EURO-MEDITERRANEAN GUARANTEE NETWORK

COVID-19: What role for the credit guarantee schemes to mitigate the health and economic crisis

EMGN Webinar

14 April 2020, 11:00 – 13:00

Summary

This webinar was intended to follow-up on the call for sharing experiences and practices from the different countries of North, South and East Mediterranean in terms of mitigation measures taken to face the health and economic crisis resulting from the COVID-19 pandemic. In this regard, speakers and participants shared the main policy actions taken by their respective government and the role of Credit Guarantee Schemes (CGSs) in mitigating the dire socioeconomic and financial consequences of this crisis. The webinar provided the opportunity for representatives of CGSs to exchange views, national experiences, best practices and innovative ideas which can be useful to upgrade the response of CGS to the crisis resulting from the COVID-19 pandemic.

Conclusions

Egypt – Policy measures and the role of CGS

As for the main policy measures taken in Egypt, the following points have been stressed:

- Deposit rate cut in early March by 300 basis points by the government and the central bank;
- Expanded SME, individual, and credit card monthly settlement (up to 6 months) at no cost;
- Central bank initiative involving settlement of NPLs for SMEs. If clients are willing to pay 50% of their outstanding balance the rest can be waived. This started in February and CGC is part of the initiative;
- Injecting 100 billion facilitating credit to the SME industrial sector and mortgage for the middle income at a lower rate of 8% compared to 12%-13% previously;
- 20 billions injected in the tourism sector;
- Followed by an additional 20 billion for the capital market support; and
- Mobile services promoted (i.e. mobile banking) over cash use to reduce movement.

Measures taken in Egypt in order to address the economic and financial crisis caused by the rapid spread of COVID-19 include:

- Increased coverage (75-90% depending on the sector);
- Doubled risk appetite;
- Fees reduced by 35-40% depending on the sector);
- Accelerated procedures – approval processed within 24 hours for smaller cases while for bigger cases it can take up to 3 days maximum;
- Tourism support initiatives by the Central Bank of Egypt (CBE); and
- Other measures taken by the CBE to promote the settlement approach in which CGC is involved with the cap of guarantees and encourage banks to reschedule.

Morocco - Policy measures and the role of CGS

A special committee has been appointed in Morocco. The Committee is headed by the Minister of Finance and gathering the Ministers of the Interior, Health, Trade and Commerce along with special representatives of insurance companies, banking sector, central bank, and private sector. The committee has been meeting regularly to discuss and find solutions to both the economic and financial crisis. $3.3 billion (one third of the government budget) have been dedicated to extending technical assistance, purchase of medical equipment for hospitals and support SMEs and individuals among other measures. Other policy measures taken in Morocco are:

- Temporary assistance by the Social Security (3 months);
- Cash assistance in the informal sector through banking sector and postal services;
- Speeding up contactless approach in all sectors (including education, banking, etc.) to reduce the spread of COVID-19 as much as possible;
- Rescheduling loans (Housing and SMEs) at no additional costs are measures intended to alleviate financial difficulties SMEs may be facing; and
- Extended coverage in the insurance sector.

Regarding the role of CCGs, extending guarantee coverage, joint loans with banks (applying temporary fees and loan repayment options) were mentioned as good practices. The “oxygen guarantee” is intended for all sizes of companies not exceeding a turnover of 50 million USD (except large ones) in order to cover operational costs for up to three months and could be extended one time. These special loans could go up to 20% of the working capital line or 2 million USD at a special rate of 4%, the guarantee coverage is 95% at a symbolic flat fee of 0.1% of credit amount and could be converted into a 5 years debt upon inability to repay by end of year. Other measures are under consideration to provide technical assistance and speed up loan procedures for start-ups and innovative, recently created companies. These would also include special measures (i.e. soft loans, loans without collateral, no interest rates, etc.). However, new measures may be required as the COVID-19 health emergency situation evolves.

Jordan - Policy measures and the role of CGS

In Jordan, with most of the businesses forced to a shutdown, the country is in shortage of liquidity. To this extent, the Central Bank of Jordan has reduced the required reserves from 7% to 5%, thus releasing more than half a billion JD into the system in addition to another half a Billion JD through reverse repo. JLCG has introduced the most generous guarantee programme in the history of the country. The total amount of the program is half a Billion JD (accounting for more than 20% of the total credit facility provided for SMEs in the country) and the guarantee fee is reduced to 0.35%. This refinancing facility is provided by the central bank to banks operating in the country at zero interest, banks relend to SMEs with a maximum interest rate of 2%. The maximum amount of loan is 1 million JD, it could be used for short term purposes including operational costs / working capital. The high demand may require, however, an increase of the amount currently available. As for business practices, the lockdown in Jordan is partial only and even if data shows a more controlled number of cases, hard economic consequences are expected.

