread of infections, and raised the lending limits from Yen 100,000 to Yen 200,000[49]. The Federal Services Agency also instructed that domestic banks can assign zero risk weights to loans guaranteed with public guarantee schemes and use their regulatory capital as needed to support funding of affected businesses[50].

India

Policy/Bank Rate (%)	Inflation Rate (CPI) (%)	GDP per Capita (USD)
4.65%	*5.9%*[51]	*USD 2,172*[52]

The Reserve Bank of India (RBI) took a number of monetary and regulatory easing measures. In March 2020 the bank released a Statement on Developmental and Regulatory Policies outlining steps on liquidity management and regulatory relaxations. The RBI stated that rapid spread of COVID-19 in India has ignited large sell-offs in the domestic equity, bond and forex markets which has put upward pressure on the liquidity premia. Accordingly, the Bank shall be undertaking Targeted Long-Term Repo Operations (TLTROs), relaxing Cash Reserve Ratio (CRR) by 100 bps to 3% for 12 months and expanding the limit for the Marginal Standing Facility[53] from 2% to 3% till June 2020. The cumulative impact of these measures is projected to be INR 3.7 trillion (USD 48 billion)[54].

RBI directed all commercial banks, co-operative banks, all-India Financial Institutions, and NBFCs to allow a moratorium of three months on payment of principal instalments in respect of all term loans outstanding as on March 1, 2020. With respect to working capital facilities, financial institutions are allowed to offer a deferment of three months on payment of interest in respect of all such facilities during the period March 1, 2020 up to May 31, 2020.

[42] YoY reading for Feb 2020; https://www.stat.go.jp/english/data/cpi/1581-z.html
[43] World Economic Outlook, Oct 2019 (International Monetary Fund)
[44] https://www.boj.or.jp/en/announcements/release_2020/rel200313c.pdf
[45] http://japan.kantei.go.jp/98_abe/actions/202002/_00019.html
[46] http://japan.kantei.go.jp/98_abe/actions/202003/_00012.html
[47] http://japan.kantei.go.jp/98_abe/actions/202003/_00008.html
[48] https://read.oecd-ilibrary.org/view/?ref=119_119680-di6h3qgi4x&title=Covid-19_SME_Policy_Responses
[49] http://japan.kantei.go.jp/98_abe/actions/202003/_00025.html
[50] https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19
[51] YoY reading for Mar 2020; http://mospi.nic.in/cpi
[52] World Economic Outlook, Oct 2019 (International Monetary Fund)
[53] Under the marginal standing facility (MSF), banks can borrow overnight at their discretion by dipping up to 2% into the Statutory Liquidity Ratio (SLR) which has now been increased to 3%.
[54] https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49582

The accumulated interest for the period will be paid after the expiry of the deferment period. To further address the short-term woes of borrowers; financial institutions have been directed to recalculate drawing power by reassessing the working capital cycle for borrowers. Any relaxations permitted to borrowers, specifically over the economic fallout from COVID-19, will not be treated as concessions granted due to financial difficulties of the borrower and shall not trigger any asset reclassifications.

In addition, RBI has also extended the applicability of last tranche of Capital Conservation Buffer (CCB)[56]. Previously, the CCB was to be implemented in tranches of 0.625% to reach a threshold of 2.5% by March 31, 2020. It has been decided to defer the implementation of the last tranche of 0.625% of the CCB till September 30, 2020, therefore the CCB shall remain at 1.875% of risk-weighted assets (RWAs)[57]. Accordingly, the liquidity will stay in the system without any additional requirement to maintain buffer funds.

The State Bank of India (SBI), a state-owned commercial bank, rolled out a special loan facility for MSME owners affected by the outbreak. The facility will provide short term relief to such entities; maximum funding allowed under the facility is INR 2 billion (USD 26 million) for 12 months at a flat rate of 7.25%. The facility is open to borrows that have been in default for less than 30 days[58]. The loans will be repayable in six equal monthly instalments after a moratorium period of six months from the date of disbursement of the loan[59].

