

NOTICEABLE PROVISIONS OF THE DRAFT DECREE ON INTEREST RATE SUPPORT FROM THE STATE BUDGET FOR LOANS OF ENTERPRISES, COOPERATIVES, AND BUSINESS HOUSEHOLDS

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During the past 2 years, the Covid-19 pandemic has caused a severe impact on the domestic economy. With an aim to support enterprises, cooperatives and business households to reduce difficulties resulting from the impact of Covid-19 pandemic, many policies have been implemented such as reduction of insurance premiums for occupational accidents and diseases, temporary suspension of contributions to the retirement and survivorship fund, loans to pay wages during work stoppage or to pay wages to restore production activities. With the goal of quickly recovering production and business activities, promoting growth drivers, on January 11, 2022, the National Assembly issued Resolution 43/2022/QH15 on fiscal and monetary policies to support the 2022-2023 socio economic recovery program (**Resolution 43**), which includes the policy of interest rate support (2%/year) up to VND 40 trillion through commercial banking systems for several industries and fields or for certain borrowing purposes. On such basis, the State Bank is currently developing the Draft Decree on interest rate support from the state budget for loans of enterprises, cooperatives and business households (**Draft Decree**). In this Newsletter, NHQuang&Associates would analyze several outstanding provisions of the Draft Decree.

Scope of borrowers eligible for interest rate support

In accordance with the Draft Decree, the borrowers eligible for the interest rate support are enterprises, cooperatives, business households subject to the following cases: (i) their purpose of using the loan capital involves the registered business lines in accordance with Viet Nam's standard industrial classifications including: aviation, transportation and warehousing; tourism; accommodation and food services; education and training; agriculture, forestry and fishery; manufacturing and processing industry; software publishing; computer programming and

related operations; information service activities; or (ii) the loan capital is aimed to build houses for workers to buy, rent and lease-purchase; construct social housing; renovate old apartment buildings subject to the list announced by the Ministry of Construction.

The business lines in the list of financial support specified under the Draft Decree are those that are heavily affected by the pandemic (for instance, those in tourism industry, accommodation, food and beverage services) to ensure effective remedy and recovery of the business sectors subject to negative impact of the pandemic. In addition to the mentioned business lines, for the purpose of indirect support to workers, the enterprises, cooperatives and business households using loans to build houses for workers and renovate old apartments are also eligible for the interest rate support.

If this provision takes effect, to be consistent with the scope of subjects eligible for interest rate support, businesses wishing to borrow with preferential interest rates should note that: (i) their registered business lines must be consistent with the listed business lines eligible for the support and (ii) the loan purposes must serve the supported sectors.

Principles and conditions for interest rate support

To implement the policy on loan interest rate support, the Draft Decree sets out certain principles and conditions.

Organizations that are eligible for interest rate support should pay attention to the following principles: (i) the borrowers have the ability to repay, recover the loan, use the loan for the right purposes and coordinate with banks; (ii) the support is applied for interests arising from the date of approval and

implementation of the Draft Decree until December 31, 2023; (iii) interest rate support shall not be applied to loans that are disbursed from December 31, 2023 or upon announcement of the competent authorities when the total amount of interest rate support reaches VND 40 trillion.

The Draft Decree also provides 3 conditions, specifically: (i) commercial banks' lending to borrowers complies with applicable regulations on lending activities by credit institutions and foreign bank branches to customers; (ii) the interest rate

support is implemented on the basis of request (by the borrower) and approval (by the bank) at the time of loan disbursement or when the loan agreement is signed; (iii) the supported loans is in Viet Nam Dong, under the loan agreement signed by the borrower and the bank, disbursed from January 11, 2022 to December 31, 2023, and the borrowed capital is used for the right purpose; additionally, this condition also specifies the cases where the interest rate support shall not be continued. Specifically, there are 02 cases where the borrowers shall not continue receiving the interest rate support, including: (i) loans with overdue principal balance and/or late payment interest balance are not eligible for interest rate support for the period incurring such overdue principal balance and/or late payment interest balance; and (ii) extended loans are not supported with interest rate for the extension period. In such case, in order to continue receiving the interest rate support, the borrowers must fulfill their obligations to pay for the late payment.



Regulations on the term and level of supported interest rate and support method

The loan term with interest rate support shall be calculated from the loan disbursement date according to the loan agreement between the bank and the borrowers but not later than December 31, 2023 with the supported interest rate for customers of 2%/year. The interest rate support is calculated based on the loan balance and the term of interest rate support as aforementioned. The interest rate support shall be applied through the bank's direct deduction of the payable loan interest amount equal to the supported interest rate of the loan for the borrower.

The Draft Decree is now being finalized and for soon promulgation. Therefore, businesses wishing to borrow at the supported interest rate should pay attention and regularly update the finalization of the Draft Decree as well as related circulars and guiding documents for proper application and to ensure their rights and interests while implementing the interest rate support policy in the future.