

1<sup>st</sup> July, 2006

### **SBP GOVERNOR MEETS APTMA**

The Governor, State Bank of Pakistan, Dr. Shamshad Akhtar met the representatives of All Pakistan Textile Mills Association and other Associations of Textile Sector to exchange views on problems facing the Textile Industry at SBP, Karachi today. The textile exporters requested for subsidization and flexibility in the two key schemes being offered by SBP i.e. i) Export Finance Scheme ii) Long-Term Financing Scheme for Export Oriented Projects (LTF-EOP).

Representatives of the textile sector apprised the Governor, SBP of their current financial problems, particularly due to high interest rates and utility prices etc, and said that their products have become uncompetitive in the world market. They have requested the Governor for financial relief by reducing the refinance rate under SBP's Export Finance Scheme and Swap of their existing loans which were obtained from commercial banks on KIBOR based lending rates through financing under SBP's LTF-EOP Scheme. Additionally they also demanded allocation of sufficient limits to the banks for meeting the growing demand of the export oriented projects under LTF-EOP Scheme.

Sympathizing with the textile exporters, Governor SBP underscored the need for textile industry to position themselves more effectively to deal with the growing and aggressive regional and global competition. Rather than rely on temporary financial support which is fiscally not sustainable on a long term basis and carries the risk of monetary complications, Pakistan's textile industry should upfront assess their project viability based on alternate scenario's. She elaborated that subsidization of either interest rate and expansion of refinancing not only creates distortions and complications for monetary expansion, but based on past experience are prone to misuse and exploitation. While the SBP tight monetary policy has helped eased somewhat inflationary pressures, any further pressures on budget and on reserve money via an expansion of refinancing scheme will generate additional inflationary pressures which can then only be controlled by raising further interest rates.

While assuring the industry that the SBP is sympathetic to current problems of industry, she concluded that more consultation is required with the Government to ultimately decide on export refinance scheme and more analysis is needed to assess the financial implications of the swap scheme being requested. In any case, she indicated that textile community should understand that any subsidies associated will be limited and time bound given the fiscal constraints. In response to a question, she strongly rejected any demand for easing of prudential regulations in case of defaults. She indicated that both borrowers and financial institutions have to remain within the defined prudential parameters defined by SBP.

The meeting was attended among others by the Deputy Governor, State Bank of Pakistan, Mr. Mansur-ur-Rehman Khan, senior Executive and officials of the Bank and 11 representative bodies of textile sector, besides APTMA.

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