

November 18, 2009

SBP will continue to ensure ample liquidity for export-oriented sector: Salim Raza

Syed Salim Raza, Governor State Bank of Pakistan has said the central bank would ensure that ample liquidity is available in the market for financing export-oriented sector.

Speaking at a luncheon meeting of Karachi Chamber of Commerce and Industry (KCCI) this afternoon, Mr. Raza said that SBP has taken a number of measures to provide liquidity to corporate entities at low interest rates.

Talking about specific incentives for the export-oriented sector, SBP Governor said that since January this year the central bank has given additional concessions under its Refinance Schemes. He pointed out that some of the significant incentives include one-year grace period on principal repayments, debt-swap for the non-textile sector, refinance for second-hand plants & machinery as well as for generators & captive power plants under Long Term Financing Facility (LTFF). Similarly, under Export Finance Scheme (EFS) incentives and relaxations pertaining to performance-based mark-up rates, extension in repayment period under Part-I of EFS and relaxation for export over-dues were introduced.

Mr. Raza said that the refinance limits at Rs 221 billion assigned to the various banks for current 2009-10 fiscal year (FY10) are 58% higher than limits on June 30, 2008. "We are continuously monitoring the availability of credit under this key source of financing to the export sector to ensure that exporters do not suffer on account of lack of funds," he added.

Referring to a point raised by KCCI president regarding remedial measures to reduce adverse impact of economic slowdown on financial sector, Mr. Raza said the State Bank has taken various measures to effectively handle the impact of economic slowdown on financial sector such as minimum capital requirements for banks/DFIs have been lowered, provisioning requirements have been rationalized to withstand the impact of economic recession and facilitating bank lending to businesses, introduced interim guidelines for encouraging the banks to reschedule/restructure the facilities of promising borrowers, reduction in Cash Reserve Ratio, liquidity support, incentive for mobilization of long term funds, and effective communication policy that was well amplified by SBP's strong track record of ensuring a sound and stable banking system.

In response to another point raised by KCCI, SBP Governor said that as per existing regulations a general permission has been given to authorized dealers to determine their own rates of exchange, both for ready and forward transactions for the public, subject to the condition that the margin between the buying and selling rates should not exceed twenty paisa per US dollar or its equivalent in other currencies. However, the Authorized Dealers may deal at

premium/competitive rates keeping in view the banker-customer relation. Further, it is permissible for exporters/ importers to shop around for better rates, from the Authorized Dealers. In this regard, exporters have been given three working days to retain export proceeds to shop around for better rates, he added.

Mr. Raza pointed out that the roots of problems of industry are not just result of power failure or international recession; it has its linkage with borrowing behavior of industry during the first half of 2000s. He said that with low interest rates and excess liquidity in the banking system, the private sector under took borrowing from the banks at floating rates. Banks lent freely for fixed investments, consumer financing, and SMEs. SBP Governor said as interest rates steadily started rising, the private sector felt the pinch and started demanding concessions but the fact of the matter is that borrowers did not hedge their Interest Rate Risks. "Even banks did not foresee how their customers would be able to service their loans extended liberally in low interest rate environment," he asserted.

SBP Governor said that SMEs form an important link in the value added sectors and urged upon associations representing interests of large businesses to play their role in facilitating and guiding SMEs so that they could effectively contribute in desired growth of the economy. He said that recognizing the vital role of SMEs, SBP has recently introduced a Scheme for Modernization of Ginning Sector which will improve the quality of lint cotton, leading to better quality yarn, which will result in better cloth and so improve the whole product chain. Similarly, the central bank has introduced a Refinance Scheme for Rice Husking Mills which will help in producing quality rice both for domestic consumption and exports. "That is the philosophy which must be followed to achieve the overall objective of growth," he added.

Mr. Raza said that the State Bank has also geared up its efforts towards facilitating stakeholders in the SME sector especially the banks/DFIs. He said that SBP, under its Financial Inclusion Program with the UK Department for International Development (DFID), initiated a project for launching Credit Guarantee Scheme in Pakistan to share risks with the lending institutions and meet funding needs of Small & Rural Enterprises. The proposed structure of the Facility for Small & Rural Borrowers is being finalized and will be launched soon, he said and added that separate Prudential Regulations for Small and Medium Enterprises were introduced to promote and develop small enterprises.

SBP Governor said that the State Bank and the business community are working towards a common goal i.e. economic growth of the country. "This ultimate goal can be better achieved when there is co-operation amongst the players and when each is fulfilling their responsibility to the best," he concluded.
