INTERNATIONAL THE NEWS

14th May, 2019

Businessmen fear escalation in cost of doing business

KARACHI: IMF deal is feared to open a floodgate of inflationary waves to escalate costs of doing business and living for masses, businessmen said on Monday.

“Following IMF (International Monetary Fund) deal the local currency will further devalue, lending rates would go very high and cost of doing business would increase to unimaginable levels,” Mirza Ikhtiyar Baig, senior vice president of the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) said. “The measures PTI (Pakistan Tehreek-e-Insaf) government is taking and terms they agreed upon are in contrast to the claims made by (Prime Minister) Imran Khan.”

On Sunday, Pakistan and IMF announced a three-year extended fund facility (EFF) program for six billion dollars with conditions to increase taxes and cut in power sector’s subsidies.

Baig said the business community is uncertain about the conditions and their subsequent impact as “we were not taken onboard and none of the details were shared”.

“Pakistan had to go to the IMF as apparently there was no other option, and if we hadn’t gone to the IMF, there would be certain other problems,” he added.

FPCCI official said the government agreed to economic slowdown, which would result in elimination of 0.6 million job opportunities. “Policy rates agreed at 12 percent and free currency movement would restrict industrial as well as export growth.”

Topline Research Chief Executive Officer Muhammad Sohail argued that IMF agreement would provide much-needed confidence to both local and foreign investors as it would remove nine months of uncertainty on IMF funding.

“Prior actions like market-based currency value, higher interest rate and measures on taxation in the upcoming budget along with support from Asian Development Bank and World Bank will be crucial for final board approval from the IMF,” Sohail said.

Karachi Chamber of Commerce and Industry (KCCI) President Junaid Ismail Makda said the country would avoid being blacklisted by the Financial Action Task Force as the bailout deal has been finalised. “Though the conditions of IMF are harsh, the government has to take this deal to avoid blacklisting by the IMF.”

Makda said uncertainty is still there as business community is taken onboard.

“We had been talking to former finance minister Asad Umar, chairman Federal Board of Revenue and Governor State Bank of Pakistan in the past,” he added. “Since there has been too much change, the business community is uncertain about the currency valuation, interest rates and cost of doing business.”

KCCI president, however, said some of the IMF conditions are in favour of Pakistan and they should be implemented.

Analyst Hussain Haider at JS Global Capital said the EFF is not new to Pakistan as most of the previous IMF programs were under EFF framework or standby arrangement. The latest one is the 22nd.

“The next step is to wait for the final approval from the IMF executive board, which is merely a formality,” Haider said. “The time period between the initial staff level agreement and approval was two months in 2013, whereas it took around ten days to obtain board approval in 2008. Considering our current situation, it is hoped that the approval will be granted sooner rather than later.”

Pakistan is currently facing a challenging economic environment including low growth, high inflation, high indebtedness and weak external position.

“The program will primarily focus on improving public finances, reducing public debt to strengthen revenue mobilisation and cost recovery in the energy sector, which will likely entail an increase in the prices of gas and electricity,” brokerage Arif Habib Limited said.

Javed Mirza