



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

30 January 2020

CIRCULAR

No. 02 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. However, in the case of SMEs which are in the NPL category as at 31.12.2019, the lower limit of annual turnover, i.e., Rs. 16 mn, shall not apply.
- (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. However, in the case of SMEs which are in the NPL category as at 31.12.2019, the business sectors supported under this scheme shall also include value addition businesses and trading.



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- (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.
- (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 10.02.2020 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. Accordingly, licensed banks may initiate appropriate risk mitigation processes.
- (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 10.02.2020, 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.



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- (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 30.06.2020. However, in the case of Temporary Overdraft facilities as at 31.12.2019, the expiry of Temporary Overdraft limits shall be extended by two months.
- (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 for investment or working capital purposes, provided that the borrower submits a credible business plan subject to the following conditions:
- (a) The investment purpose loan facility shall be repaid over five years at an interest rate equal to maximum of AWPLR plus 1.5% to expand business activities.
 - (b) The working capital purpose loan facility shall be repaid over two years at an interest rate equal to AWPLR.
 - (c) A maximum grace period of one year may be considered for such loans.
 - (d) 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



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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 10.02.2020.
- (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.
- (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. The balance capital outstanding, balance portion of interest of the defaulted instalments and the future interest shall be rescheduled. The deferred interest shall be waived by the licensed banks, after the borrower settles the rescheduled loans 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. The balance capital outstanding, balance portion of interest of the defaulted instalments and the future interest shall be rescheduled. The deferred interest shall be waived by the licensed banks, after the borrower settles the rescheduled loans in the manner provided in para (c) and (d) below.
 - (c) The balance capital outstanding referred in para (a) and (b) above shall be



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rescheduled and repaid over a period not exceeding twice the remaining number of instalments of the original loan. An example is provided in Annex I

- (d) The balance portion of interest of the defaulted instalments and the future interest referred in para (a) and (b) above shall be rescheduled and repaid over a period not exceeding twice the remaining number of instalments of the original loan. An example is provided in Annex I
 - (e) 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 referred in para (d) 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 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



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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.

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



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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.

7. Reporting Requirement

Licensed banks shall report the details of moratorium availed by borrowers to the Director of Bank Supervision as at 15th and 30th of each month, within 5 working days commencing from 01.02.2020.

8. Revocation of the Circular

The Circular No. 01 of 2020 on Credit Support to Accelerate Economic Growth is hereby revoked.

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

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

When borrower has paid less than 50% of the capital of the loan

Loan Amount Disbursed (Rs.) 1,000,000.00
 Int Rate 8.00%
 Period 60 Months
 Original Monthly Installment Rs.23,333.33 - Rs.16,777.78

Loan Granted Date	1/7/2018
Loan Maturity Date	1/7/2023
Total Repayment Period	60 Months
Installments Paid up to	1/4/2019
Number of Installments Paid up to 01.04.2019	14
Number of Installments in Arrears from 05.2019 to 12.2019	8
Remaining Number of Installments from 31.12.2019 to maturity date	38
Capital Due as at 01.04.2019 (from date of last installment paid)	766,666.67
Interest Accumulated and unpaid from 02.04.2019 to 31.12.2019	37,777.78
Future Interest from 01.01.2020 to Maturity Date (01.02.2023)	82,333.33
Proposed Grace Period under Relief Package (months)	12

Calculation of Loan Installment

Capital Due 766,666.67

Since Capital Paid is less than 50% of the Loan Amount, the eligible concession is 25% of accumulated interest. 75% should be recovered (37,777.78*75%)
 Future Interest from 01.01.2020 to Maturity Date (01.02.2023)

Payment of Interest

* Total Interest to be recovered (28,333.33+82,333.33)
 * Total repayment period allowed under Moratorium (38+8)*2

Monthly Interest to be paid in future (28,333.33+82333.33)/92 92 months

Payment of Capital
 Capital payment after the grace period (766,666.67/80) During 80 months

Monthly Payment during the grace period 1,202.90 (92-12)
 Monthly payment after the grace period (1,202.90+9,583.33) 10,786.23

* Rate of Interest will not be applied
 * The repayment period could be decided by the Branch not exceeding the eligible repayment period.

When borrower has already paid more than 50% of the capital of the loan

Loan Amount Disbursed (Rs.) 1,000,000.00
 Int Rate 8.00%
 Period 60 Months
 Original Monthly Installment Rs.23,333.33 - Rs.16,777.78

Loan Granted Date 1/2/2016
 Loan Maturity Date 1/2/2021
 Total Repayment Period 60 months
 Installments Paid up to 1/9/2018

Number of Installments Paid up to 01.09.2018 31
 Number of Installments In Arrears from 10.2018 to 12.2019 15
 Remaining Number of Installments from 31.12.2019 to maturity date 14
 Capital Due as at 01.09.2018 (from date of last installment paid) 483,333.33
 Interest Accumulated and unpaid from 02.09.2018 to 31.12.2019 36,666.67
 Future Interest from 01.01.2020 to Maturity Date (01.02.2021) 11,666.67
 Proposed Grace Period under Relief Package (months) 12

Calculation of Loan Installment

Capital Due 483,333.33
 Since Capital Paid is higher than 50% of the Loan Amount, the eligible concession is 50% of accumulated interest. 50% should be recovered (36,666.67*50%)
 Future Interest from 01.01.2020 to Maturity Date (01.02.2021) 11,666.67
 Total interest to be recovered (18,333.34+11,666.67) 30,000.01
 Total repayment period allowed under Moratorium (15+14)*2 58 months

Payment of Interest 30,000.01
 Monthly Interest to be paid in future (18,333.34+11,666.67)/58 517.24 During 58 months

Payment of Capital 10,507.25 During 46 months
 Capital payment after the grace period (483,333.33/46)
 Monthly Payment during the grace period 517.24 (58-12)
 Monthly payment after the grace period (517.24+10,507.25) 11,024.49

* Rate of Interest will not be applied
 * The repayment period could be decided by the Branch not exceeding the eligible repayment period.