

Our Correspondent

PBC urges central bank to cut interest rate

KARACHI: The country's top businesses advocacy body on Wednesday urged the central bank to cut its benchmark interest rate to stimulate an economy that is struggling to get back on track.

“... need is to bring down the cost of borrowing. The explanations provided to support the current high policy rate are inadequate,” Ehsan Malik, chief executive officer of Pakistan Business Council (PBC) said in a guarded response to the State Bank of Pakistan’s recent initiatives to revive manufacturing.

“Cost-push inflation resulting from sharply higher utility costs and devaluation cannot be curbed by a high lending rate. Neither is pursuing hot deposits to build reserves a valid justification for driving up the cost of doing business.”

Malick said the macroeconomy is stabilizing, latest inflation projections are lower than earlier and it is now time to kick-start the micro-economy on the path to growth.

“This should be accompanied by cascading tariffs to promote domestic industry and the tax incentives for balancing modernization and replacement of plant, earlier withdrawn, should be restored, he added.

“It is lamentable that we neither have an industrial policy nor an export policy but instead continue with the policy of using tariffs to chase revenue rather than promote domestic value-addition.”

The CEO welcomed the Rs100 billion augmentation to concessional funding under the LFF and the LTFF schemes for exporters. “With 7 of the top 10 exporters amongst our membership, the PBC has been advocating additional funding lines, especially to enhance capacity. Without additional capacity, Pakistan will not be able to take a meaningful share of the diversion of supplies from China to USA, which other countries are grabbing.”

He went on to say that the finance advisor Hafeez Shaikh’s recent announcement of replacing the non-discountable tax refund notes with cash will ease the cash flow constraints that have been throttling the industry.

Malick said the liberalization of the advance payments for imported raw materials and for procurement of services from abroad is a welcome move. “The SBP had consulted the PBC on this and whilst the move is in the right direction, we had recommended that the limit be set at \$100,000, which we hope, the country’s improving reserves will soon allow,” he stated.

The BPC also appreciated the SBP Governor’s decision to involve the PBC together with the Pakistan Banks Association to making the approval process for remittances more transparent and the remittance dates more predictable.