To facilitate domestic exporters the RBI has extended the realization period of export proceeds. Previously, exporters were required to fully realize the value of goods and software exports and repatriate the amount to the country within a period of nine months from the date of such exports. However, in view of the disruption caused by the COVID-19 pandemic, the time period for realization and repatriation of export proceeds for exports made up to or on July 31, 2020, has been extended to 15 months from the date of export[60].

Malaysia

Policy/Bank Rate (%)	Inflation Rate (CPI) (%)	GDP per Capita (USD)
2.5%	*1.3%*[61]	*USD 11,137* [62]

In addition to implementing conventional liquidity management measures, Bank Negara Malaysia (BNM) introduced a variety of options for individuals, SMEs and corporates that are affected by the pandemic. To support liquidity in the banking system, BNM announced a reduction in the Statutory Reserve Requirement by 100 bps, which has released RM 30 billion (USD 7 billion) into the market. The Bank announced that excess liquidity in the system amounted to RM 160 billion (USD 36 billion), which can be channeled to individuals and businesses via targeted lending. In addition, BNM allowed local banks to access the Capital Conservation Buffer of 2.5%, and use this reserve for capital preservation till December 2020[63].

With regards to specific incentives to individuals and SMEs affected by COVID-19, BNM allowed a moratorium of six months with effect from April 1, 2020[64], applicable to any loan repayments that have not been overdue for more than 90 days. For credit card facilities, the outstanding balances shall be converted into a 3-year term loan with reduced interest rates to help borrowers better manage their cashflows.

BNM also announced special financing schemes for MSMEs and enhanced the fund allocation for such schemes by RM 4.0 billion (USD 1 billion); with total allocated funds reaching RM 13.1 billion (USD 3 billion)[65].

[55] https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11835&Mode=0
[56] The CCB is designed to ensure that banks build up capital buffers during normal times which can be drawn down as losses are incurred during a stressed period.
[57] https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49582
[58] https://www.bloombergquint.com/business/sbi-to-open-special-loan-facility-for-small-businesses-hurt-by-coronavirus-outbreak
[59] https://www.business-standard.com/article/finance/sbi-to-provide-lifeline-emergency-credit-to-coronavirus-hit-borrowers-120032001911_1.html
[60] https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=49619
[61] YoY reading for Feb 2020; https://www.dosm.gov.my/v1/index.php?r=column/cthemeByCat&cat=106&bul_id=MFc0djV4akVKUlVUVU4ydVRDSE9PZz09&menu_id=bThzTHQxN1ZqMVF6a2I4RkZoNDFkQT09
[62] World Economic Outlook, Oct 2019 (International Monetary Fund)
[63] https://www.bnm.gov.my/index.php?ch=en_press&pg=en_press&ac=5018&lang=en
[64] Ibid
[65] https://www.bnm.gov.my/index.php?ch=en_press&pg=en_press&ac=5022&lang=en

Special Relief Facility (SRF), Agrofood Facility (AF) and Automation and Digitalisation Facility (ADF) are other recently announced facilities to assist effected SMEs. Under SRF, the maximum funding available to any SME is RM 1 million at a concessional rate of 3.5% with no collateral requirement. Additionally, an 80% credit guarantee shall also be extended against the loan amount by Credit Guarantee Corporation Malaysia Berhad (CGC)[66]. In addition, the Bank also enhanced funding by RM 1 billion and cut pricing from 8% to 7% per annum for its All Economic Sectors (AES) Facility. Details of these facilities are summarized in the table below.

