

State Bank cuts mark-up rates on refinancing facilities

KARACHI: The State Bank of Pakistan (SBP) on Wednesday reduced markup rates on two of its refinance schemes for promoting investment in the country.

SBP curtailed the end-user markup rates on temporary economic refinance facility (TERF) to 5 percent from the existing 7 percent and to 5 percent from 6 percent on long-term financing facility for non-textile sector.

"Taking cognizance of the negative fallout of COVID-19 pandemic for the economy, 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," said the State Bank. "To extend the benefits of the 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."

SBP reduced the policy rate by 625 basis points to 7 percent in five announcements since 17th March.

SBP said it will now be providing refinance to banks at 1 percent with banks' maximum margin of 4 percent to further improve the incentive under the temporary economic refinance facility.

The TERF facility has been allowed in cases where letter of credit / inland LCs were opened prior, but retiring after the introduction of the scheme on March 17.

"These measures, in the backdrop of earlier policy action of allowing BMR (balancing, modernisation and restructuring) under TERF, are expected to further support the economic activity, new long term investment and employment generation," the SBP said. Under the scheme, banks have approved Rs10.5 billion for 21 projects up till 2nd July.

When the scheme was introduced in March, only financing was decided for new industrial units for 10 years with maximum financing of Rs5 billion.

Likewise, the State Bank 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. Long term financing facility 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, the scheme was opened to all sectors across the board. Earlier the end user markup rate under the scheme was 5 percent for textile and 6 percent for non-textile sectors.

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