

**STATE BANK OF PAKISTAN
BANKING POLICY DEPARTMENT
KARACHI**

BPD Circular No. 02

17th January, 2003

All Banks,

Dear Sirs,

COLLATED INSTRUCTION ON MARGIN RESTRICTIONS

In exercise of the powers vested under the Banking Companies Ordinance, 1962, the State Bank of Pakistan has issued guidelines/ instructions on the Margin requirements. The updated instructions on the subject were last issued by SBP in 1987 vide its Circular No.5 of 5th July, 1987. Since then, SBP has modified the margin requirements a number of times in accordance with the economic and market conditions, through its circulars and Circular Letters or clarifications to individual banks. In order to enable the banks to have access to these instructions in an integrated manner, SBP has decided to consolidate its instructions on the subject into this one circular. These instructions are given as under: -

A. ADVANCES	Margin Requirement
I. ADVANCES TO MANUFACTURING AND PROCESSING UNITS.	
Against raw materials and agricultural produces.	
i. Raw materials to manufacturing/processing units of capital goods, engineering goods, consumer durable, medicines, cotton yarn, cotton fabrics, jute goods, woolen yarn, cigarettes, fertilizer, pesticides, vegetable ghee and edible oil.	No margin
ii. Raw cotton (both phutti and lint cotton) to ginners. <i>Banks are free to determine the basis of valuation of stocks of cotton offered to them as security for credit facilities. However, the stock of cotton may be valued by banks at cost or market value, whichever is lower for advances to cotton ginners.</i> <i>While banks are free to lay down their own lending policies, they are encouraged to also include in their lending policies, for financing against pledge of cotton, the aspect of contamination free cotton as also different grades of cotton and their different prices, for determining the credit limits of their borrowers.</i>	No margin
iii. Paddy and Rice to modern rice mills viz. those rice mills, which have fully automatic machinery and have a husking capacity of not less than five tons of paddy per hour.	No margin
iv. Raw materials to Iron and Steel Industry as well as Ship-Breaking Industry. Ship (unserviceable) for scrapping would constitute raw material for the ship-breaking industry. <i>SBP has no objection to banks accepting ships as collateral at their discretion.</i>	No margin
v. Viscose Fiber to manufacturing units	No margin
vi. (a) Raw materials to manufacturing/processing units of goods other than those mentioned above.	25%
(b) Wheat to flour mills <i>Banks can provide freely finance the procurement of wheat by flourmills from any source in Pakistan and without any time restriction on the basis of the annual manufacturing capacity of each flourmill. All finances provided for procurement of wheat shall be interalia, covered against the pledge/hypothecation of wheat stocks.</i>	10 %
vii. Red Chillies	Banned
Against finished goods.	25%

II. ADVANCES TO TRADERS

Against raw materials and agricultural produce

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|---|-----------|
| i. Rice and paddy to entities other than authorized dealers, wheat flour, edible oils (refined, un-refined and hydrogenated) and cotton seeds, | Banned |
| ii. Wheat to traders/growers | 15% |
| iii. Export of rice registered with Superior Rice Dealers Association, Punjab or Rice Millers and Traders Association Sindh against basmati rice. | No margin |
| iv. Cotton | 25% |
| v. Fertilizers and pesticides | No margin |
| vi. Rice, paddy and tobacco to authorized dealers. | 25% |

Advances to authorized dealers against rice and paddy shall be given only against such stocks of paddy/rice, which have been declared to the Food Department for which they hold receipt from that Department.

vii. Other raw materials and agricultural produce	50%
viii. Red Chillies	Banned
ix. Sugar	25%
?? Sugar mills however can be allowed advances against indigenous sugar and not imported sugar subject to credit control already in force. Advances against sugar may be valued by banks at cost or market value whichever is lower.	
x.	
a) Against finished goods.	75%
b) Finished goods manufactured in Pakistan to those traders who are registered with GST/Income Tax Department.	40%

III. OTHER ADVANCES

i. Shares of listed Companies /TFCs	As per Prudential Regulations-VI
ii. Bank deposits and deposit certificates.	25%
?? 25% margin is applicable to all forms of certificates including certificates issued under National Saving Scheme such as (a) Special Saving Certificate (b) Khas Deposits Certificates (c) Defense Saving Certificates (d) NDFC Bearer Certificates (e) Foreign Exchange Bearer Certificates (f) Any other Government backed securities.	
?? Value of such certificates, sum payable on date of presentation will be taken for making advances by the banks.	
?? Prize Bonds being issued by Government needs to be given same treatment as that of other securities issued by Government. As such banks can provide financing facilities against Prize Bonds at 25% margin or a margin of 1.5 times of accrued markup on annual basis which ever is higher. However, as the value remains stagnant (on account of lack of interest payments) financing provided against those Prize Bonds should be for one year.	
iii. For financing goods, including production machinery, commercial Vehicles and consumer durables on hire purchase or installments plan.	No margin
iv. Against banned imports.	Banned
v. Real Estates	No margin
vi. Ships	No margin
State Bank has no objection to banks accepting ships as collateral at their discretion.	

