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Our Correspondent

SBP reduces mark-up on two schemes

The State Bank of Pakistan (SBP) has curtailed the end-user mark-up rate on the Temporary Economic Refinance Facility (TERF) to 5% from the existing 7% and on the Long Term Financing Facility (LTFF) for the non-textile sector to 5% from 6%.

In a statement on Wednesday, the central bank said the decision was aimed at extending benefits of the reduction in policy rate to the users of refinance schemes and to promote investment in the country.

“Taking cognisance of the negative fallout from the Covid-19 pandemic for the economy, the SBP has been taking steps to safeguard businesses and households and a reduction in the policy rate has been a key step since March 2020,” it pointed out. “The SBP has reduced the policy rate by 625 basis points since March 17, 2020 to 7%.”

Detailing about TERF, the central bank said the scheme was introduced to provide stimulus to the economy by supporting new investment and balancing, modernisation and replacement (BMR) of the existing projects.

To further improve incentives under the scheme, the SBP lowered the end-user mark-up rate from the existing 7% to 5%. It would now provide refinance to banks at 1% with maximum bank margin of 4%, it said.

Furthermore, the SBP has allowed the temporary refinance facility in cases where letters of credit (LCs)/ inland LCs had been opened earlier but they would be retiring after the introduction of the scheme on March 17, 2020.

“These measures, in the backdrop of earlier policy action of allowing BMR under TERF, are expected to further support economic activity, new long-term investment and employment generation,” he said.

“Under this scheme, Rs10.5 billion had been approved by banks for 21 projects till July 2, 2020.”

On the other hand, it said, the LTFF was one of the oldest refinance schemes of the SBP, under which financing was available to export-oriented projects for the purchase of imported and locally manufactured new plant and machinery.

In March 2020, the SBP opened the LTFF for all sectors. Earlier, the end-user mark-up rate under the scheme was 5% for the textile sector and 6% for the non-textile sector.

“The State Bank has now reduced its refinance rate for the non-textile sector by 1% and, therefore, the end-user rate for all sectors across the board will be 5%,” it said.

The central bank emphasised that both measures would help facilitate long-term investment in domestic and export markets.