

**Withdrawal of zero-rated facility: textile sector's cost of production rises by 40pc: PWMA**

The cost of production of the textile sector rose sharply some 40 percent due to budgetary measures as zero-rated facility has been withdrawn, wef, July 1, 2019. The federal government has withdrawn SRO-1125 in the federal budget 2019-20 resulting in the removal of sales tax exemption under the zero-rated regime for five export-oriented sectors, including textile and now the textile sector is required to pay 17-20 percent sales tax.

Pakistan Weaving Mills Association (PWMA) Chairman Yousuf Yaqoob has said that the government decision will not only hurt the textile sector chain but also the government itself may face multiple challenges. "The abolition of zero-rated status and imposition of 17 percent sales tax on the export-oriented sectors will lead to liquidity crunch for the domestic industry," he added.

It seems that the federal government is trying to keep its liquidity position in the comfort zone at the cost of exports, he said and added that "there are many other options for the government to improve the liquidity position, but at the cost of exports it will lead to unrecoverable and profound losses to economy."

Yousuf said that with effect from July 1, 2019, gas and power tariffs have also been increased, besides some 17 percent sales tax on the textile sector. "As per initial estimates, the measures taken in the budget will lead to increase in the cost of textile sector by 40 percent and Pakistani exporters will be rendered uncompetitive in the world market as foreign buyers are already asking for reduction in the prices following the appreciation of the dollar against the PKR," he added.

He said although the government has announced refund of the sales tax but the modalities are still awaited and needed a clear policy statement from the government side. "The textile exporters cannot afford to get their cash stuck in refunds with the government and this would result in export losses in this fiscal year," he warned.

He said the textile processing mills have already suspended the operation for the last three days due to unclear policy and this will disturb the entire chain of textile sector. Unfortunately, the government is not taking notice of this closure, he added.

Presently, there is panic in the industry and lack of confidence on the government. Textile sector want negotiations with the government and Federal Board of Revenue (FBR) for a proper mechanism for collection and refund of sales tax, he said.

Chairman PWMA said that by abolishing the zero-rated facility for the export-oriented sectors, the government has once again pushed the exports in a limbo because huge amount of around Rs 300-400 billion to exporters is already pending.

The ongoing uncertain economic environment has slowed down the industrial activity as well as investment as they need more clarity on the budget measures, Yousuf said and added that despite some negative budgetary measures, textile industry is trying to complete their export orders to maintain their international profile positive.

He said textile industry is fully supporting government and want to pay tax, but the federal government, with consultation of textile industry, should devise a proper mechanism of the refund to restore the confidence of the industry.

Chairman PWMA said that foreign buyers are also aware of the rupee devaluation by some 30 percent and they are asking for discount in already placed orders.

RIZWAN BHATTI