

SOME IMPACTS OF CIRCULAR NO. 03/2021/TT- NHNN ON ENTERPRISES

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On April 2, 2021, the State Bank of Viet Nam promulgated Circular No. 03/2021/TT-NHNN on amendment and supplement to some articles of Circular No. 01/2020/TT-NHNN providing instructions for credit institutions and branches of foreign banks on debt rescheduling, exemption or reduction of interest and fees, retention of debt category to assist borrowers affected by the Covid-19 pandemic (**Circular 03**). This Circular has received much attention from credit institutions and business community because the previous provisions of Circular No. 01/2020/TT-NHNN (**Circular 01**) have yet to actually address the difficulties for both credit institutions and enterprises under the impacts of the Covid-19 pandemic. Some new provisions of Circular 03 are as follows:

Firstly, amendment to conditions of debt rescheduling. Previously, Circular 01 stipulates that debts can be rescheduled for repayment when 3 conditions are fully satisfied: (i) The debt arises from financial lending or lease; (ii) The principal and/or interest arises during the period from January 23, 2020 to the next day after 3 months from the date when the Prime Minister declares the end of the Covid-19 pandemic and (iii) The borrower is unable to repay the principal and/or interest on schedule under the loan/finance lease agreement due to decrease in revenue or income caused by Covid-19 pandemic. However, in fact, condition (ii) made it difficult for credit institutions to determine eligible debts for rescheduling, as well as to track and recognize them in accounting when the milestone date may not coincide with the accounting period of banks. Therefore, Circular 03 has amended the above conditions and one of the conditions for debts to be rescheduled for repayment is "The principal and/or interest incurs during the period **from January 23, 2020 to December 31, 2021**".

Secondly, supplement of regulations on allocation of provision for bad debts gradually in 03 years. According to Circular 01, for outstanding debts with

rescheduled repayment term, credit institutions must classify these debts and make provision for risks according to the rescheduled term in accordance with regulations of laws rather than apply the principle of allocating them to the group of debts with higher risk. Therefore, at the end of the rescheduling period, credit institutions will have to use a large amount of money to make provision for risks and their profits will be significantly reduced. Since the end of 2020, many commercial banks have stopped expanding their debt list with rescheduled payment term due to concerns about the above provisions of Circular 01. Specifically, according to the State Bank of Viet Nam, by mid-November 2020, credit institutions rescheduled the repayment term for more than VND 341,800 billion of outstanding debts, not much higher than the figure of VND 321,000 billion reported in mid-September 2020. Circular 03 has solved the above difficulty for credit institutions, by adding regulations on allocation of provision for bad debts gradually in 3 years, specifically: (i) As of December 31, 2021: At least 30% of the specific provision amount must be additionally made; (ii) As of December 31, 2022: At least 60% of the specific provision amount must be additionally made; (iii) As of December 31, 2023: 100% of the specific provision amount must be additionally made.

Thirdly, extension of time limit for exemption and reduction of interest and fees. According to internal rules and regulations of credit institutions, they can decide the exemption and reduction of interest and fees for the outstanding debts arising before June 10, 2020 from credit grant activities (except purchase and investment of corporate bonds) for which the obligation to repay the principal and/or interest is due within the period from January 23, 2020 to December 31, 2021 and the borrowers are not able to repay the principal and/or interest by the deadline specified in the original agreement due to decrease in revenue or income caused by the Covid-19 pandemic. Previously, Circular 01 stipulates that credit institutions are entitled to decide the exemption and reduction of interest and fees on debts arising during the period from January 23, 2020 to the next day after 3 months from the date when the Prime Minister declares the end of the Covid-19 pandemic.

Some comments and recommendations

Firstly, the amendment to conditions of debt rescheduling helps enterprises and credit institutions easily identify debts eligible for rescheduling. At the same time, it helps the companies with borrowed capital reduce the pressure on financial costs. According to experts, difficulties for tourism and accommodation service will last longer than those of other industries. Even if the State Bank of Viet Nam allows rescheduled repayment term to be extended by 12 months, tourism and accommodation enterprises have not yet been able to repay their debts. According to a representative of the State Bank of Viet Nam, based on the actual situation, after the expiry of Circular 03, if enterprises still face difficulties, the State Bank of Viet Nam may continue to adjust the regulations on the rescheduled repayment term.

Secondly, the supplement of regulations on allocation of provision for bad debts has reduced the pressure on provision expenses for credit institutions, especially in 2021, when the provisioning rate for bad debts is only at least 30% of the specific provision amount to be additionally disbursed. In fact,



only in the first quarter of 2021, commercial banks' profit growth reached double digits, even doubled, or tripled the rate of the same period last year. In which, the reduction in provisioning expenses contributed significantly to the profit growth. This will encourage credit institutions to use their retained earnings to enhance capital adequacy and promote lending to enterprises for production and business.

Finally, the extension of time limit for exemption and reduction of interest and fees helps enterprises reduce some of the pressure on financial costs in the current difficult situation.

It can be seen that with the above 3 remarkable amendments, Circular 03 has promptly supported both credit institutions and businesses, accordingly, credit institutions can reduce the pressure of provisioning and enterprises can reduce financial costs, thereby, it will be more favorable for them in the recovery of production and business. Enterprises interested in this issue should keep updated on Circular 03's provisions and announcements of the State Bank of Viet Nam as well as of relevant credit institutions to develop appropriate financial plans.