Following clarification/rebuttal was issued to Express Tribune on September 21, 2019 for publication in response to news item published on September 21, 2019:

The article published on the subject in Express Tribune on 21st September 2019 does not provide the accurate coverage of the meeting. The title of the article is grossly misleading and factually incorrect. SBP categorically mentioned in the meeting that average inflation in this year is likely to fall in the range of 11 to 12 percent. SBP also apprised the committee that inflation would start receding from the second half of this year, and would reduce significantly in the next year. It was also explained that inflation is projected to come down to the target range of 5-7 percent within next twenty four months. Given the fact that hard numbers were discussed in the meeting, such misleading heading of the article is against the high standards of the journalism.

While the coverage of discussion on SBP Policy prescription highlights the views of the honorable committee members and the experts, it would have been more appropriate if views of the SBP would also have been included for the benefit of the readers. Specifically, it was explicitly stated that SBP does not agree with some of the observations made during the discussion. While discussing the impact of policy measures, SBP officials categorically talked about the improvement in the country's external accounts. It was also highlighted that the perception of no favorable impact of exchange rate depreciation on exports is not right. It was highlighted that the favorable impact of higher export volumes is overshadowed by negative price effect of around US$ 2.0 billion.

The comment that "The Deputy Governor also admitted that the current double-digit inflation was caused by monetary policies, fiscal policies, and administrative decisions" is absolutely incorrect. The Deputy Governor highlighted that monetary policy, fiscal policy and administrative measures play an important role in reducing inflation. In this context, Deputy Governor also apprised the committee that the SBP policy rate has witnessed a cumulative increase of 750 bps during the current cycle of monetary tightening.

In view of above points, we would appreciate if coverage of proceedings of such important meetings is done accurately as it impacts expectations of the economic agents.

Following is the news item published in Express Tribune:

Inflation to remain high for two more years: SBP
Express Tribune By Shahbaz Rana
September 21, 2019

ISLAMABAD: The State Bank of Pakistan (SBP) said on Friday that inflation would remain at an elevated level for two more years as a special parliamentary panel questioned the official policy prescription that was fuelling inflation instead of curbing it.

Inflation would come down to the central bank targeted rate of 5-7% after two years, said SBP Deputy Governor Jameel Ahmad during a meeting of the sub-committee of National Assembly Standing Committee on Finance.

The special panel has been set up under the chairmanship of Pakistan Muslim League-Nawaz's (PML-N) Dr Ayesha Ghaus Pasha with the single objective of recommending measures for controlling inflation. The meeting's proceedings suggested that the central bank's wrong monetary and exchange rate policies and fiscal policies of the federal government were the key reasons behind the double-digit inflation. Instead of curbing inflation, these policies were further fuelling price hike in the country, said Pasha.
The policy prescription of the central bank was flawed as it believed that inflation was caused by high demand while committee members and experts were of the view that it was cost-push inflation, said Pasha.

The deputy governor said the current account deficit would remain around $7.5 billion to $8 billion at the end of current fiscal year. The deficit projection by the SBP deputy governor was nearly $1.3 billion higher than the International Monetary Fund's (IMF) estimate of $6.7 billion for the current fiscal year.

There was unanimity of views among sub-committee members and the three experts invited to identify reasons and suggest the way forward to contain inflation. The committee invited Ashfaq Tola, a renowned chartered accountant, Sakib Sherani, former economic adviser to the Pakistan Peoples Party (PPP) government and Almas Hyder, President of the Lahore Chamber of Commerce and Industry.

The deputy governor also admitted that the current double-digit inflation was caused by monetary policies, fiscal policies and administrative decisions. But he did not answer questions about how the central bank could contain cost-push inflation with demand-curbing policy measures.

Ahmad also did not answer the question raised by Tola about the quantum of dollars that the central bank pumped into the market to bring down the exchange rate from Rs160 to a dollar to around Rs157.

Members and experts also questioned the rationale behind 5% positive real interest rate which, according to them, was suffocating economic growth and increasing unemployment. Core inflation in August was 8.2% while the SBP's interest rate was 13.25%, resulting in over 5% positive interest rate.

Inflation was one factor in determining the policy rate and the rate was now set while keeping in mind the future inflation projections, said Ahmad.

"The policy rate is far too high and a one-percentage-point increase in interest rate brings down investment by 0.7%," said Pasha.

The SBP must cut its interest rate by three percentage points as a one-percentage-point increase in the rate added Rs250 billion to debt servicing cost of the government, said Tola. He also suggested that instead of devaluing the currency to enhance exports, the government should give fiscal incentives to the exporters. At least 7% increase in the Sensitive Price Index was caused by the government's indirect taxes, said Pasha.

Tola said "it is high time for the government to decide whether the economy leads taxation or taxation leads the economy". IMF policies disciplined the economy but their cost was humungous, said the tax expert.

Inflation was going up due to the exchange rate shock and it would stay at the level for two more years, said Sherani. He added that inflation could not be contained until the government reversed its decision to increase electricity and gas tariffs, cut sales tax on petroleum products and restore transport subsidies.

Owing to the high cost of doing business and low demand, the factories were reducing the number of work shifts, which would eventually affect supply chains, said Hyder. Due to these factors, the business community expected a second round of inflation after October, he said.

Commodity prices were shooting up due to fiscal policies and the central bank wanted to curb inflation by increasing interest rate, which was a wrong policy, said the LCCI president. The uncertainty was also hurting the economy. "Uncertainty hurts the economy more than corruption," remarked Hyder.

Sub-committee member Hina Rabbani Khar of the PPP also recommended reviewing the tight monetary stance that the central bank had adopted in the past 20 months as it was not helping to address macroeconomic issues in a big way.

To a question whether the SBP governor was keeping interest rate higher than required to attract hot foreign money, Ahmad said the interest rate hike was not linked with the hot money.

SBP Governor Dr Reza Baqir attended a Citibank-sponsored conference in London to attract hot money, said Sherani. He also said Baqir was the principal architect of Egypt’s hot money policy and attracted $44 billion there.

Due to the central bank’s wrong policies, the economic activities had slowed down and people had closed their financing lines that were opened with banks for working capital, said PTI member Dr Ramesh Kumar.