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Salim Raza hopes country's exports will improve in near future

Syed Salim Raza, Governor State Bank of Pakistan today said that the country's exports are likely to improve in the near future in view of improved global economic situation next year coupled with measures taken by the Federal Government and the central bank for the promotion of exports.

Speaking at an International Conference on 'Financial Meltdown – Crisis of Governance' organized by the Institute of Chartered Accountants of Pakistan (ICAP) in Karachi, Mr. Raza highlighted the steps taken by the Government and the State Bank for the promotion of exports. He said that SBP has taken a number of measures to support country's exports which include one year extension in mark-up subsidy for spinning sector, provision of 100 percent financing to banks against export finance provided to exporters, provision of one year moratorium on loans availed under the Long Term Financing Facility, extension in the period of refinancing under Export Finance Scheme (EFS) and provision of EFS to some categories of cotton fabrics and provision of LTFF to various spinning sectors and removal of margin requirement on imports.

SBP Governor said that as Pakistan is currently under an IMF program, the Government has limited scope to provide relief to the exporters. Nevertheless, he added, the Government has announced a number of measures in the Federal Budget and the recently announced Trade and Textile policy to support exporters. These measures include proposal for an establishment of a Rs 40 billion Export Development Fund, proposal for establishment of a Reinsurance or Credit Guarantees Fund of Rs. 10 billion, proposal for the establishment of Capital Fund of Rs 10 billion, compensating exporters of cement, light engineering, leather garments and furniture for the additional inland freight cost, establishing a technology, skills and management and up gradation fund of Rs 3.0 billion and creation of a Rs 2.5 billion fund for the up gradation of light engineering export production facilities.

Mr. Raza said that the Federal Government has also announced a separate set of incentives for the textiles sector, which include creation of a Technology Up gradation Fund (TUF) and Rs1.6 billion have been allocated in FY10, which will be used to finance 50% of the markup cost for capital intensive projects whereas 20% of the capital cost will be paid as a grant for smaller setups.

He said to address the infrastructural issues; the Government has announced the development of clusters where R&D facilities will be provided. Also, availability of industrial

facilities at affordable prices has been announced along with exemption from load-shedding of power and priority of gas allocation on an urgent basis, Mr Raza added.

SBP Governor said in order to induce investment, tax-free import of machinery along with zero rating on exports has also been announced. Similarly, the Government has proposed export refinance at 5% for which Rs2.5bn has been allocated. "To mitigate the rising cost, the Government has announced the conversion of long term loans to LTFF pricing along with a one year grace period," he added.

He said that the Government has also introduced performance based support where textile exporters for a period of 2 years will be given the provision of drawback of local taxes depending upon the level of value addition of their products. Further, an additional 1% drawback will be awarded to exporters achieving 15% export growth.

Mr. Raza has, however, emphasized that subsidies are undesirable in any case as these are provided to one sector at the cost of some other sector and breed inefficiencies. Therefore, these should only be given in the short-run, he said. "A more effective way of enhancing exports in the long-run would be to allocate resources for the improvement in the physical infrastructure and human capital," he added.

He said that the Global economic situation is likely to improve in 2010. "This improvement coupled with the steps taken by the Government and the State Bank should result in improvement in exports going forward," the SBP Governor added.

Referring to agri. financing, Mr. Raza said SBP is working on development of National Crop Insurance Scheme, launching of pilot project for deepening of agri. loans, credit guarantee scheme for small farmers, capacity building of banks, awareness of farming community and simplification of agri. lending procedures, group based lending for small farmers.

He stressed the need for the growth of agriculture in the country so that we should have sufficient surplus commodities available for exports.
