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Covid-19 crisis, Banks defer Rs642bn of clients' payment of principal on loans: IMF

ISLAMABAD: Under the State Bank of Pakistan's temporary regulatory measures, banks have deferred Rs642 billion of clients' payment of principal on loan obligations for one year so far, to maintain banking system soundness and sustain economic activity, says the International Monetary Fund (IMF).

The IMF in its report, "Policy Actions Taken by Countries" updated on August 14, 2020, reviewed various steps Pakistan has taken since March to deal with the Covid-19 crisis.

The economic activity worsened notably, and growth is preliminarily estimated at –0.4 percent in fiscal year 2020.

A gradual recovery is expected in fiscal year 2021 as the economy reopens, it added.

The report stated that the SBP had responded to the crisis by cutting the policy rate by a cumulative 625 basis points to 7.0 percent since March 17.

The SBP has expanded the scope of existing refinancing facilities and introduced three new ones that aim at: (i) supporting hospitals and medical centers to purchase equipment to detect, contain, and treat Covid-19 (29 hospitals, Rs 6 billion, to date) (ii) stimulating investment in new manufacturing plants and machinery, as well as modernization and expansion of existing projects (52 new projects, Rs22 billion, to date); (iii) incentivising businesses to avoid laying off their workers during the pandemic (2,200 firms, Rs138 billion, to date).

The SBP introduced temporary regulatory measures to maintain banking system soundness and sustain economic activity.

These include: (i) reducing the capital conservation buffer by 100 basis points to 1.5 percent; (ii) increasing the regulatory limit on extension of credit to SMEs by 44 percent to Rs180 million; (iii) relaxing of the debt burden ratio for consumer loans from 50 percent to 60 percent; (iv) allowing banks to defer clients' payment of principal on loan obligations by one year (with a total of Rs642 billion being deferred to date); (v) relaxing regulatory criteria for restructured loans for borrowers who require relief beyond the extension of principal repayment for one year; and (vi) suspending bank dividends for the first two quarters of 2020 to shore up capital.

More recently, the SBP has introduced mandatory targets for banks to ensure loans to construction activities account for at least five percent of the private sector portfolios by December 2021.

The SBP has introduced further regulatory measures to facilitate the import of Covid-19-related medical equipment and medicine.

These include (i) lifting the limit on import advance payments and import on open account, and (ii) allowing banks to approve an Electronic Import Form (EIF) for the import of equipment donated by international donor agencies and foreign governments, the report added.

The report noted that a relief package worth Rs1.2 trillion was announced by the federal government on March 24, which has been almost fully implemented.

Fiscal year 2021 budget also includes further actions.

Key measures include: (i) elimination of import duties on emergency health equipment; (ii) cash transfers to 6.2 million daily wage workers (Rs75 billion); (iii) cash transfers to more than 12 million low-income families (Rs150 billion), which has been fully executed; (iv) accelerated tax refunds to the export industry (PKR 100 billion), out of which 65 percent have already been disbursed, and (v) financial support to SMEs and the agriculture sector (Rs100 billion) in the form of power bill deferment, bank lending, as well as subsidies and tax incentives.

The economic package also earmarks resources for an accelerated procurement of wheat (Rs280 billion, almost fully executed to date), financial support to Utility Stores (Rs50 billion), a reduction in regulated fuel prices (with a benefit for end consumers estimated at Rs70 billion), support for health and food supplies (Rs15 billion), electricity bill payments relief (Rs110 billion), an emergency contingency fund (Rs100 billion), and a transfer to the National Disaster Management Authority (NDMA) for the purchase of Covid-19-related equipment (Rs25 billion).

The FY 2021 budget includes further increases in health and social spending, tariff and custom duty reductions on food items, a Rs70 billion allocation for the "Covid-19 Responsive and Other Natural Calamities Control Program", a Rs30 billion housing package to subsidise mortgages, as well as the provision of tax incentives to the construction sector (retail and cement companies) to address the acute employment needs generated by the lockdowns.

Since the onset of the crisis, provincial governments have also been implementing supportive fiscal measures through June 2020, consisting of cash grants to the low-income households, tax relief and additional health spending (including a salary increase for healthcare workers).

The government of Punjab's measures included a Rs18 billion tax relief package and a Rs10 billion cash grants programme.

The government of Sindh's measures included cash grants and ration distribution programme of Rs1.5 billion for low-income households.

The fiscal year 2020-2021 budgets for provincial governments also provide tax relaxations and sizeable increases in expenditure allocations, especially on health services, to mitigate the Covid-19 effects.

It further stated that since mid-April, the federal government, in coordination with provinces, has gradually eased lockdown arrangements, by allowing "low-risk industries" to restart operation and "small retail shops" to reopen with newly-developed standard operating procedures (SOPs).

In addition, restrictions on domestic and international movements have been lifted (e.g. domestic flights, train services, and international flights have resumed).

Educational institutes are expected to restart on September 15.

Starting from August 10, lockdown restrictions have been lifted across all provinces, and economic activity has been allowed to fully resume with the implementation of the SOPs.