



Measures taken by the Ministry of Finance due to COVID-19 pandemic

Ministry of Finance
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1. Introduction

- The health crisis is surrounded by an extreme uncertainty and the final outcome will depend on its depth and duration. It is expected to affect the whole spectrum of the economy and the measures needed to contain the spread of the pandemic result in a big demand shock on top of an inevitable supply chain disruption.
- The Government has taken necessary actions to safeguard the national health system and mitigate the economic effects of the crisis by protecting businesses, jobs and incomes through a package of fiscal measures.
- While some of the measures aim to sustain jobs by partial subsidization of salaries and payment moratoria on performing loans, enterprises face other ongoing expenditure such as rents, storage costs, insurance premiums and utility bills affecting negatively their liquidity and working capital.



2. VAT Deferral

- In order to enhance the liquidity in the economy the Government allowed, through an amending law enacted on the 27 March 2020 and a relevant decree issued by the Minister of Finance on the 30 March 2020, companies to postpone their tax obligations for VAT.
- In this respect the payment of VAT due for the tax periods ending on the 29 February, 31 March and 30 April has been deferred until 10 November 2020, for all taxpayers.
- Exemption is given to those categories of taxpayers that continued to operate during the lockdown period, as their liquidity was not affected or was less affected by the lockdown.

3. General Payment Moratorium (1)

Decree issued by the Minister of Finance on 30 March 2020 and revised on the 7 May 2020, based on legislation.

The main provisions of the Decree are:

- Applicable for:
 - all types of borrowers (natural persons, self-employed, legal entities)
 - syndicated loans
 - loans undertaken in Cyprus and governed by law of other jurisdictions, provided that borrowers apply through a written declaration stating that they have been affected by the Covid-19 pandemic. If the criteria are met, credit institutions have no right to reject an application.
- 9-month payment holiday of loan instalments (interest and capital), covering fixed term loans, overdrafts, factoring and credit cards.

3. General Payment Moratorium (2)

- Eligibility criteria:
 - Amount in arrears at account level, irrespective of any arrears by the borrower for loans held by other credit institutions
 - not exceeding 30 dpd on 29/02 or
 - exceeding 30 dpd on 29/02 with subsequent arrangements so that on 30/03 not exceeding 30 dpd
 - Total amount in arrears irrespective of dpd at credit institution level on 30/03, (materiality threshold):
 - less than €100 for retail banking
 - less than €500 for wholesale banking
- Deadline for expressing interest is 26/06/2020. Upon a decision from the European Banking Authority and if deemed necessary, the deadline may be extended
- Retroactivity: installments that have been paid prior to the process or submission of application, may be refunded to borrowers, following a written request.
- The credit institution will grant a tenor extension for the purpose of full repayment of the deferred instalments (capital and interest).
- The borrower reserves the right to voluntarily pay any amount.



4. EIB instruments to support the Private Sector

- ❖ Standard Intermediated Lending for financing SMEs and Midcaps
- ❖ Cyprus Entrepreneurship Fund
- ❖ Pan-European Guarantee Fund

Standard Intermediated Lending for financing SMEs and Midcaps (1)



- Existing Scheme of €1 bln increased in May to **€1.5 bln**
- So far, the EIB has signed **24** agreements with 6 local banks **totaling € 930m**. As part of these agreements, around €200m are available, while participating banks that have used up the available liquidity are in contact with the EIB to secure additional loans.
- This Scheme may be combined with the Interest Loan Subsidy Plan for Business Loans.

Standard Intermediated Lending for financing SMEs and Midcaps (2)



Main Characteristics of the Scheme

- **Local banks bear the full portfolio credit risk** (EIB benefits from a **State Guarantee** in case the bank does not pay – this has **never** been exercised);
- **Appraisal of all loan requests** is carried out by the banks who are also responsible for the **decision to accept or reject it**.
- **Transfer of price benefit:** as per their Agreement with EIB, the banks are obliged to transfer part of the attractive EIB interest rate to the enterprises
 - **Standard price reduction:** 0.50% (down from 1.00% in 2013)
 - **Additional price reduction for “Jobs for Youth” Initiative:** 0.50%i.e. an enterprise could benefit with a reduction in their Interest Rate of 1.00%. However, experience has shown that the **actual IR reduction was significantly higher**.
- **Loan Maturities:** Enterprises can benefit from longer term loans

