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Our Correspondent

PBC seeks two percent rate cut to support domestic economy

KARACHI: Pakistan Business Council (PBC) on Wednesday urged the government realign fiscal policies aimed at supporting domestic economy to create employment and offset the pandemic impact.

"This is time to revive 220 million people market via two percent rate cut with fiscal alignment," PBC said as the market is slowly reopening after two months of lockdown.

"Revive capacity utilisation of domestic appliances and autos and get domestic economy moving and people employed," the council said in a tweet.

The monetary policy committee of the State Bank of Pakistan is scheduled to meet on Friday (May 15) to announce the key benchmark interest rates.

The central bank delivered a 425 basis points rate cut in a month following the pandemic to bring it down to a single digit. But, the rate is still one of the highest in the region. A further 200 basis points rate cut would entail 7 percent benchmark interest rate.

"Fiscal policy needs to provide liquidity," PBC said.

Government imposed a complete lockdown in late March to prevent the COVID-19 outbreak. But, the economic activities were slowing down when the first case of the virus surfaced in late February.

Since the lockdown, businesses have faced sales trough. Particularly, last month proved a nightmare for trade and industry. For the first time in history, there were zero car sales in April. Consumer spending slackened due to complete lockdown that started to gradually ease.

PBC estimated that total profit of 347 stock-market listed companies were down 23 percent in Q1 of 2020. There were zero sales for many in April, with fixed costs unabated. "Real economy is hurting."

Large scale manufacturing (LSM), which accounts for 80 percent of the industrial sector, sharply contracted 22.95 percent year-on-year in March. In July-March, LSM contracted 5.4 percent year-over-year.

The businessmen group further asked the government to automate export rebates, restore tax credit on investment in balancing, modernisation and replacement, suspend / reduce turnover-based minimum tax, rationalise withholding tax, remove advance tax on import of plant, and allow full offset of input sales tax.

The State Bank rolled out a number of relaxations for individuals and companies in the past couple of days to help them fight over the challenges to economic activities posed by the coronavirus.

The government needs to suspend unrealistic tax targets and zero-rate general sales tax on essentials: food, dairy, clothing and construction materials.

Tax collection drop poses a potential risk to annual revenue target revised a number of times, considering the

government's fiscal strains, to settle down at Rs3.9 trillion for the current fiscal year.

Budget deficit is going to escalate further in the aftermath of COVID-19 virus and it is projected to touch 9.3 percent of GDP against earlier estimates of 7.3 percent of GDP, indicating that it would be jacked up by Rs1,000 billion owing to shortfall in both tax and nontax revenues as well as overrun in expenditures.

The budget deficit will be hovering around 6.6 percent of GDP in next budget 2020-21 against earlier projection of 5.8 percent of GDP, the International Monetary Fund (IMF) said in a report. However, the budget deficit will be curtailed at 5.1 percent of GDP for 2021-22 under the IMF program.

Pakistan is current implementing IMF's reforms program under a three-year extended fund facility.