DAWN

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## Industry leaders shocked by rate hike, blame decision on 'IMF pressure'

KARACHI: The business community on Monday reacted with dismay and some shock at the decision by the State Bank to raise the key policy discount rate by 1.5 per cent, bringing it to 12.25pc.

"I think there was no need for any further interest hike as food inflation was quite under control in April than March," President Site Association of Industry, Saleem Parekh said.

"I am sure that the interest rate has been raised under the International Monetary Fund (IMF) pressure," he said adding that the "business community has lost hope of rising factory output and exports. It now looks like a bad dream."

He said the industries were already perturbed over rising cost of doing business and the latest hike in interest rate would further strangulate investment and hamper economic activities.

Mr Parekh said rupee devaluation against the dollar would not help boost exports as it has pushed up raw material prices thus putting additional burden on production cost making products in competitive in world market.

Commenting on the situation, Central Chairman Pakistan Hosiery Manufacturers and Exporters Association Jawed Bilwani questioned how the GDP will grow. "How will new industries come up and investors take risk of making investment in new ventures under the regime of soaring interest rates?" he questioned. He too opined that the increase in interest rate was as per IMF's dictation.

President Federation of Pakistan Chambers of Commerce and Industry Daroo Khan Achakzai said the government is not running on its feet and currently is surrounded by a lot of problems.

While attributing interest rate surge to IMF's pressure, he said it seems that the State Bank has taken a drastic step to take the interest rate at its peak and then it may either bring it down or maintain it in next policy statement after two months.

He said no steps have been taken so far to reduce cost of doing business. Mr Achakzai urged the government to hold a dialogue with the stakeholders for bringing down cost of doing business.

Chairman Pakistan Bedwear Exporters Association Shabir Ahmed said the State Bank has not taken a right decision as this will only stall industrialisation besides pushing up cost of production and hitting exports.

He said massive rupee devaluation has already cast a gloom as textile related industries would be unable to bring imported machinery due to rising cost of imports.

General Secretary Overseas Chambers of Commerce and Industry, M Abdul Aleem said the 1.5pc spike in the discount rate to 12.25pc is going to have negative impact on cost of doing business and will negatively impact on the growth of the economy and business.

We expect this action to negatively affect the disposable income and profitability of corporates. But in the longer run, we expect that economic adjustment measures will be taken, mainly in the upcoming budget to fill up the resource gap and manage this difficult time relatively better," Mr Aleem said.

He said the rise in interest rate was not unexpected considering series of negative economic news like regular increase in inflation during the past ten months and before, record level of borrowings by the government from State Bank, sharp weakening of the rupee against the dollar, big shortfalls in revenue collection together with news of further increase in gas and utility prices and muted growth in agriculture and industrial sector were all indication of slower economic growth and difficult times ahead.

Bigger than expected

Most brokers and analysts thought that the hike exceeded expectations.

Veteran broker-turned-value investor at the market, Amin Tai said that in view of the current slowdown in the economy, such a steep increase in interest rates should not have been done when the rate of inflation is on its way down.

Stock broker and former chairman demutualisation committee, Shehzad Chamdia said the interest rate hike was "irrationally high". And instead of narrowing the fiscal deficit through higher tax collection, an IMF bailout package was obtained and to cover inflation, interest rates have been pushed higher. "It's a vicious circle for the economy" he said.

Topline Securities concurred, saying that the increase since Jan 2018 stands at 650bps and at 12.25pc it looms at almost eight years high.

In the previous Monetary Policy announced in March, the SBP had increased rates by 50bps.

The brokerage expects the rate hike to be negative for cement, steel and fertiliser sectors, while cash rich companies could benefit and certain banks would be major beneficiaries as higher interest rate would improve their Net Interest Margins.

Executive Director Next Capital Zulqarnain Khan observed that the increase was a sequel to SBP's year-long effort to pre-empt the drop in savings and curb inflation. He thought that it would help stabilise dollar-rupee parity and could put a plug on capital flight.

He also believed that the cement and steel sectors which had led the market upside during the bull run of 2017, would now take the brunt of the blow and the impact could cascade to other sectors.

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