Press Release

The All Pakistan Textile Mills Association (APTMA) issued the following Press Release

FY25 Budget: A Catastrophic Blow to Pakistan's Textile Industry

June 14, 2024—Islamabad: The All Pakistan Textile Mills Association (APTMA) has voiced severe concerns regarding the FY25 budget proposed by the government, calling it an extremely regressive budget that threatens the collapse of the textile sector and its exports with dire consequences for employment and external sector stability, as well as for overall economic and political stability and security of the country.

After peaking at $19.3 billion in FY22, textile exports plummeted to approximately $16.5 billion in FY23. The trend continued throughout FY24, with monthly exports consistently falling over $600 million below the installed capacity. This drastic decline highlights the urgent need for governmental intervention to support the sector.

No measures have been put forward to resolve the industry-wide energy crisis. Grid power tariffs have soared to 16.4 cents/kWh and are expected to increase by another 2 cents/kWh following tariff rebasing in July. This is more than twice the regional average. The cross subsidy from industrial to other consumers is also expected to rise from Rs. 240 billion to Rs. 380 billion, exacerbating the financial strain on textile manufacturers and further eroding their competitiveness.

The budget is based on extremely regressive tax policies. The tax rate on exports has increased from a 1% final tax regime to a staggering 29% on profits, plus a 2% advance tax on export proceeds. This excessive taxation eliminates incentives for export-oriented activities and drains liquidity from the sector as the 2% advance tax will soak up all liquidity from low-margin high-volume industries like textile.

The elimination of zero-rating for local supplies to export-oriented units will lead to a surge in intermediate input imports since exporters can use import for export schemes to import duty-free and sales tax-free inputs. This 18% sales tax plus turnover tax will further disadvantage local manufacturers already struggling with high energy costs.

Local manufactures of intermediate products like yarn and cloth have already lost their competitiveness due to prohibitive energy prices, as evidenced by a 600% increase in the imports of yarn between July 2023 and May 2024. These measures will further erode their competitiveness, causing a huge reduction in domestic value addition in exports and deterioration of the trade balance.

Persistent delays in the issuance of sales tax and other refunds have created a severe liquidity crisis within the industry. Despite regulations mandating automatic refunds within 72 hours, delays extend to several months, with many claims deferred indefinitely.

Rising energy costs, high interest rates, and the dysfunctional sales tax refund mechanism have pushed many firms to the brink of bankruptcy. The FY25 budget places a further strain on the industry’s liquidity without any measures to release the liquidity stuck in sales tax and other refunds for many months and years.

The FY25 budget contradicts the principles of efficient capital and investment allocation as Pakistan's corporate tax rates remain the highest in the region, dissuading investment in productive sectors and activities.

The failure to rationalize import duties on critical raw materials like Purified Terephthalic Acid (PTA) and Polyester Staple Fiber (PSF) continues to benefit a single obsolete 30-year-old manufacturing facility at the cost of the entire sector’s export growth and diversification, maintaining an anti-export bias and hampering the competitiveness of the textile sector.

With 60% of the basic industry already shut down and the remaining on the verge of closure, this budget will hasten the collapse of the textile sector and devastate the entire economy.

The textile sector, responsible for over 50% of export earnings and employing over 40% of the industrial labour force, is critical to Pakistan's economic stability. The widespread closure of firms will significantly reduce export earnings, leading to an inability to meet import bills and external financing obligations, increasing the risk of balance of payments crises and sovereign default. It will cause over 4 million workers in the textile sector to become unemployed, in addition to the millions who have already lost their jobs and livelihoods.

Reduced industrial activity will reduce industrial power consumption, causing an increase in unutilized capacity payments and further raising power tariffs for all consumers.

There will be a severe deterioration in both foreign and domestic investment prospects, further destabilizing the external sector and overall economic growth for years to come.

APTMA urges the government to reconsider the FY25 budget and implement measures that address the prohibitive energy costs, rationalize taxation, and provide a conducive business environment to avert an imminent collapse of the textile sector. Failure to do so will have catastrophic implications not only for the textile industry but for Pakistan's entire economy and society.

Forwarded for favor of publication in your esteemed newspaper/transmission.

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