Exhibit 2: COVID-19 Related Measures by Bank Negara Malaysia

Details	Special Relief Facility (SRF) COVID-19	All Economic Sectors (AES) Facility	Automation and Digitalization Facility (ADF)	Agrofood Facility (AF)	Micro Enterprises Facility (MEF)
Allocation	RM 5bn (~USD 1bn)	RM 6.8bn (~USD 2bn)	RM 300mn (USD 68mn) (as part of AES)	RM 1bn (USD 0.23bn)	RM 300mn (USD 68mn)
Objective	Alleviate short-term cash flow problems faced by SMEs affected by the COVID-19 outbreak.	Enhance financing for underserved SMEs in all economic sectors to support growth.	Incentivize SMEs to automate processes and digitalize operations to increase productivity and efficiency.	Increase agri-food production for Malaysia and for exports purposes.	Increase access to collateral-free financing for micro enterprises.
Eligibility	Malaysian SMEs affected by COVID- 19	Malaysian SMEs	Malaysian SMEs	Malaysian SMEs	Malaysian micro enterprises
Purpose	Working capital	• Capital expenditures; • Working capital	Purchase of IT equipment, and IT solutions and services and other intangible assets to enhance productivity and efficiency	• Capital expenditures; • Working capital; • Development of agri-food projects	• Capital expenditures; • Working capital
Financing rate	Up to 3.50% p.a. (inclusive of any guarantee fee)	Up to 7% p.a. (inclusive of any guarantee fee)	Up to 4% p.a. (inclusive of any guarantee fee)	Up to 3.75% p.a. (inclusive of any guarantee fee)	To be determined by participating financial institutions (PFIs)
Maximum financing amount	RM 1mn per SME	RM 5mn per SME	RM 3mn per SME	RM 5mn per SME	RM50,000 per micro enterprise per PFI
Maximum tenure	5.5 years (including 6 months moratorium on repayments)	5 years	10 years	8 years	5 years
Availability	Until 31 Dec 2020	Open	Until 31 Dec 2020	Open	Open

Source: Bank Negara Malaysia

[66] https://www.cgc.com.my/conventional-schemes/

South Africa

Policy/Bank Rate (%)	Inflation Rate (CPI) (%)	GDP per Capita (USD)
4.25%	*4.6%*[67]	*USD 6,100*[68]

In South Africa, despite a strict lockdown, the banking sector is open for business. Net capital outflows (bonds and equities) since the beginning of the pandemic in February 2020 have amounted to USD 6.2 billion (2.1% of GDP); the Rand has depreciated by 24% vis-à-vis the US dollar.

On March 19, 2020, the South African Reserve Bank (SARB) reduced the policy rate by 100 bps to 5.25%, followed by another 100 bps to 4.25 percent on April 14[69]. SARB has also announced measures to ease liquidity conditions by: (i) increasing the number of repo auctions to two to provide intraday liquidity support to clearing banks at the policy rate; (ii) reducing the upper and lower limits of the standing facility to lend at repo-rate and borrow at repo-rate less 200 bps; and (iii) raising the size of the main weekly refinancing operations as needed. On March 25, the SARB announced further measures purchase government securities in the secondary market across the entire yield curve and extend the main refinancing instrument maturities from 3 to 12 months[70].

On March 23, the government announced the launch of a unified approach to enable banks to provide debt relief to borrowers. Guidelines issued by SARB on the modalities to provide debt relief to bank customers, including[71]:

1. On March 28, SARB announced temporary relief on bank capital requirements and reduced the liquidity coverage ratio from 100 to 80 percent to provide additional liquidity. Capital relief on restructured loans that were in good standing before the COVID-19 crisis were also issued. For the duration of the crisis, loans restructured as a result of the impact of COVID-19 will not attract a higher capital charge. In relation to capital relief, the Pillar 2A capital buffer, which is set at 1% of risk-weighted assets, is now set at zero. Criteria that provide for banks to dip into their capital conservation buffer, which is set at 2.5% of risk-weighted assets, has also been provided.

2. Lower liquidity coverage ratio (LCR) and lower capital requirements. This amendment covers loans to households, small- and medium-sized businesses and corporates, and for specialised lending. The PA plans to announce a timetable according to which banks can restore these buffers once the COVID-19 crisis has abated. This timetable will be sensitive to the need to balance the rebuilding of buffers to ensure a resilient banking system, with the negative effect that such measures could have on credit extension and economic growth.

3. In line with the Basel framework which provides clear rules on when discretionary dividend and bonus payments can be limited, SARB issued a guidance note advising banks not to distribute discretionary ordinary dividends during this period. Similarly, banks have been advised to put bonuses for senior executives on hold during this period.

