

**Expo 2006 Conference on
Pakistan: An Export Friendly Destination**

**TRADE AND EXPORT
FACILITATION – ROLE OF
STATE BANK**

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SBP provides active support to promote trade in general and exports in particular through the following mechanisms:

1. Regulatory infrastructure
2. Specific incentives for exporters
3. Easy access to finance for exporters
4. Continued reforms to liberalize foreign exchange regime

1. Regulatory Infrastructure

- The most important aspect of the regulatory infrastructure is the full convertibility of Pak-Rupee for current account transactions. This was formally instituted in 1994 by removing all regulatory hurdles.
- Pak-Rupee is also convertible for some capital account transactions like portfolio investment.
- Regulation permits authorized dealers to provide forward cover contracts to exporters.

2. Specific incentives for exporters

- Exporters are allowed to retain 10% of export proceeds in their FCAs.
- Exporters who show double digit growth may also retain 50% of their additional export proceeds in FCAs.
- Exporters of 'services' are allowed to retain 35% proceeds for commission in FCAs.

3. Easy access to finance for exporters

- A comprehensive export finance scheme for the exporters to access finance in Pak-Rupees from scheduled banks with speedy refinance from SBP.
- Scheme for long-term financing of export-oriented projects (LTF-EOP).
- Scheme for locally manufactured machinery (LMM).
- Banks were allowed to extend loans to exporters and importers against their foreign currency deposits;
- Permission to exporters for short-term (180-day) borrowing abroad by bearing exchange risk.

Export Finance Scheme

- Objective: To promote exports;
- For short term working capital facility for 180 days.
- Consists of two parts: (i) Transactions based (ii) Performance Based
- In Transaction based, 100% coverage of the export order is given;
- In Performance based scheme the exporter is required to show performance by exporting at least twice of its borrowing;
- EFS borrowers enjoy certain exemption from the Prudential Regulations like per party limit and no linkage of borrowing with equity;
- Financing rate is determined on the basis of weighted average yield of T-bills and is subject to revision every month
- The current scheme is being revised to reduce the documentary requirements and to enhance the Coverage & Scope of the Scheme

Locally Manufactured Machinery (LMM) Scheme

- Objective: To purchase locally manufactured machinery for setting up of new units or BMR of existing units;
- Consists of two parts: (i) Local Sales; (ii) Export Sales
- Local Sales: to facilitate entrepreneurs to set up projects based on locally manufactured machinery.
 - Maximum period of financing is 7-1/2 years including a grace period of 1-1/2 year.
- Export Sales: Financing available both pre-shipment and post-shipment purposes.
- This facility was previously available to purchaser now the same is available for manufacturers.
- Preference will be given to SME borrowers
- Facility is not available for purchase of machinery for subsequent sale by the suppliers.

Long Term Financing - EOP

- Objectives: To help exporters, improve existing manufacturing facilities and to help SMEs to enhance their production potential for export.
- Scheme was introduced in May, 2004 to provide financing facilities to:
 - Exporters for import of machinery, plant, equipments, etc for setting up new units
 - Up-grade the existing units-BMR
 - Meet the needs of the borrowers from the SME Sector
 - Acquisition of International Brand Names/Franchise.
- Maximum period of financing is 7 & 1/2 years
- Borrower will repay the loan at a fixed rate for the whole period of loan, but Interest rate risk assumed by SBP, not by the borrower.
- 50% of the funds allocated to the Participating Financial Institutions are for the borrowers from the SME Sector

4. Continued reforms to liberalize foreign exchange regime

- Future reforms would focus on minimization of documentation requirements; permission requirements and simplification of procedures to facilitate trade and financial transactions;
- Capital account liberalization;

To achieve these ends:

- the SBP Foreign Exchange Manual is under constant revision and
- SBP actively solicits suggestions of stakeholders before finalizing new schemes or bringing exchange and payments reforms;
- SBP manages a friendly website to make its regulations transparent.
- SBP encourages exporters to highlight financial hurdles for timely action by SBP.