



**CENTRAL BANK OF SRI LANKA
BANK SUPERVISION DEPARTMENT**

13 January 2020

CIRCULAR

No. 01 of 2020

CREDIT SUPPORT TO ACCELERATE ECONOMIC GROWTH

With a view to accelerating economic growth in the country and based on discussions held with the Hon. Prime Minister and the Minister of Finance, officials of the Office of the President, Office of the Prime Minister and Ministry of Finance, the licensed commercial banks and licensed specialised banks (hereinafter referred to as licensed banks), have agreed to provide a special credit support scheme to eligible Small and Medium Enterprise borrowers of respective licensed banks during 01.01.2020 to 31.12.2020 to complement the fiscal incentives already announced by the Government.

Based on the discussions the Central Bank of Sri Lanka (CBSL) had with the licensed banks, it is observed that the proposed scheme may not cause an undue level of stress or threaten the stability of the banking system. Accordingly, this Circular sets out the guidelines for giving effect to the Scheme in a consistent manner across licensed banks.

1. General Terms and Conditions

- (i) **Eligible Participants:** Small and Medium Enterprises (SMEs) engaged in business sectors specified in para (ii) below that have obtained credit facilities from licensed banks. For the purpose of this scheme, SMEs shall mean borrowers with an annual turnover between Rs. 16 mn to Rs. 750 mn for the year ended 31.12.2019.
- (ii) The supported business sectors shall be manufacturing, services, agriculture (including processing) and construction. For the avoidance of doubt, import facilities for imports other than importation of machinery and equipment are excluded from the scheme. Facilities for importation of vehicles shall not be permitted.
- (iii) Credit facilities to be supported under this scheme shall be business related term loans, leasing facilities, overdrafts and trade finance facilities denominated in Rupees subject to the requirements specified below.



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- (iv) Licensed banks shall offer the credit support scheme to all eligible borrowers upon a written request being made by such borrowers on or before 31.01.2020 and operationalise the scheme by 31.03.2020.
 - (v) During the period of the credit support scheme, borrowers shall be required to continue to service the interest due on credit facilities considered under this scheme in a timely manner in accordance with the conditions applicable to this scheme.
 - (vi) Borrowers who fail to service interest as required in para (v) above will not be entitled to enjoy the benefits of this scheme and will be considered as non-participants of this scheme.
 - (vii) The operational details of the Scheme are as set out in sections 2 to 6 of this Circular.

2. Performing Loans

- (i) Eligible borrowers with aggregate outstanding fund based exposure of up to Rs. 300 mn as at 31.12.2019 with a licensed bank may avail of the concessions under this scheme from such licensed bank.
- (ii) Upon a written request being made by a borrower on or before 31.01.2020, licensed banks shall offer a capital moratorium during 01.01.2020 to 31.12.2020 in respect of all eligible Rupee term loans.
- (iii) Licensed banks shall extend the existing tenure of loans eligible for capital moratorium by the moratorium period without increasing the value of instalments.
- (iv) During the period of deferment, the interest shall be charged on the contracted basis without any penal component.
- (v) Permanent overdraft facilities falling due for settlement or maturing or are reviewed during the period up to 31.03.2020, shall be extended up to



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- (vi) Eligible trade finance facilities falling due for settlement or maturing or are under review during the period up to 31.03.2020, shall be extended by 30 days.
- (vii) Licensed banks may grant an additional loan or a new loan facility not exceeding Rs. 300 mn per bank per borrower provided that the borrower submits a credible business plan subject to the following conditions:
 - (a) The loan facility shall be repaid over five years at an interest rate equal to AWPLR to expand business activities.
 - (b) A maximum grace period of one year may be considered for such loans.
 - (c) Licensed banks may obtain suitable collateral to mitigate the risk relating to any additional credit facilities granted under this scheme.
- (viii) Concessions already granted under different relief schemes and which are due to expire before 31.12.2020, will be extended up to 31.12.2020. However, such borrowers shall be required to comply with the requirements of this scheme.
- (ix) Licensed banks may consider inclusion of borrowers whose total borrowings exceed Rs. 300 mn, on case-by-case basis, upon a written request from such borrower.