Tunisia - Policy measures and the role of CGS

As of 19 March, Tunisia is under complete shutdown (all businesses closed except for grocery and pharmacies). It is the Ministry of Finance setting measures affecting all sectors . As for the guarantees, these measures are currently under preparation with the Ministry of Finance. Some current practices highlighted during the webinar include:

- Tax and customs amnesty to save jobs;

- Investment and recovery funds; and
- Central Bank's decision to postpone loans for 6 months.

There are also a number of measures affecting SMEs, such as:

- Deferral of tax payment from March to May 2020;
- Faster repayment of tax credits;
- Rescheduling of tax debts over 7 years;
- Creation of guarantee for operating credits;
- Reduction of costs of investment credits;
- Investment funds for strategic companies; and
- Bridging fund for companies with difficulties.

European Union – Experiences

All EU countries are under strict lockdown measures (i.e. only pharmacies and supermarkets are open – which seems to be a general practice also in the South and East Mediterranean). However, costs of these measures are expected for the economy and counter guarantee programmes are expected to have a key role in tackling the upcoming financial crisis. There was an EU-level survey addressing CGSs in Europe to understand the measures undertaken so far with the following preliminary conclusions:

- Eligibility rules (sector, size, and nature of financing needs) have been expanded to the maximum of possible cases;
- Short-term existing financing are maintained by banks;
- The maximum guarantee size has been increased;
- Liquidity problems can be covered for a period of up to 18 months;
- Financing possibilities from 6 months to 7 years;
- Grace periods up to 2 years;
- Guarantee quota going up to 90%;
- Loan collateral and SME financing reduced;
- National guarantee schemes increased in all EU countries;
- Specific support measures for the agricultural and touristic sectors;
- In most EU Member States, specific information and communication measures are taken addressing SMEs; and
- The role of the Social Security system in France in compensating salary losses.

There has been also an EU-level request to adapt all existing programs (to become more comprehensive, cover all sectors, etc.) and reduce the administrative burden related to counter guarantees in order to make these programmes easier and less lengthy. Mention had been made to the decision of the Eurogroup on April 9 to make available a large envelope (200 bill EUR) dedicated to SMEs and the private sector.

Use of caps – a general practice

Among the topic touched throughout the open discussion, webinar participants discussed the viability of counter-guarantee programmes in the southern shore of the Mediterranean. The legal issue of counter guarantees is being considered as part of public debt in ***Jordan*** which makes it harder to get counter guarantees from the government. This is the reason why they estimate the maximum cap for loss for every single bank, limited to 20% maximum loss accepted. In the case of ***Egypt,*** the maximum cap (up to 14% could be increased by the central bank) is also in use and shared with all banks. In the ***Moroccan*** case, the cost of entering a counter-guarantee programme is too high, more than the fees required to access guarantees, which in some cases are also zero for entrepreneurs, start-ups and small companies. In the ***European Union***, the use of caps is a general practice as well. In the case of ***France*** for example, there is a guarantee fund created by the state to address COVID-19 related difficulties. However, there must be a limit for caps and it must also depend on the already existing relationship between credit guarantee institutions and banks. In this regard, in ***Egypt*** for instance, mention has to be given to the coordinating role of the Central Bank.

In ***Egypt***, an analysis of the market flow for the first quarter of the year (comparing to that of 2019) is currently being performed. Preliminary results show that there was an increase in portfolio growth and there is not much change in the percentage of overdraft accounts (which is still high in 2020) probably pushed by the relatively low interest rates. So far, there were no smaller caps witnessed either.

In ***Jordan***, the flat coverage ratio of 85% provided to COVID-19 loan guarantee program giving delegation to banks for up to 250 thousand JD on the condition that beneficiaries must retain all the work-force (i.e. not to fire any of the employees) in order to keep employment rates at an acceptable level.

