BUSINESS RECORDER
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Time is of the essence

With a rising cost of production, textile firms have been facing a liquidity crunch which has mostly been compounded by a delay in processing of their pending tax refunds. The amount now over Rs100 billion by conservative government quoted figures has been delayed by over a year.

The incumbent government has come forward with a solution by deciding to issue promissory notes with a maturity of 3 years. However, the opinion of textile tycoons is divided on the effectiveness and structure of the measure.

Shahzad Saleem, Chairman of the Nishat Chunian Group argues that instead of issuing promissory notes a better approach would have been to issue Pakistan Investment Bonds (PIBs) with a 3 year maturity as liquidity of the instruments would be assured in this case. It remains to be seen what kind of a response these promissory notes would get from the market.

The other point is the interest rate on these promissory notes which is 10 percent simple per annum. However, the yield to maturity for a 3 year bond is 12 percent according to the last SBP auction. Some industry stakeholders opine that even if promissory notes are issued the interest should at least be equivalent to the YTM on a 3 year PIB.

But there are divergent views from other prominent tycoons. Some hold the view that promissory notes are fine and the 10 percent rate is acceptable as well as long the pending refunds are cleared in a timely manner. The big picture is what should matter as one textile czar put it.

A few days back, the former Finance Secretary Dr. Waqar Masood also added his two cents to the matter. According to him, the government should form a special purpose vehicle (SPV) instead of issuing promissory notes like it did in the case of power sector liabilities by incorporating the Power Holding Company Limited (PHPL) where a big chunk of circular debt is parked.

The way it would work is by providing a sovereign guarantee to the SPV which borrows from banks by issuing zero coupon bonds and utilizing the proceeds to settle the pending refunds. He argues that this would enable settlement of refunds with no impact on the budget as containing the fiscal deficit is a primary objective for the government.

Ultimately, whatever structure is adopted the big picture is settlement of the refunds which have posed significant problems for the textile industry. If the government is satisfied that issuance of promissory notes meet all necessary legal and regulatory requirements and would not prove controversial in the future, it is a good move. But stakeholder consultation would be wise before a final plan is implemented and time is of the essence.

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