SARB and the Financial Sector Conduct Authority (FSCA) also put out a Joint Communication for the insurance sector. While retaining the Solvency Capital Requirement (SCR), the Joint Communication also stated that insurers experiencing SCR ratios below 100% due only to the impact of COVID-19, could continue operations; the Authorities would not exercise regulatory action but would intensify supervision. With regard to the minimum capital requirement (MCR), in case the ratio falls below 100%, stringent supervisory intervention by the Prudential Authority has been advised. With regard to dividends and bonuses to staff, the Authorities advises insurers to consider whether it is necessary to temporarily suspend all discretionary dividend distributions, including share buybacks and cash bonus payments to senior management[72].

[67] YoY reading for Feb 2020; http://www.statssa.gov.za/?cat=33
[68] World Economic Outlook, Oct 2019 (International Monetary Fund)
[69] https://www.polity.org.za/article/sarb-cuts-rates-in-latest-response-to-covid-19-2020-04-14
[70] https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/9805/Further%20amendments%20to%20the%20money%20market%20liquidity%20management%20strategy%20of%20the%20SARB.pdf
[71] https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/9842/Prudential%20Authority%20Media%20Release%20-%20Regulatory%20relief%20and%20guidance%20to%20the%20banking%20sector.pdf
[72] https://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/9873/Joint%20Communication%201%20of%202020%20COVID-19%20Regulatory%20response.pdf

Pakistan

Policy/Bank Rate (%)	Inflation Rate (CPI) (%)	GDP per Capita (USD)
9%	*10.2%*[73]	*USD 1,388* [74]

As the provincial governments announced lockdowns across the country, prompting social distancing and curtailment of activity, SBP took monetary easing steps in late March 2020. To curb the burden of financial expenses on ultimate borrowers, the apex bank reduced interest rates three times by 425 bps in total to bring the policy rate down to 9%. Further, to release PKR 800 billion (USD 4.9 billion) worth of additional funds for lending (10% of total outstanding loans), SBP reduced the capital conservation buffer (CCB) from its existing level of 2.50% to 1.50%.

Domestic banks and development finance institutions (DFIs) have been advised to extend moratoriums to MSMEs and corporate clients. Accordingly, any due principal payments can be deferred by one year, however, borrower are required to service the mark-up amount (interest payments) as per agreed terms and conditions. The estimated relief of this moratorium will be PKR 4.7 billion (USD 28 million). Deferrals under this facility will not be reported as restructured/rescheduled in the credit bureaus' data.

In addition, for borrowers who are not able to service their loan obligations (mark-up and deferred principal payments), SBP has also relaxed regulatory criteria for restructuring/rescheduling of loans till March 31, 2021. Loans that are re-scheduled/restructured within 180 days from the due date of payment will not be treated as defaults and would be reported as regular credit line. To further encourage banks to undertake SME finance, SBP enhanced the regulatory limit for retail SMEs from PKR 125 million to PKR 180 million. As per Basel II requirements, certain SME loans can be regarded as being in the retail portfolio, provided that the total volume of credit to one borrower does not exceed 1 million euros. It can be argued that the announced limit enhancement can be in line with the prevalent Euro/PKR parity of ~PKR 180/Euro, nonetheless, this relaxation will enable banks to enhance their retail exposure on SMEs.

In addition to the aforementioned liquidity management and regulatory easing initiatives, SBP also introduced a Refinance Facility for Combating COVID-19 (RFCC), which is valid till September 2020. The facility is an emergency support to hospitals and medical centers, enabling them to develop capacity for the treatment of patients infected with the corona virus. Funds extended under this facility can be used to purchase new imported and locally manufactured medical equipment to be used for combating coronavirus. In case isolation wards are to be developed, up to 60% of the cost of civil works will be financed under the facility. Maximum per party financing has been capped at PKR 200 million. The facility shall be extended for five years, including a grace period of up to six months at a concessional rate of 3%[75]. SBP has also allowed all federal and provincial government departments, public and private hospitals, charitable organizations, manufacturers and commercial importers to make advance payments without any capped limit, for the import of medical equipment, medicines and other ancillary items for the treatment of COVID-19[76].

