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Meagre interest rate cut leaves industry fuming

KARACHI: In a major disappointment for local industry, the State Bank of Pakistan (SBP) on Tuesday reduced its policy rate by just 75 basis points to 12.5 per cent while announcing two new measures to provide subsidised credit to industry to help meet the challenges posed by the growing pandemic.

The measures are a Temporary Economic Refi-nance Scheme (TERF) and Refinance Facility for Com-bating COVID-19 (RFCC).

Ignoring the demand of business groups for a 200bps rate cut, SBP Governor Dr Reza Baqir said the central bank's decision was based on inflation expectations and preliminary data on effects of pandemic on the economy.

Industry leaders were quick to express their disappointment with what they see as a meagre cut.

The Pakistan Business Council, which represents 81 largest industrial concerns, said: "The Monetary Policy Committee's 75bps cut in the Policy Rate is too little (and too late) to make any significant difference to Pakistan's economy." It said the SBP decision will "continu[e] to hold local industry hostage to high borrowing rates in a bid to retain foreign debt comes at the cost of jobs, curtailment of profit and loss of tax revenue."

Former chairman of the All Pakistan Textile Mills Association Gohar Ejaz said the rate cut "will have no impact on business activity."

"This is very disappointing. We needed this [policy rate] to come down to single digits. Rest of the world is taking drastic actions and we have taken a negligible step."

However, Governor Dr Reza Baqir defended his decision in an interaction with the press corps prior to the formal announcement but his language seemed to suggest he is observing the environment to see which things are moving. "The decision has been made taking into account current information which remains sketchy and limited. Also the SBP will continue to closely monitor the banking system" he said, adding that the central bank "stands ready to intervene" in the event of adverse developments.

"The decision reflected the Monetary Policy Committee's (MPC) view that the outlook for inflation has improved in light of the recent deceleration in domestic food prices, significant decline in consumer price expectations, sharp fall in global oil prices, and slowdown in external and domestic demand due to the Coronavirus pandemic."

Quantifying the impact from the pandemic on the country's economy, Mr Baqir said the immediate effects are likely to be seen in fall in overall consumer demand, decline in exports and imports – especially in petroleum sectors whereas the impact on the gross domestic product is likely to be relatively less since Pakistan's exports-to-GDP ratio is significantly low.

Foreign buyers especially from the European Union – top export destination for textile exporters – have asked manufacturers to slow down production and delayed their imports from Pakistan as more and more countries shut down businesses to contain the spread of the virus. However, the lower share of exports in the country's overall economic output will, to a degree, insulate the real sector, the SBP governor explained.

In line with the global economic slowdown which has also curtailed overall domestic demand and supply of goods and services in the economy, Mr Baqir said the impact from Covid-19 is likely to bring down the GDP growth rate to 3pc compared to 3.5pc as projected earlier.

However, he said the outlook for inflation is also evolving keeping in view the demand slowdown and sharp declines in international crude oil prices. The rising trend in headline inflation would moderate in the remaining months of current fiscal year. Headline inflation during the current fiscal year has averaged at 11.7pc and the SBP expects the CPI to remain within the 11-12pc range at the end of this fiscal year.