Standard Intermediated Lending for financing SMEs and Midcaps (3)



Main Terms and Conditions

Eligibility:

- **Sector Eligibility:** Most sectors and activities are eligible with a few exceptions i.e., Refinancing of old loans (MUST be a new investment), Real estate developments, Production of weapons and ammunition, etc)
 - Working capital / overdraft **will now also be eligible**

- **Final Beneficiary eligibility:**
 - SMEs: up to 249 staff
 - MidCaps: 250 to 3,000 staff;

- **Loan size eligibility:**
 - **Maximum loan amount:** Up to EUR 12.5m;
 - **Maximum investment amount:** up to EUR 25m
 - **Clarification:** if an investment is EUR 10m then the enterprises may receive a loan for the full amount



Cyprus Entrepreneurship Fund (CYPEF) (1)

- The Council of Ministers has decided the expansion of the Cyprus Entrepreneurship Fund by **€ 400m in May 2020**.
- The participating Banks will provide an additional €400m of funding making the **total amount available to SMEs at €800m**
- It is estimated that CYPEF will be able to operate in mid-September, after the approval of a relevant loan by the EIB. In parallel, to ensure the participation of all Banks to utilize the resources from CYPEF, with the approval of the loan, appropriate contacts and information sessions have already taken place and are scheduled.



Cyprus Entrepreneurship Fund (CYPEF) (2)

- **Aim:** To facilitate access to finance with better terms for **smaller size / higher risk enterprises**
- **Borrower:** The Borrower is the Ministry of Finance who then on-borrows to participating banks;
- **CYPEF is a Risk Sharing instrument:** Participating banks share the lending with CYPEF as well as the risk;
- **Pricing:** The MoF borrows from EIB at very attractive rates. It passes this attractive rates to participating banks who blend the funding with their own funding reducing the final interest rate for SMEs;
- **Revenues:** The instrument leads to revenues for the MoF which should be offset with the resulting defaults

Cyprus Entrepreneurship Fund (CYPEF) (3)

Eligibility:

- **Beneficiary eligibility:** local SMEs - up to 249 staff/ self-employed;
- **Eligible purposes:** Same as Intermediated Lending described above;
- **Maximum loan amount:** Up to EUR 1.5 m; (possibility for increase)
- **Loan maturity:** expected to reach up to 12 years

Pan-European Guarantee Fund

- **Purpose:** to address the effects of the COVID-19 pandemic on EU Member States, ensuring that:
 - SMEs,
 - Medium Capitalization Companies (MidCaps) and
 - Various agencies that provide basic services in the areas of health, research and education
- operating in the territory of the Member States participating in the fund have access to adequate liquidity
- The Fund is designed to provide, through specific financial instruments, **guarantees of up to 80% to intermediate financial institutions (banks)** for financing SMEs / Medium Capitalization Companies and other bodies.
- **Possible funding from the Fund:** € 300 - € 400 million.
- Cyprus already participates in the Fund by contributing € 32.5 million in the form of guarantees
- The European Guarantee Fund may cover part of the risk for both of the existing programmes (Standard Intermediated Lending for Financing SMEs and Midcaps, CYPEF)

5. Government Subsidisation Schemes

- ❖ Interest Rate Subsidy Scheme for new business loans to enterprises
- ❖ Subsidy Scheme for Very Small and Small Enterprises and Self-Employed



Interest Rate Subsidy Scheme for new business loans to enterprises (1)

- ✓ **Purpose of the Scheme:** the granting of interest rate subsidies for business loans to self-employed persons, SMEs and large enterprises in order to support the economy during the current outburst of COVID-19.
- ✓ Loans signed between 1/3/2020 until 31/12/2020 with any Authorised Credit Institution to cover liquidity needs, working capital and investments of Enterprises and Self-Employed Persons. Repayment of outstanding loans and restructurings are exempted.
- ✓ **Scheme Budget:** State aid in the form of interest rate subsidy up to an amount of €180 million for loans of enterprises and natural persons.
- ✓ **Beneficiaries:** All enterprises that were not already in difficulty (within the meaning of the General Block Exemption Regulation) on 31 December 2019 and are currently experiencing difficulties due to the pandemic.
- ✓ **Duration of the Scheme:** Interest subsidisation for 4 years.
- ✓ **Requirements:**
 - I. New business loans to Enterprises and Self-Employed Persons approved between 1/3/2020 to 31/12/2020.
 - II. The purpose of the new loans to be granted is to cover liquidity needs, working capital and investments of Enterprises and Self-Employed Persons and not the repayment of outstanding loans, either performing or non performing and/or to be used as security for restructuring of existing exposures of any credit institution.
 - III. The beneficiaries of the scheme cannot proceed to layoffs beyond 2% of their current workforce at the time of the announcement of the scheme without replacement (unless it is for reasons justifying a dismissal without notice).

