

*June 21, 2008*

## Dr Akhtar announces waiver of 35% cash margin on essential imports

Dr Shamshad Akhtar, Governor, State Bank of Pakistan said Saturday that the central bank has waived requirement of 35% cash margin on a number of essential import items with a view to facilitate the trade and industry. She made this announcement at the third meeting of the Private Sector Credit Advisory Council (PSCAC) held at the State Bank of Pakistan, Karachi.

“With the issuance of this additional list, most of the industrial raw materials and inputs have now been exempted from the cash margin requirement,” she said and added that instructions have been issued to all the banks in this regard. She said that this decision has been taken in order to enable members of FPCCI, APTMA and other trade bodies to meet their input manufacturing requirements and timely delivery of export orders. She, however, underscored the need for cooperation from the industry and urged them not to go for excessive forward import bookings. In addition, she asked the exporters to bring back their exports proceeds well before the scheduled time.

Dr Akhtar also assured the representatives of the industry that the central bank will not discontinue export refinance scheme and that the concessional loan facility for export-oriented industries will continue.

SBP Governor informed the meeting that the private sector credit disbursement during the current fiscal year (upto May 31, 2008) has remained ‘strong’ despite a ‘challenging economic year’ because of several internal and external shocks that the economy had faced.

Dr Akhtar informed the participants that overall private sector credit recorded a higher growth of around 16% in FY08 with Rs 384 billion compared with Rs 287 billion in FY07. On annualized basis, growth in private sector credit is 19% in FY08, which is higher than 17% last year, she added. “Distribution of credit has been broad-based as almost all the sectors of the economy have availed the credit,” she said and added that major chunk of the credit i.e. 59% was availed by the manufacturing sector including the textile sector.

She said there has been a massive increase in working capital loans that have risen to Rs 311 billion in the period from July 2007 to April 2008 in FY08, compared with Rs 152 billion in the same period of FY07. “Inflationary pressure and higher cost of inputs are the main reasons for higher credit flow for working capital needs in the current fiscal year,” she added.

SBP Governor pointed out that private domestic banks are playing ‘a key role’ in meeting private sector credit demand as these banks have improved their share in overall

credit disbursement to 84% from 72%. While public sector and foreign banks have lost their shares, coming down to 14% and 1%, respectively from 22% and 5% last year.

Dr Akhtar pointed out that credit disbursement to the agriculture sector in the first 11 months of the fiscal year has showed a growth of 30% year-on-year. Banks have disbursed a combined total of Rs 185 billion to the agriculture sector as compared to Rs 142 billion in the same period last year, showing an absolute increase of Rs 43 billion. “Judging by the current trend, agricultural credit is likely to meet the current year’s indicative target of Rs 200 billion,” she commented.

SBP Governor briefed the participants that in addition to PSCAC, focused working groups and task forces have also been formulated including Agricultural Credit Advisory Committee, SME Credit Advisory Committee, Task Force on infrastructure & housing, etc. with specific focus on improving access to development finance.

After opening remarks of SBP Governor, a detailed discussion took place on ways and means to enhance flow of credit to various sectors of the economy including corporate, agriculture, small and medium enterprises (SMEs), microfinance, housing sector, etc.

A detailed presentation was also made by the representatives of FPCCI highlighting growth of various sub-sectors of the industry, issues that are impeding further growth and their remedial measures. FPCCI appreciated the initiatives of State Bank and banks in facilitating the flow of credit to all sectors of the economy. SBP Governor stressed upon FPCCI to formulate a code of corporate governance for its members to further improve the governance structure and transparency.

Commenting on FPCCI’s assertion on interest rate disadvantage as compared to its regional competitors, Dr Akhtar commented with empirical evidence that the country has the lowest real-interest rate in the region. Therefore, the industry should evaluate its business propositions keeping in view the real interest rate for sustainable growth and to ensure competitiveness. She stressed upon banks that while making project appraisals the banks should have ‘sensitive analysis’ that whether the project can sustain in case of change in real interest rate.

The representatives of farming community and federal & provincial agriculture secretaries appreciated the increase in flow of credit to agriculture. However, they emphasized on banks to develop more innovative products to meet growing credit requirement of small farmers. SBP Governor emphasized on integrated efforts between federal and provincial agricultural ministries, planning departments, farming communities, banks and SBP to introduce specific projects like corporate farming or other mechanics of bulk lending by banks for onward lending to small farmers and also monitor the impact of increased credit flow vis-à-vis productivity.

While discussing financing to the SMEs, Dr Akhtar emphasized on banks that the role of SMEs is vital for employment generation in the private sector and as such banks

should focus increasing credit flow to SMEs. Representatives of banks explained that as far as medium enterprises are concerned, the credit flow has increased significantly, however, due to non-disclosure and lack of information on cash flows, financing to small enterprises is the biggest challenge. The setting up of SME Credit Guarantee Scheme is expected to resolve this issue to a great extent.

The meeting was attended, among others, by heads of commercial banks, federal and provincial secretaries, representatives of trade chambers/associations and senior officials of the State Bank.

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