SBP also designed and rolled out a fresh refinance scheme named Temporary Economic Refinance Facility (TERF), to spur economic activity and has allocated a total of PKR 100 billion (USD 0.6 billion) under this scheme. The facility will provide concessionary refinance for setting up of new industrial units. The funding shall be made available for a period of ten years, including a grace period of two years at a maximum rate of 7% (4% is the maximum spread that a participating financial institution can charge over a 3% base rate). The maximum funding cap is set at PKR 5 billion. TERF Proceeds can only be utilized to honor payment obligations against Letters of Credit (LCs)/Inland Letters of Credit (ILCs) established from the date of announcement of the scheme (i.e. March 17, 2020) till March 31, 2021[77]. A Shariah compliant version of the TERF has also been rolled out.

Under the Export Finance Scheme (EFS) and the Long-Term Financing Facility (LTFF) scheme the SBP already provides refinance to banks to lend onward to exporters at 3 - 6% for working capital and greenfield projects.

[73] YoY reading for Mar 2020;
http://www.pbs.gov.pk/sites/default/files//price_statistics/monthly_price_indices/nb/2020/cpi_review_nb_march_2020.pdf
[74] World Economic Outlook, Oct 2019 (International Monetary Fund)
[75] http://www.sbp.org.pk/smefd/circulars/2020/Annex1-C3.pdf
[76] http://www.sbp.org.pk/epd/2020/FECL9.htm
[77] http://www.sbp.org.pk/smefd/circulars/2020/Annex1-C1.pdf

The total subsidized credit to exporters outstanding under both these schemes is currently approximately PKR 660 billion. Given the challenging circumstances faced by exporters due to COVID-19, SBP has relaxed eligibility requirements under both schemes. Previously, exporters were required to export twice the amount of borrowed funds in a particular fiscal year; in case of failure in meeting the requirement, penalties were imposed and the credit limit for the next year was also reduced. However, SBP has reduced the performance requirement from 2x to 1.5x, which will be effective for the current year as well as for FY21[78]. The timeline for shipping export goods has also been increased from six months to twelve months. Exporters will not be liable to pay penalties due to breach of these condition during January to June 2020. Under LTFF, exporters were required to have exports worth 50%, or USD 5 million of total sales to become eligible. This limit has been reduced to 40% or USD 4 million for all borrowers under LTFF during the period January 1, 2020 to September 30, 2020[79]. SBP has also allowed banks to enhance the time period for realization of export proceeds from the existing requirement of 180 days to 270 days on a case-by-case basis where the delay in payment is related to COVID-19.

In April 2020, SBP introduced the Refinance Scheme to Support Employment and Prevent Layoff of Workers. As per SBP, the facility is to be made available to finance wages and salaries of all types of workers and employees (permanent, contractual, daily wagers and outsourced workers). The scheme is to be available to existing as well as new borrowers of banks and DFIs. Loans to businesses will be available to finance three months of wages (April to June 2020) provided borrowers give an undertaking not to lay off employees for at least the next three months from the date of first disbursement, except in case of disciplinary action. Repayment of the loan will start from January 2021 after a grace period of six months. During the grace period, borrowers will continue to pay interest on a quarterly basis. SBP has also relaxed the requisite documentation under this scheme to maximize eligibility. Audited financial accounts are only a 'preferred' option, and in absence of such records banks are instructed to obtain a certificate from Head of Human Resource (HR) or Chief Financial Officer (CFO) of the borrowing entity for the last three months' average wage and salary bills.

The end-consumer mark up rate has been fixed at 5% per annum for non-tax payers and 3% per annum for tax paying entities. Initially SBP had priced its refinancing base rate for participating financial institutions at 2% for corporate and commercial lending and 1% for SME lending whereas the participating banks were allowed to charge up to 3% spread in case of corporate and commercial borrowers and 4% spread if the borrower was an SME. However, to pass on the maximum benefit to tax paying business and make the pricing structure less complicated, SBP has reduced its base rate to nil. As per the amended structure, active tax paying entities can now avail a discount of 2% in the mark up rate under this scheme, bringing the end-consumer rate down to 3% with a decent spread for participating banks. Facility tenor is set at 2.5 years, with six months of grace period followed by eight quarterly repayments starting from January 2021[80]. In addition, participating banks' exposure under the scheme has been exempted from the per party or per group limits, allowing lending to borrowers who have exhausted their respective exposure limits. **Box B** captures the response of some business associations to some of the schemes introduced so far.

