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Policy rate under spotlight as exports, jobs slump

ISLAMABAD: The government is considering policy options to revive economic activities including through relaxation in discount rates and targeted interventions in agriculture and the SME sector.

The Ministry of Finance on Wednesday said a meeting of the Monetary and Fiscal Policies Coordination Board (MFPCB) "discussed the options to enhance the economic activities in potential areas of the economy with targeted policy interventions". The possible options were also deliberated to control price hike in the country, it added.

"It was emphasised that policy rate may be regulated in a way to confine external sector vulnerability by focusing and prioritising the export-oriented sectors to generate more exportable surplus and become more competitive" said a press release issued by the ministry late at night."

It was agreed that SMEs sector should be uplifted by providing access to finance that will contribute to generate export surplus and to create jobs."

The language suggests that the government is concerned at the impact that high interest rates are having on industry, and about possible consequences for unemployment, and is exploring ways to allow access to low cost financing for select sectors, exports and SMEs, for their role in exports and job creation.

Finance minister takes stock of macro adjustments

The meeting of the Board comes days after Prime Minister Imran Khan directed his economic team to prepare a "roadmap for economic revival and job creation." Informed sources said the planning commission had alerted the prime minister that even a marginal increase in central bank's policy rate from here on would be disastrous for the industry and overall economy and the government should now consider relaxing the monetary stance. No on record verification was available on this matter though.

Participants of the meeting agreed on "the need for consistent and deep-rooted structural reforms" and underlined that "appropriate policy measures will be adopted to curtail fiscal deficit during the current fiscal year." There were no details on what those "appropriate policy measures" might be, beyond raising taxes and cutting expenditures.

The MFPCB, the sources said, also considered this view and believed the central bank should get back to the drawing board and suggest what could be the possible measures while remaining within its international commitments. "An easing of the policy rate was not be ruled out" said a participant adding the current policy rate of 13.25pc was already based on a forward looking inflationary stance that provided some space.

The sources said some quarters believed that while inflation was affecting almost all segments of society, it also had psychological ramifications. Therefore, an upcoming rebasing of consumer price index (CPI) to fiscal year 2015-16 instead of 2007-08 will have an easing impact on the market as the rebasing would show lower inflation.

The launch of various projects in the agriculture sector for which allocations had been made in the public sector development programme would be expedited along with targeted support to the SMEs sector. The government has been under criticism for slowing economic activities and high inflation despite a massive 8.89pc fiscal deficit during the last fiscal year.

It was therefore advised to focus more on improving investment climate and expedited implementation of development projects so as to create job opportunities and ease difficulties being faced by the common men and protect their living standards.

The meeting reviewed the impact of fiscal and monetary policies on economic growth, inflation, investment and external sector of the economy. “While reviewing the Fiscal Policy, the Board observed that there was a need to narrow the fundamental revenue-expenditure gap and the export-import gap by ensuring prudent expenditure management and efficient resource mobilisation strategy.”

The key economic indicators and impact of stabilisation policies were presented to the Board. The meeting also reviewed the fundamentals of economy and the performance of the government decisions like upward adjustment in gas and electricity prices, market-based exchange rate adjustments, increase in interest rate etc.

It was informed that the pressure on the external sector has also been relieved with the first tranche of IMF Extended Fund Facility, activation of the Saudi oil facility and increase in exports.

This has not only supported the balance of Payment but also strengthen the market confidence.