3. Non-Performing Loans (NPLs)

- (i) Eligible SMEs which are in the NPL category as at 31.12.2019, including those where the banks have commenced or given notice of recovery action under the provisions of the Recovery of Loans by Banks (Special Provisions) Act, No. 4 of 1990, will be eligible to avail of the concessions set out below upon a written request from such borrowers on or before 31.01.2020.
- (ii) The total penal component of interest accrued and unpaid on NPL loans and advances referred above shall be waived by licensed banks at their cost.



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- (iii) Rescheduling of loans and advances shall be as follows:
- (a) Where the borrower has repaid 50% or more of the initial capital, 50% of the accumulated and unpaid interest (after waiver of penal interest referred to above) of the defaulted instalments up to the date of consideration by the licensed bank under this scheme, shall be deferred and the balance capital and interest shall be rescheduled. The deferred interest shall be waived by the licensed banks, after the borrower settles the rescheduled loan in the manner provided in para (c) and (d) below.
 - (b) Where the borrower has repaid less than 50% of the initial capital, 25% of the accumulated and unpaid interest (after waiver of penal interest referred to above) of the defaulted instalments up to the date of consideration by the licensed bank under this scheme, shall be deferred and the balance capital and interest shall be rescheduled. The deferred interest shall be waived by the licensed banks, after the borrower settles the rescheduled loan in the manner provided in para (c) and (d) below.
 - (c) The rescheduled loan referred in para (a) and (b) above shall be repaid over a period not exceeding twice the remaining number of instalments of the original loan.
 - (d) A one-year grace period shall be granted for capital repayment of loans referred in para (c) above. However, borrowers will be required to service interest in a timely manner.
- (iv) Licensed banks shall subject to para (d) below, grant a new working capital loan (or temporary progressively reducing overdraft facility) for SMEs which are in the NPL category as follows, to revive businesses:
- (a) Maximum amount to be three months working capital requirement with a maximum tenure of six months.
 - (b) A three-month moratorium shall be granted for the repayment of capital of



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such loan or overdraft, provided however that interest shall be serviced in a timely manner.

- (c) Interest rate for this loan shall not be more than 2% plus the prevailing Standing Lending Facility Rate.
- (d) The new working capital loan is included in a credit guarantee scheme administered by CBSL as mentioned in para 5 below.
- (v) Licensed banks shall defer passing new resolutions under the Recovery of Loans by Banks (Special Provisions) Act, No. 4 of 1990 for recovery of loans and advances until 31.12.2020 in respect of borrowers participating in this scheme. In instances where resolutions for recovery have already been passed, auctioning of assets will be deferred until 31.12.2020 in respect of such borrowers who are participants in the Scheme and meet the requirements of the Scheme. Failure to adhere to the requirements will result in the banks treating such borrowers as non-participants of this scheme.
- (vi) In instances where there are on-going litigations in courts relating to recovery, borrowers will be permitted to participate in the Scheme upon entering into an agreement in Court with regard to the requirements set out in this scheme.
- (vii) Licensed banks shall suspend legal action against non-performing borrowers who have been accepted under this scheme.

4. Repayment of Capital by Banks under Refinance Schemes

- (i) The Government has indicated its willingness to defer capital repayments on refinance loans granted to licensed banks falling due from 01.01.2020 until 31.12.2020 and extend the final repayment date by 12 months. However, banks are required to seek such extension if required and enter into supplementary agreements with the relevant Government agency in this regard.



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5. Credit Guarantee Scheme

- (i) The Government and CBSL will formulate a Credit Guarantee Scheme to provide risk mitigation arising from any additional loans and advances for up to 75% of the capital sum granted by licensed banks under para 3 (iv) of this circular.
- (ii) The Guarantee fee applicable will be 1% per annum and will be borne by licensed banks if they wish to avail of the Guarantee.

6. Reporting to the Credit Information Bureau (CRIB)

- (i) Licensed banks are expected to have a mechanism not to decline loan applications solely based on an adverse CRIB record.
- (ii) Licensed banks, in consultation with CRIB, shall develop a reporting modality in respect of the capital deferment granted under this scheme to performing borrowers, so that participation in the Scheme will not have an impact on the credit score of borrowers in the future, or be negatively reflected in future CRIB reports.

A handwritten signature in blue ink, appearing to read 'Mrs. V A A N De Silva'.

(Mrs.) V A A N De Silva
Director of Bank Supervision