IV. CLEAN ADVANCES AND ADVANCES SECURED BY GUARANTEES

(There are no margin restrictions applicable in the case of bank guarantees; however, banks may exercise their own discretion in the matter if necessary.)

?? **Clean advances** or advances secured by guarantee: - As per Prudential Regulation-III

- Agricultural loan against guarantee/securities** under the scheme for Agricultural Loan by Commercial Banks circulated vide ACD Circular No.5/72 dated 27-11-1972 and Circular Letter No.ACD./1035-1039/PD(P)-08/2001 dated 25-04-2001as amended from time to time, can be granted to maximum amount of Rs.100, 000/= and that total guarantee of one guarantor/person should not in any case exceed Rs.500, 000/- excepting a processing unit.
- c) **Rupee finance** to Pakistani firms and companies functioning in Pakistan against guarantee received from banks functioning abroad are exempted to the extent of limit of Rs.100, 000/- .

V. ADVANCES FOR EXPORTS

The restrictions relating to grant of clean advances or minimum margin requirements shall not apply to: -

- Advances granted to finance export under irrevocable letters of credit or firm orders upto the amount for which credit is opened or firm order made.
- Packing credit for export; and

Pre-shipment credit granted for financing export of goods covered by firm contract made, or irrevocable letters of credit opened by foreign importers in favor of exporters in Pakistan, provided that the advances do not exceed the amount specified in the contract or the credit, as the case may be.

B. IMPORT LETTERS OF CREDIT

For opening of import letter of credit for the following items **no margin** is required: -

- Industrial machinery, agricultural machinery, components and spares of such machinery.
For the purpose of letter of credit margin the terms "Industrial Machinery" may be interpreted in a broad sense to include all capital goods, as distinct from consumers durable.
- All raw materials imported by manufacturers of electrical equipment's, capital goods and engineering goods (including cycles and agricultural implements).
- Trucks, Bus chassis and Jeeps in CKD condition.
- Construction and engineering/equipment.
- Medicines, drugs and medical and surgical equipment and appliances.

- vi. Pharmaceutical raw materials, medicinal herbs and crude drugs.
- vii. X-ray films.
- viii. Artificial limbs and hearing aids and parts thereof.
- ix. Raw materials by manufacturers of fertilizers and pesticides.
- x. Fertilizer and pesticides.
- xi. Raw materials by vegetable ghee and edible oil industry.
- xii. Crude oil Petroleum products.
- xiii. Newsprints.
- xiv. Vegetable seeds
- xv. Tea
- xvi. Books, magazines, Journals and periodicals.
- xvii. Second hand clothing.
- xviii. Raw Jute.
- xix. Jute Bags.
- xx. Cements.
- xxi. Imports by TCP
Imports by TCP have been exempted from compulsory letter of credit margin requirement, However, domestic letters of credit opened in favor of TCP in relation to import of any commodities through them will be subject to the same minimum margin requirements (based on the C&F value of the consignment and not the landed cost) as are prescribed for imports letter s of credit for the same commodities under general instructions issued from time to time except in the following cases: -
 - ?? Domestic letter of credit in favor of TCP for purchase of bleaching powders
 - ?? In case of RMR license holders of domestic letters of credit in favor of TCP (License to be endorsed to the effect that "imports are being made through TCP". Not available for opening of import letter of credit at nil margin)

No margin to the extent of value of RMR license.
- xxii. Items under the Tide List.
- xxiii. Import under the barter.
- xxiv. Raw materials against import license issued under Export Performance (RMR) Scheme.
- xxv. Pulses
- xxvi. Raw materials imported by the iron and steel industry as well as ship-Breaking Industry, Ship (unserviceable) for scrapping would constitute raw material for the ship-breading industry.
 - ?? SBP has no objection to banks accepting ships as collateral at their discretion.
- xxvii. Motor Cycle/Motor Scooter/Auto-rickshaw, three wheelers in CKD conditions, by those firms only who have been given sanction by the Ministry of Commerce for progressive manufacture under deletion program.
- xxviii. Industrial raw materials including Soybean Meal (irrespective of whether importers are industrial consumers or commercial concern and whether the license have been marked "industrial" or "Commercial". Letter of credit to be opened only if the item is importable under the import policy and the importer produces an import license.
- xxix. Onion.
- xxx. Potatoes.
- xxxi. All live animal except swine.
- xxxii. Cars for disable persons authorized by the CCI and E under the procedure laid down by the Government of Pakistan.
- xxxiii. Sugar.
- xxxiv. For import of computer/ computer software/hardware.
Banks are free to determine the margin requirements against letter of credit established by them for import of computer/microcomputer and their component.
- xxxv. Butter 25%
- xxxvi. Milk and Cream, including baby food. 35%
- xxxvii. Items other than those listed above 35%
- xxxviii. Caustic Soda (PCT heading 2815:1200) 100% cash margin

The above supercedes BCD circular No.5 dated 05-07-1987 and all subsequent instructions issued in continuation of said circular.

Please acknowledge receipt.

Yours faithfully,

(Muhammad Kamran Shehzad)
Director

