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Refinancing rate raised, enters double figures

By our correspondent

KARACHI: The State Bank of Pakistan (SBP) has increased the rate of refinance by 100 basis points under the Export Finance Scheme (ESF), a central bank statement said on Friday.

The SBP issued a circular, saying that the rate of refinance under the EFS applicable from January 1, 2011 and onwards till further instructions would be 10 percent per annum.

Earlier, the SBP enhanced the rate by 50 basis points from 8.5 percent to nine percent applicable from October 1, 2010.

The circular advised the commercial banks to ensure where financing facilities are extended by them to the exporters for availing refinance facilities under the EFS, their maximum margin/spread does not exceed one percent per annum.

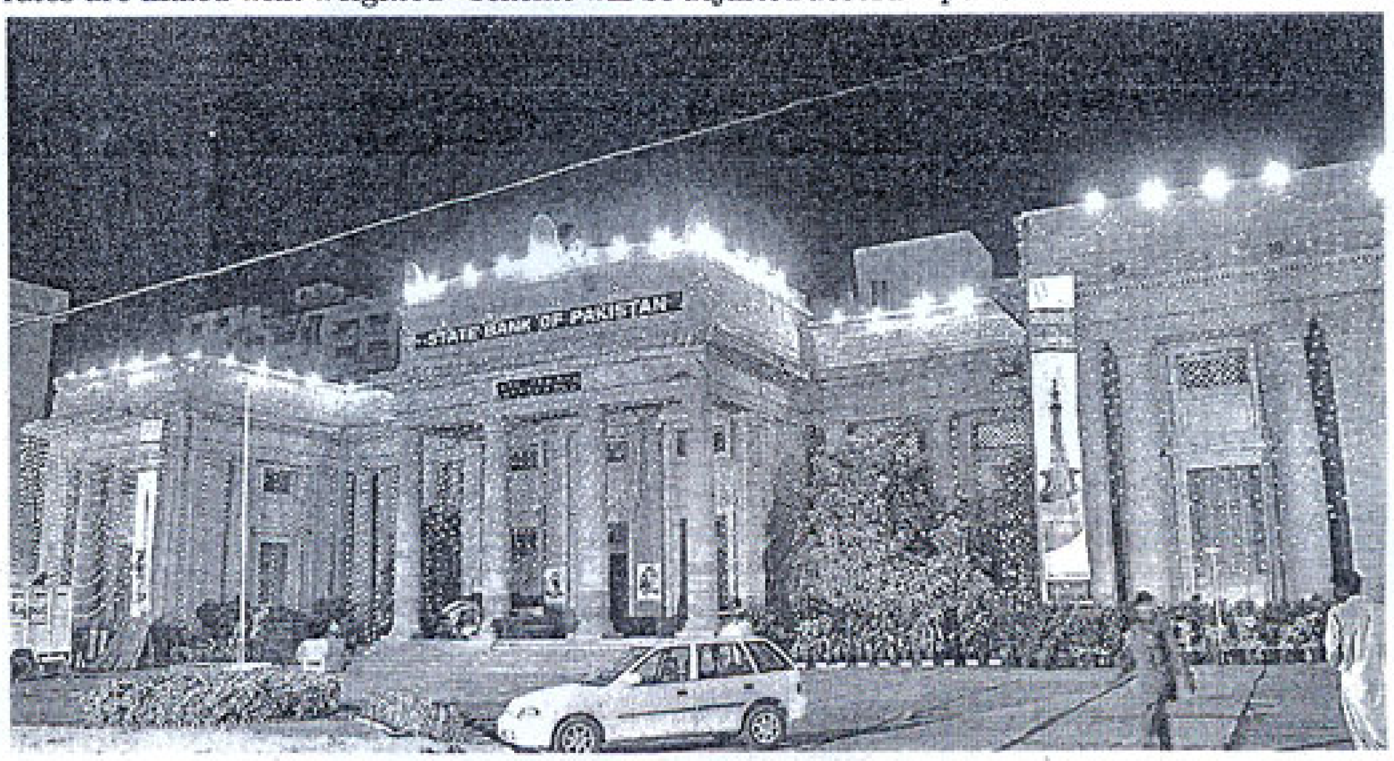
The financing facilities under the export sales of the scheme for financing locally-manufactured machinery would also attract similar mark-up rate structure, it said.

The SBP said that the EFS rates are linked with weighted average yields of the last three auctions of six months treasury bills.

"The EFS rate is worked out at the end of every month, as per the laid criteria," the SBP said.

The reimbursement of mark-up rate benefit to exporters, on excess performance under the scheme will be adjusted accordingly, keeping in view the revised mark-up rates, the circular said.

In March 2009, the central bank had announced benefit for exporters by way of lowering mark-up rates for higher performers. Under the criteria, the SBP allowed up to 1.5 percent mark-up benefit to the higher performer.



"The exporters who have achieved excess performance Ö will claim benefit of mark-up rate differential from the SBP through their bank provided they have no export proceeds overdue bills," the SBP said in a circular issued in March 2009.

DAWN
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Export refinance rate raised to 10 per cent

By Shahid Iqbal

KARACHI, Dec 31: The State Bank once again increased the rate of export financing from nine per cent to 10 per cent and asked the banks not to charge more than 1 per cent as margin.

Exporters, who enjoyed the cheaper money, expressed serious concern over further hike in the rate but those who are not eligible to avail the facility said the further increase in the rate would minimise the misuse of funds under the Export Refinance Scheme (EFS).

"It has been decided that rate of refinance under the FFS applicable from Jan 1, 2011 and onward till further instructions will be 10 per cent. The commercial banks will ensure that where financing facilities are extended by them to the exporters under the EFS their maximum spread does not exceed one per cent," said a SBP circular issued on Friday.

The financing facilities under Part-B (Export Sales) of the scheme for financing Locally Manufactured Machinery will also attract similar mark up rate structure, said the SBP.

Exporters said they were already facing serious problem of higher cost of production due to inflation and higher cost of electricity and petroleum products.

They said the exporters will have to borrow money at 11 per cent which is much higher in the given circumstances.

"Every effort is being made to make it difficult for us to survive in the cut-throat export market where China and India offer same products with cheapest rate," said Aamir Aziz, a manufacturer and exporter of readymade textile products.

The manufacturers and exporters have been demanding help from the government to cut the cost of production by lowering electricity and petroleum prices. However, the inflation at higher than 13 per cent and the expected CPI at 16 per cent by the end of the current fiscal, would further deteriorate the situation.

The export financing rate was increased after the State Bank enhanced the discount rate (policy interest rate) to 14 per cent last month.

Some exporters found the latest increase in the export finance rate 'a must' as they said the gap between discount rate and export finance rate attracts corruption.

They said billions of rupees availed under the scheme are kept in banks' deposits since banks offer 14 to 16 per cent profits depending on their financial position. Small and medium sized banks are facing acute shortage of funds, so they offer much higher return compared to an established bank.

The cheaper money is given to exporters to use it for increasing exports but some (estimated 20 per cent) keep them in banks. Last year, Rs42 billion was available under the scheme.

"There is a need to strictly monitor the use of cheap fund," said former vice-chairman of All Pakistan Textile Mills Association (Aptma) Mushtaq Vohra.

He said it was not difficult to identify the misuse of cheap funds given under the export financing as banks cut withholding tax on deposits and the details about the tax cut are not available.