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### **Pasha criticises SBP governor's 'flawed' approach to discount rate**

ISLAMABAD: Governor State Bank of Pakistan (SBP) Reza Baqir does not have adequate knowledge of how Pakistani economy operates and his justification for increasing the discount rate is based on a wrong notion.

This was stated by former Finance Minister Dr Abdul Hafeez Pasha while talking to Business Recorder.

Dr Pasha clarified that the discount rate in Pakistan is determined on the basis of core inflation (excluding food and fuel) and not on the basis of overall inflation. Besides consumer credit and house building finance is very nominal in the country and the major borrowers are industry/productive sectors and the government. Therefore, Reza Baqir's statement that the discount rate was raised to 13.25 percent primarily because inflation was projected at 13 percent by the International Monetary Fund (IMF) for the current fiscal year shows his lack of knowledge of Pakistan's economy.

Pasha added that core inflation was calculated by the Pakistan Bureau of Statistics (PBS) at 7.6 percent in June 2019 and on the basis of core inflation, policy rate should have been around 10 to 10.25 percent. At present, he said the discount rate is 3 percent higher than what should have been the case with a commensurate negative impact on investment by the private sector.

Pasha further stated that Pakistan is subjected to cost push inflation and not demand pull, and the interest rate should not have been used by the SBP "so carelessly" as this has increased debt servicing by Rs 600 billion.

Additionally, he added that devaluation by the SBP has also been done ruthlessly and consequently it accounts for an additional Rs 3.5 trillion to the country's debt. Out of total debt of Rs 7.6 trillion added in the last fiscal year, Rs 3.5 billion is attributable to depreciation of exchange rate, he added.

Pasha further stated that as per SBP data, rupee is undervalued by 10 percent and this has been the reason for some stability in exchange rate with rupee gaining strength against the dollar to Rs 157 from Rs 164.

Hafeez Pasha accused the economic team of misguiding the Prime Minister about improvement in the current account deficit without specifying whether it was due to improvement in the country's financing of the deficit or some other factor. He claimed that there was a decline of 7 percent in the financial account (of the current account deficit) and by not releasing trade figures of July 2019 the government appears to be hiding something.

He said that circumstances compel him to reckon that present government is also fabricating some major macro-economic figures as was the practice during previous administrations.