On April 20th, the Advisor to the Prime Minister on Textile, Industry and Investment announced that the government is finalizing a scheme to Support SMEs across all sectors; the specifics are yet to be announced.

The SBP has also been promoting digital finance. To reduce the need for visiting bank branches or ATMs and to promote the use of Digital Payment Services (internet banking, mobile phone banking, etc.) SBP has instructed banks to waive all charges on fund transfers through online banking channels such as Inter Bank Fund Transfer (IBFT) and the Real Time Gross Settlement System (RTGS) for customers. The financial industry has also been instructed to immediately facilitate education fee and loan repayments through internet banking or mobile devices. Financial institutions shall also run awareness campaigns through different channels to educate customers to use internet banking or mobile phones, limit use of currency notes and restrict branch visits. SBP has advised financial industry to increase vigilance on digital channels and increase monitoring on cyber threats[81].

[78] http://www.sbp.org.pk/smefd/circulars/2020/C5.htm
[79] http://www.sbp.org.pk/smefd/circulars/2020/C5.htm
[80] https://www.dawn.com/news/1550668
[81] http://www.sbp.org.pk/corona.asp

Box B: Responses and Proposals of Selected Industry Associations

The Employers Federation of Pakistan raised a number of concerns on the recently announced refinance scheme for payment of salaries and wages. Some of the key concerns are summarized below:

- **Collateral:** The current scheme doesn't specify the collateral requirement for this short-term scheme. In order to hedge the default risk, Bank usually prefer fixed assets as a collateral from SMEs, even against short term credit, which leads to over collateralization.
- **Credit Guarantees:** Governments across the globe have stepped forward and issued credit guarantees for specialized business interruption loan schemes in order to de-risk lending to hard-hit sectors. However, no such arrangement is announced by the SBP. Given the risk averse nature of domestic banks, this may curtail credit offtake under the scheme.
- **Data Privacy:** Borrowers are required to share details on their payroll records to avail credit under this scheme; however, banks should be advised to protect privacy of data and it shouldn't be shared with any other public or private organization.

According to the **Chainstore Association of Pakistan** social distancing measures have drastically impacted consumer behavior as a result of which the retail sector has been hit hard by COVID-19.The association put forth the following recommendations to the Government of Punjab, proposing a structure for short term emergency loans to support the local manufacturing and retail sectors.

Structure Proposed to the Government of Punjab	
Loan Amount	Up to PKR 100 million
Repayment	Principal instalments over two years after a grace period of one Year.
Pricing	Interest free for the entire tenor i.e. three years.
Collateral	Security in the shape of charge over current assets with 50% margin
Qualification Criteria	Limit should be available up to 20% of the last year's documented sale
Credit Risk	In order to provide comfort to Banks to lend against current assets – the total disbursed amount against this facility can be backed by credit guarantee issued by the Govt of Punjab.
Processing	Similar to SBP's refinance scheme for Payment of Salaries and Wages, all cases are proposed to be processed or declined within 15 days from receipt of relevant request.
Rejection Reporting	Despite meeting the aforementioned criteria if a case is still declined, the decline letter should be copied to President Chainstore Association of Pakistan, the SBP and Ministry of Industries Punjab.
Disbursement Criteria	Disbursement should be made within 15-days of credit approval.

Source: Chainstore Association of Pakistan

Note: Employers Federation of Pakistan has more than 785 enterprise members and through them, access to 2.5 million workers.

Chainstore Association of Pakistan is the largest cross-sectoral trade body of retail brands and represents over 200 retailers in the country. Members have approximately 20,000 outlets and employ over 1,000,000 people.

