

SBP reduces markup rate to 5pc for refinance schemes

KARACHI: The State Bank of Pakistan (SBP) reduces markup rate to 5 percent on refinance schemes for investment and introduces other enhancements aimed to facilitate the business in Covid-19 pandemic.

Taking cognizance of the negative fallout of Covid-19 pandemic for the economy, State Bank of Pakistan (SBP) has been constantly taking steps to safeguard the businesses and households and a reduction in the policy rate has been a key step since March 2020.

With improved inflation outlook and aimed to support the private sector, since 17th March, 2020 SBP has reduced the key policy rate by 625 basis points to 7 percent.

To extend the benefits of this reduction in the policy rate to the users of its refinance schemes, SBP has now decided to align the end user markup rates on two of its refinance schemes for promoting investment in the country.

Specifically, SBP has curtailed the end user markup rates on Temporary Economic Refinance Facility (TERF) by 2 percent and Long Term Financing Facility (LTFF) markup rate for non-textile sector by 1 percent with immediate effect.

TERF SBP introduced this facility to provide stimulus to the economy by supporting new investment and balancing, modernization and restructuring (BMR) of the existing projects.

To further improve the incentive under the TERF, SBP has lowered the end user mark-up rates from existing 7 percent to 5 percent.

According to SBP announcement, under the TERF scheme SBP will now be providing refinance to banks at 1 percent with banks' maximum margin of 4 percent and end user markup rate will be 5 percent.

Further, SBP has also allowed the TERF facility in cases where LCs/Inland LCs were opened prior, but 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 the economic activity, new long term investment and employment generation.

Under this scheme, up till 2nd July 2020, Rs10.5 billion have been approved by banks for 21 projects.

LTFF is one of the oldest refinance schemes of SBP under which financing is available for export-oriented projects for purchase of imported and locally manufactured new plant and machinery.

In March, 2020 SBP opened the LTFF to all sectors across the board. Earlier the end user markup rate under this scheme was 5 percent for textile sector and 6 percent for non-textile sectors.

State Bank has now reduced its refinance rate for non-textile sector by 1 percent and therefore the end user rate for all sectors across the board will be 5 percent.

SBP is expected that the above measures will help facilitate long term investment in both domestic and export market.