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Dr Akhtar urges textile industry to seek mergers & acquisitions

Dr Shamshad Akhtar, Governor, State Bank of Pakistan has urged upon the textile industry to seek consolidation of the sector through mergers & acquisitions in order to effectively face tough international trading environment.

Addressing the members of All Pakistan Textile Mills Association (APTMA) in Karachi today, she said that the industry should gear itself to deal with increasingly tough competition in the international market.

“I request you people to seriously look into the consolidation of the sector as international and regional competitive pressures are going to further build up and it will be large corporates that are more likely to survive,” Dr Akhtar said and added that the textile sector should endeavour to achieve economies of scale. “With size comes everything,” she said and added small-sized enterprises could also benefit by contributing to large-scale export units.

The Governor also briefed the APTMA members about the rationale behind the recent increase in the key policy rate. It may be mentioned here that the State Bank released its Monetary Policy Statement on January 31, 2008 in which the SBP raised its discount rate by 50 basis points to 10.5%.

Dr Akhtar reiterated that recent monetary tightening by the State Bank was carried out to contain macro-economic imbalances which are creating inflationary pressures in the economy.

“Strengthening macroeconomic imbalances is critical for the economy,” she said and added that the rising fiscal and current account deficits along with excessive Government borrowing from the State Bank prompted the central bank to raise its key policy rate.

Government’s reliance on State Bank for budgetary support is also fueling inflation and the Government has borrowed Rs 334 billion from the central bank up to 7th February in FY08. Governor said hopefully with the issuance of Global Depository Receipts and financing through other external resources, the Government will be able to retire central bank borrowings.

SBP Governor said the tight monetary policy has helped to bring down inflation. She said headline inflation measured by Consumer Price Index (CPI) declined from 11.1% in April 2005 to 7.4% by May 2007 (even though inflation rate of 7.8% for FY07 was higher than original target of 6.5%). She said that monetary policy has more distinct impact on reducing core inflation defined to include non-food and non-energy items that have 51% weightage in the CPI. It is notable that Pakistan was able to bring down the core inflation to 5.7% by May 2007 from local peak of 8.3% in October 2005. “So, monetary policy is as relevant in Pakistan as it is in the U.S. or any other developed or developing economy,” Dr Akhtar emphasized. Inflationary pressures, that have built-up recently are mostly due to demand side that required an upward adjustment in SBP policy rate.

She said that the State Bank recognizes the problems being faced by the domestic industry and added that the central bank is taking a number of measures for the benefit of the industry, including the introduction of new Long Term Financing Scheme.

Regarding availability of working capital loans to exporters under EFS, the participants were apprised that the export refinance facilities are being extended by commercial banks to the exporters at 7.5%. The Governor SBP encouraged industrialists to use this facility as funds under it would be available on competitive rates.

APTMA members were also apprised that an amount of around Rs 475 million has been paid as subsidy by the State Bank to the spinning sector under the interest rate subsidy scheme announced in October 2007. Besides refinance of over Rs 3 billion under the defunct LTF-EOP scheme has also been provided to the banks in respect of Letter of Credits (LCs) pertaining to the transitory cases i.e. cases whose LCs were opened before 30th June 2007 but refinance could not be availed by 30th June 2007.

Some of the participants suggested extending the scope of the subsidy scheme for the spinning sector which was not agreed to. Some of the APTMA members from Lahore also suggested allowing the cross currency swaps to mills having zero exports. The Governor said that members of the APTMA, who are exporters, may like to avail the benefit of the foreign currency borrowings provided they have healthy balance sheets and that their borrowing cost is within the range specified by the State Bank.

Some of the members raised the issue of across the board relief in repayment of principal to banks because industry has been suffering from power failures etc. The Governor while agreeing to industry's problem on account of energy shortages stated that this is an issue which needs to be discussed further with the banks first to ascertain the actual gravity of the matter.

Earlier, Iqbal Ebrahim, Chairman APTMA, explained industry's viewpoint on the general economic conditions and highlighted their problems. The meeting was attended by businessmen, industrialists besides senior officials of the State Bank.