Conclusions and Recommendations

As casualties and uncertainty due to the COVID-19 pandemic continue to rise, central banks across the globe are putting in place extensive quantitative easing measures to ensure availability of finance/liquidity and smooth operations of global financial markets. Although effective in 'flattening the curve', lockdowns have unarguably taken a heavy toll on businesses across the globe. With low cash reserves, small businesses especially are finding it difficult to manage operating expenses, employee salaries and debt obligations.

A closer look at the different measures introduced by central banks reveals that the majority have come forward to ensure preservation of existing capital, curtail capital flight, and provide availability of short-term liquidity to domestic businesses.

- Monetary Policy Committees (MPCs) have been announcing rate cuts. In an effort to pass on the benefit of lower rates to the real economy, both China and UK have structured their relending schemes such that additional liquidity is to be provided to banks and FIs that expand their respective SME portfolios at rates closer to prevalent policy rates.

- Central banks have taken steps to enhance liquidity in the market through purchase of short-term commercial paper and downward revision in the reserve requirements for financial institutions. Another initiative is the establishment of specific central bank backed SPVs to purchase short term instruments directly from investment grade issuers, including SMEs, to restore the market's confidence in these entities.

- To encourage banks not to retrench and continue lending, various risk sharing mechanisms have been designed via targeted credit guarantees (with 70-85% risk coverage). With such mechanisms, central banks have tried to share risks associated with SME lending in these uncertain times, not only to ensure the continued flow of capital to SME borrowers but also to commit support to financial institutions during the prevalent situation.

- Along with debt moratoriums and relaxations in loan restructuring guidelines, special relending schemes have been announced to extend working capital lines to SMEs with no or low collateral requirements and at concessional rates.

- Financial support is being extended, especially for SMEs, to cover interest payments and any lender-levied fees for a certain period within the loan tenor to help such entities build and conserve cash reserves.

- Less stringent requirements on applications and documents to enable timely processing of loan applications, leading to quick disbursements.

Similarly, SBP's timely intervention regarding allowance of moratoriums and restructuring, will allow businesses to conserve their cashflows while economic activity is highly disrupted. With RFCC, SBP envisions to support the domestic health sector in order to enhance operational and testing capabilities, which is a critical measure to contain this virus. The refinance scheme for payment of wages and salaries is another positive step. It shall provide immediate financial support to borrowing SMEs to cover their respective salary/wage bills for the next three months, while relaxed repayment terms will also allow in conserving cash. TERF, aims to support greenfield investments at concessionary financing (7% end consumer rate) and provides a decent 4% spread for participating banks. Relaxations in existing EFS, LTFF facility would expand the pool of eligible entities that can raise funding under these facilities. Especially with the LTFF and TERF, private sector entities can be encouraged to undertake greenfield export projects which would be critical during the recovery phase, once the uncertainty caused by the pandemic fades and shall help in attracting new capital investments

Unlike many OECD countries, the SBP must also contend with the fact that an estimated ~75% of Pakistan's GDP is contributed by the informal economy[82]. The existence of a large informal sector adds layers of complexity to the task at hand. While SBP ensures that financial institutions continue to support banked SMEs (roughly estimated at approximately 5% of total SMEs in the country), it must also develop policies that encourage banks to expand outreach to entities that are not currently included in the formal financial system, while laying the ground work to encourage greater documentation of SMEs in the longer run. Based on takeaways from the actions taken by central banks in other countries, a set of recommendations are presented below.

[82] State Bank of Pakistan. National Financial Inclusion Strategy (NFIS). 2015

Risk Sharing Arrangements: More than liquidity, domestic banks are concerned about the risk that private sector lending poses in the current situation. SBP should design and announce risk sharing steps to encourage private sector lending via announcement of targeted credit guarantee schemes for its refinancing schemes (like TERF and Short-Term Refinance Facility for payment of Salaries and Wages). Given the restricted fiscal space, SBP or the Government of Pakistan could reach out to donor agencies to establish a fund to support these credit guarantee schemes. In fact, given the SBP's experience with the Credit Guarantee Scheme (CGS) under the Financial Inclusion Programme, the central bank may consider reviving the implementation structure to enable faster turnaround. In addition, special incentives/concessions should be designed for financial institutions to increase their net lending to SMEs during this period in order to inject capital into a segment that contributes ~30% to Pakistan's GDP and employs 80% of the country's non-agri workforce.