Discussion

The ***Team of the European initiative*** (2.5 bill EUR) launched by the EU is intended to secure financial support for Neighbouring countries, including the South and East Mediterranean, which is on the top of other financial measures such as the ***European External Investment Fund*** or the ***European Fund for Sustainable Development.*** This initiative aims at redirecting existing funds to tackle problems derived from the COVID-19 crisis mainly in Africa but also in the Mediterranean. As for the helpfulness and awareness on the existence of such instrument, it is concluded there was no official communication in this regard in ***Egypt*** for instance.

Moreover, participants also agree that the exceptional situation we are facing today will lead to further hardship where all countries need to enhance locally financial capacity to deal with recovery measures due to the shutdown of the economy. Unless massive testing practices are in place, the spread of the virus will continue. In order to address the financial and economic aspects of the crisis, there must be an international response and collective action. The G20 is expected to develop relevant initiatives to help all countries and particularly in Africa. There has been warnings from the biggest banking institutions in the world to the G20 leaders that there will massive restructuring waves and defaults, asking for debt and interest reliefs to reduce the impact of this exogenous shock on the market. The EU should also play a key role and take further steps towards implementing actions beyond the already made announcements. Coordination among key international players (i.e. G20, G7, EU, EBRD, World Bank, IMF, etc.) is crucial for rearranging resources.

On the existence of schemes with Central Banks aimed at enhancing financial capacity and enhance the level of guarantees, in the case of ***Jordan***, 85% is covered while in ***Egypt*** this number can increase up to 90% depending on the sector. In ***Morocco***, the "oxygen guarantee" can cover up to 95% provided that the strict conditions are met. In ***France***, it can be this high (90% coverage) as well. In ***Germany***, there has been an increase in the coverage to 100% as banks' risk appetite was still low. Banks' risk appetite is also low in ***Egypt***, however now they are partially encouraged and they are required by the central bank to have 20% of their portfolios to be geared towards SMEs hence they will have to comply.

Furthermore, participants discussed that the biggest issue is that guarantee schemes will be adding further risks on their balance sheets, hence there is a need to work closely with the governments to provide liquidity to be able to face these risks. Referring to the European Banking Authority, it has been noted that flexible measures had been already taken in the banking sector to enhance mitigators (i.e. guarantees) and state aid rules had been also relaxed by the EU. Relaxation of banking rules (lower capital requirements keeping in mind the high level of NPLs) in the region could be an important measure to consider.

With reference to a recent paper published on COVID-19 (available at: https://euromed-economists.org/download/time-for-a-decisive-coordinated-response-to-a-costly-global-covid-19-systemic-crisis-towards-a-global-resilient-system/), participants call for issuance of recovery bonds (Post COVID) guaranteed by the World Bank with a yield lower than 2% to help countries finance their recovery plans. The IMF has a key role as well in the navigation through the crisis to avoid massive defaults.

It has to be noted, however, that the situation is expected to worsen in the months to come, especially in the MENA region where massive non-performing loans are expected. It is still a question how CGSs should react.

In response to the economic and financial crisis caused by COVID-19, orderly restructuring framework crisis management is key (which has been already activated in the EU). MENA countries should work on it too.

In ***Morocco,*** the banking sector was not allowed to use the special guarantees to provide credit for repayment of old accounts payable on their clients balance sheets. Only recent necessary purchases could be covered.

With regard to the rating system, it is recommended that scoring should be revised waving certain requirement. However, having non-compliant clients increases the risk as well.

In ***Morocco***, processing applications through the credit bureau is mandatory and the explanation provided by the bank must be satisfactory as well.

As regards the scoring system, the level of resilience needs to be understood by analysing the initial situation (i.e. before the crisis) also in relation to the non-performing loans. In case of low level of resilience (high NPLs ratio) then countries need to have in parallel the crisis management tools and restructuring tools to accompany the process. The scoring system has to be rethought keeping in mind the external shock affecting our economy and the exceptional circumstances to manage. The credit scoring has been faulty even before the crisis. Now, a systematic global solution is needed to exit the crisis and safety net measures to avoid the humanitarian crisis.

Also, special attention has to be paid to the main challenges to control indebtedness and preserve employment. In ***Spain***, the number of temporarily suspended employees is around 1.6 million currently.

Concluding the webinar, participants highlight that measures taken all over the Euro-Mediterranean are similar and that a lot more initiatives, adapted to the market, are needed. Balance between serving the market needs and maintaining financial sustainability of guarantee schemes is key.