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Exporters face rebate loss on performance failure

BUSINESS RECORDER

The government has reportedly decided that if full-year exports remain less than or equal to those of the previous year, the provisional rebate payments made during the first three quarters will be recovered from exporters and remitted to the State Bank of Pakistan (SBP) within 15 days of the close of the year, well-informed sources told Business Recorder.

The Economic Coordination Committee (ECC) of the Cabinet has approved three schemes for exporters worth Rs1.5 trillion.

According to sources, in order to ensure timely rebate distribution to exporters, exporters having exports during a calendar quarter exceeding the average quarterly exports during the preceding year shall be paid the rebate equivalent to 75 percent of the applicable rebate to be determined based on the criteria. At year-end, if the full-year exports of an exporter exceed the last year's exports, such exporter shall be paid the rebate of the last quarter along with the residual rebate of the previous three quarters.

During the pre-budget meeting held on May 11, 2026, the Prime Minister issued a directive that the Finance Division to undertake a comprehensive review of all past and existing export subsidy/ incentive schemes and present a proposal before the Prime Minister on a transparent, performance linked, and fiscally sustainable export facilitation scheme.

Further, in the Budget meeting held on May 20, 2026 it was directed that the State Bank of Pakistan and the Ministry of Finance may finalise the export finance scheme to ensure that credit facilities are made available to exporters at the most competitive rates, at 600 basis points. The Ministry of Finance may further ensure the required budgetary allocation for the differential subsidy in the budget 2026- 27.

Accordingly, a task was also generated on the PMDU to materialise it. For this purpose, the Finance Division has earmarked Rs88 billion in subsidy for the export finance schemes in FY 2027, out of which Rs5 billion will be used for the ongoing LTFF Scheme in CFY.

In compliance with the PM directives, SBP has proposed the following three financing schemes for export growth: (i) enhancement in EXIM-administered Export Finance Scheme (E-EFS); (ii) launch of a new Long Term Export Growth Financing Facility (LTEGFF); (iii) performance-based Rebate on Incremental Exports Enhancement in EXIM-administered Export Finance Scheme (E-EFS).

The E-EFS is a short-term financing facility designed to meet the working capital requirements of exporters of value-added goods, with financing available for loan duration of up to 180 days. The existing portfolio size of Rs1,000 billion is grossly insufficient to cater to the demand, and a significantly large number of exporters cannot avail the facility as limits are not available with their banks. Further, EXIM Bank is pursuing better targeting of the Scheme whereby the E-EFS against exports of traditional products and against exports to traditional markets will be gradually reduced to 50 percent by 2030 from the existing 70 percent.

The existing limit of Rs1,000 billion is, however, a constraint in achieving better targeting objectives. Accordingly, SBP proposed that the E-EFS portfolio may be enhanced to Rs1,500 billion. The proposed enhanced limit will allow a greater number of exporters, including SMEs, to access affordable working capital financing. The consumer terms of the enhanced E-EFS limit (in consultation with EXIM) would be the same as the ongoing E-EFS.

Subsidy estimates for enhancing the portfolio size of E-EFS from Rs1,000 billion to Rs1,500 billion are as follows: (i) end user rate at 3 percent below policy rate- 8.5 percent; (ii) subsidy costing at 5 percent; (iii) subsidy for existing Rs44.15 billion from existing Rs1 trillion; (iv) subsidy for enhancement Rs13.54 billion. This implies total subsidy of Rs57.69 billion.

For estimate, if current policy rate at 11.5 percent is used, estimated expenditure for CFY is Rs51 billion.

Launch of LTEGFF: The facility is intended to provide long-term financing for the establishment of new export-oriented projects of Balancing, Modernisation and Replacement (BMR) of existing projects. With a size of Rs350 billion, the new LTEGFF would replace the existing E-LTFF. This will incentivise export-oriented new business and industrial units having at least 80 percent of their sales as exports and complying with environmental standards in line with Pakistan Green Taxonomy. Moreover, the existing EXIM-administered Long-Term Financing Facility (E-LTFF) with a variable interest rate does not attract much interest from the business community largely due to the interest rate risk. The LTEGFF, with subsidised fixed interest rates for 10 years and enhanced focus on exports, is likely to attract significant interest and generate sizeable export surpluses/ employment opportunities in the next 2-3 years. The LTEGFF would thus help the government in achieving its climate-related goals and Nationally Determined Contributions (NGCs).

Estimated cost of the proposed incentive to be borne by GoP in 2027 from the portfolio size of Rs350 billion in FY 2027 is as follows: (i) End User Rate (for FY 2027) 2 percent (2 years' grace period. 2 percent EUR for first 2 years and then 5 percent; (ii) subsidy rate (based on current policy rate, i.e., 11.5 percent for first years) 11.5 percent; and (iii) subsidy requirement for FY2027 – Rs25.16 billion (estimated expenditure for CFY is Rs22 billion). Total subsidy requirement for 10 years will be Rs195.98 billion.

The performance-based rebate scheme on incremental exports is to be introduced from July 1, 2026, with an estimated annual cost of Rs15 billion for FY2026-27, against which Rs10 billion is expected to be spent in CFY.

The proposed rebate structure will operate as follows: (i) the exporters achieving annual export growth of up to 10 percent over the preceding year's exports shall be eligible for a rebate equivalent to 1 percent of the incremental export value achieved during the year; (ii) the exporters achieving annual export growth of more than 10 percent over the preceding year's exports shall be eligible for a rebate equivalent to 2 percent of the incremental export value achieved during the year.

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