Mark-up Deferrals/short-term assistance for interest payments: SBP should also consider granting payment deferral on mark-ups accrued on working capital lines. In its refinancing scheme for Payment of Salaries and Wages, for tax-paying and registered SMEs the SBP, along with the grace period of six months, may also consider setting aside a fund for paying interest for six to nine months. While the current refinance scheme for payment of salaries does offer a 2% discount in mark-up for tax filers, concessions can be enhanced to encourage documentation.

Favorable collateral requirements and enhanced scope of the Refinance Scheme for Payment of Salaries and Wages: SBP may also review the collateral requirements under this scheme and encourage commercial banks to use current assets as collateral in order to avoid overcollateralization and recourse on fixed assets. To assist SME borrowers (including vendors and distributors) SBP did allow banks to provide financing against corporate guarantees of other corporate entities having a supply chain relationship with these borrowers. However, anchor/other companies might not be willing to take on contingent liabilities to cover the default of their vendors and suppliers, ultimately leading to restricted uptake of the scheme. Moreover, the ambit of this facility can also be expanded to cover a wider variety of short-term financial requirements of SMEs, including rental and utility bills and other OPEX-related expenses. Further, it can be argued that the eligibility criteria of a 'no-layoff policy' for borrowing entities will curtail unemployment to some extent. However, SMEs and entities relying on unskilled labor are unlikely to opt for this scheme as they might consider retention costs to outweigh benefits.

Enhanced timeline for relaxations under the LTFF scheme: The relaxations in the LTFF facility are set to expire in September 2020; SBP may consider extending the timeline for these relaxations until after the impact of the pandemic has receded and global supply chains have resumed.

Inclusive eligibility criteria for TERF with longer timelines: It can be argued that the defined purpose for which proceeds under this facility can be used and the facility structure can result in low uptake. Under TERF, only LCs/ILCs opened to purchase new plant and machinery units prior to March 2021 are eligible. Businesses going through cash stressed situation would prefer timely availability of short-term liquidity and conserve cash rather than opting for expansion. SBP should reconsider the timelines and orientation of this scheme to facilitate the recovery phase of the economy. Similarly, as mentioned above, government guarantees can be embedded to encourage counter cyclical funding by banks.

In conclusion, it would not be incorrect to say that the success of support and stimulus packages that are to be introduced by the SBP will depend on four key factors, including i) time to market, ii) ease of implementation, iii) clarity and transparency of the guidelines provided, and iv) the introduction of risk sharing mechanisms to enhance the risk appetite of financial institutions and encourage them to undertake counter-cyclical lending.

While these are unprecedented times, central banks across the globe are keeping themselves open to all the available options and continuously monitoring the evolving situation. Calculated steps are critical to avoid over burning of the financial markets/asset classes. While the current situation calls primarily for measures to enhance short term immediate liquidity, once the pandemic is successfully contained long term measures will be required to bring in fresh capital investment, boost investor confidence and contract market risk and liquidity premiums.

About Karandaaz

KARANDAAZ PAKISTAN is a Section 42 company established in August 2014 and focuses on fostering economic growth and creating jobs through financial inclusion of unbanked individuals and unserved enterprises, with a special focus on women and youth. The company has four verticals:

Karandaaz Digital

Focuses on expanding the poor's access to digital financial services in Pakistan by working across the ecosystem with all stakeholders.

Karandaaz Capital

Provides wholesale structured credit and equity-linked direct capital investments to micro, small and mid-size enterprises (MSMEs) that demonstrate compelling prospects for sustainable business growth and employment generation in Pakistan.

Karandaaz Innovation

Manages the Innovation Challenge Fund and Women Entrepreneurship Challenge, providing risk capital and grants to partners with the aim to generate innovative solutions in areas of financial inclusion and entrepreneurship.

Knowledge Management and Communications

Supports the company's core financial inclusion goal by developing and disseminating evidence based insights and solutions.

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