Interest Rate Subsidy Scheme for new business loans to enterprises (2)

- ✓ ***Total amount of aid per undertaking: The overall aid per undertaking cannot exceed €800.000.***
 The amount of the loan principal that the interest rate will be subsidized does not exceed the maximum of the:
 - i. Double the annual wage bill of the Enterprise or the Self-Employed Person (including social payments as well as the costs of personnel working on the enterprise site but formally on the payroll of subcontractors) for 2019, or for the latest year available. In the case of enterprises created on or after 1 January 2019, the maximum loan may not exceed the estimated annual wage bill for the first two years of operation, or ,
 - ii. 25% of total turnover of the beneficiary in 2019.

- ✓ The total amount of the loan may exceed the amount of the subsidized loan. In this case, the repayment of the loan first reduces the part of the loan for which the interest rate subsidy is granted.

- ✓ For the first 2 years the interest rate subsidy will be as follows:

<ul style="list-style-type: none"> ▪ Type of beneficiary 	<ul style="list-style-type: none"> For the 1st and 2nd year
<ul style="list-style-type: none"> Micro enterprises, SMEs ,and Self Employed 	<ul style="list-style-type: none"> Up to 350 basis points
<ul style="list-style-type: none"> Large Enterprises 	<ul style="list-style-type: none"> Up to 350 basis points

- ✓ For the 3rd and 4th year:

<ul style="list-style-type: none"> ▪ Type of beneficiary 	<ul style="list-style-type: none"> For the 3rd – 4th year
<ul style="list-style-type: none"> Micro enterprises, SMEs and and Self Employed 	<ul style="list-style-type: none"> Up to 200 basis points
<ul style="list-style-type: none"> Large Enterprises 	<ul style="list-style-type: none"> Up to 150 basis points

- ✓ The maximum margin of interest rate should not exceed 4% (400 basis points).

- ✓ The subsidy is suspended if the loan is overdue for more than 90 days. In this case, no subsidy is paid for the period in which the loan has become non-performing.

Subsidy Scheme for Very Small and Small Enterprises and Self-Employed



- ✓ One-off subsidies to micro and small enterprises and self-employed persons which employ up to 50 persons to cover part of their operating costs, including rent, provided they: (i) were approved beneficiaries of the Special Schemes of the Ministry of Labour to support businesses and workers, due to COVID-19, during the period 13 April – 12 May 2020 and have not proceeded to any layoffs (ii) as of 31-Dec-2019 were not undertakings in difficulty as defined the Council Regulation 651/2014, as follows:
 - Self-employed and Microenterprises which have partly of fully suspended operations and were beneficiaries of the special schemes of the Ministry of Labour for the period 13th April – 12th May 2020 and employ up to 1 person receive a subsidy of €1250.
 - Self-employed and Microenterprises which have partly of fully suspended operations and were beneficiaries of the special schemes of the Ministry of Labour for the period 13th April – 12th May 2020 and employ between 2 to 5 persons receive a subsidy of €3000.
 - Self-employed and Microenterprises which have partly of fully suspended operations and were beneficiaries of the special schemes of the Ministry of Labour for the period 13th April – 12th May 2020 and employ between 6 to 9 persons receive a subsidy of €4000.
 - Self-employed and Microenterprises which have partly of fully suspended operations and were beneficiaries of the special schemes of the Ministry of Labour for the period 13th April – 12th May 2020 and employ between 10 to 50 persons receive a subsidy of €6000.
- ✓ The estimated number of beneficiaries is 50.000 micro and small enterprises and self-employed persons and the estimated budget of the scheme is more than €100 million.