

The Business

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PAKISTAN WINS FATF APPROVAL



Hawkish rates

The US Federal Reserve in its meeting held on June 16, 2022 increased the federal-funds target rate by 0.75 per cent to 1.5 per cent. An increase in rates was largely necessitated by a surge in demand of goods and services in the US economy, following monetary expansion during the Covid-19 pandemic that did not only lead to supply side constraints, but also resulted in an increase in prices across the board, with inflation in the US running at a 40-year high. Such a surge in inflation to a four-decade high can largely be attributed to a mix of demand factors due to near zero interest rates for almost a decade, as well as a surge in oil prices, and consequently in the price of gasoline at the pump which led to increased inflation, and erosion of purchasing power in real terms.

Arresting such runaway inflation necessitated an increase in interest rates such that the demand-pull nature of inflation can be tamed, resulting in the largest interest rate increase of 0.75 per cent since 1994, while also signaling that rates would increase further during the current year. This clearly suggests that the US economy is headed for a slowdown till the time inflation is brought under control within the long-term target range.

Such a hawkish approach of the Federal Reserve would be followed by a coordinated monetary response from other major central banks such as the European Central Bank, the Bank of England, and possibly the Bank of Japan. As central banks around the world transition towards a hawkish stance, growth rates across the developed and emerging markets will taper off. A supply side response which enhances supply of oil and reduces prices of energy may shave off some inflation, but any reversal of interest rates would largely be done once inflation is within the long-term target range.

Pakistan being a borrower in the international markets, and from multilaterals in US dollars will see its borrowing costs increase, which will have an impact on its overall interest payments. Similarly, most of our power projects and other CPEC projects have debt denominated in US dollars, which will also see their borrowing cost increase, eventually having an adverse impact on electricity prices. The era of free money is pretty much at its end. Pakistan being a frontier market will see its cost of capital increase, which may further exacerbate our already vulnerable economic position.

Interventions for inclusion



DR REZA BAQIR

It has now been well-recognised that relying on markets and competition, as opposed to directed government control or privilege, is the best way for countries to achieve sustainable prosperity for their citizens. However, the rise of wealth inequality in recent years, as starkly illustrated by the French economist Thomas Piketty in his bestseller Capital in the Twenty-First Century, has made it equally important to recognise that markets — more often than we may have thought — fail to provide resources in an equitable manner for a country's citizens to feel they have a level playing field to aspire to raise their living standards. In such cases, the government or the regulator must lean in to address the market failure.

A key illustration of such market failure is equitable access to finance: the ability to bank with ease for everyone. Over the past several decades, Pakistan's banking system has not risen to the challenge of providing a level playing field in access to finance to different sections of society. This is particularly so for housing

finance for those who did not have the good fortune of being born into a household of means. In most economies, one of the principal components of household wealth is home ownership. Consequently, programmes that promote affordable finance for owning a home for the less well-off are key for reducing the glaring wealth gap between the haves and the have-nots in our country.

A simple example is useful. A typical employee in his or her 30s with a spouse and two children providing a service (secretary, driver, etc) in a mid-sized company in a large city likely does not own their own home. The rent for their modest home would easily be in the Rs20,000 per month range which would likely increase 10 per cent yearly. If her or his salary does not rise at a commensurate pace, their rent will eat up a growing share of their total household budget, crowding out the ability to save or provide for other needs of the family.

If the same employee were to get financing so that he/she could buy their modest home (that is a mortgage) for about the same monthly instalments as rent, at least two key benefits would accrue. First, mortgage payments are typically fixed in rupee terms over the life of a loan. Thus, the share of housing expense in the household budget should shrink over time, allowing the family to better cater for their other needs to raise their living standards. Second, by owning their home, this family would benefit from the general rise in home values over time and feel wealthier. Importantly, they would also feel less anguish at seeing others getting wealthier because they would be part of a rising tide.

Pakistan's market failure was that

its banks never developed an ecosystem for such mortgages. It took the State Bank of Pakistan (SBP) and the government to create an affordable housing finance programme, Mera Pakistan Mera Ghar, to address this market failure. Under this programme, available in both Sharia and conventional form, the government subsidises the markup payment and the Pakistan Mortgage Refinance Company can provide partial risk coverage. The subsidy is targeted because it is only available for a first-time home buyer of a house that is 125 or at most 250 square yards — and rich people don't like to live in small houses.

When this programme was started, the take-up by banks in sourcing and facilitating low-income customers was slow. The SBP eventually had to sharpen its system of rewards and penalties and address regulatory and other bottlenecks. Today, after about a year and a half, banks own this programme: to date they have approved about Rs210 billion (about \$1bn) in such housing loans and disbursed about Rs85bn. The typical loan size is about Rs3 million which for a 125 square yard home generates a fixed monthly instalment of about Rs20,000. The decision of which loan application to approve is with the bank, not with the SBP or the government.

It is a non-partisan programme in that whichever political party the applicant may support is irrelevant for the purposes of the bank to decide whether it is an acceptable credit risk. As a testament to the merits of the programme, the World Bank has recently signed an agreement to support it.

This programme, and its progress to date, is the tip of the iceberg. The ap-

proval and disbursement numbers illustrate how much more is possible now that banks have put in place the needed systems to run this as a sustainable business. The subsidies involved are one of the best returns for the taxpayer's money. To illustrate the magnitude of the benefit-to-cost ratio, if another Rs100bn is disbursed in the coming fiscal year in such affordable mortgages, the programme would require a subsidy from the budget of around Rs20bn. This is much better use of taxpayer money than, for instance, the less well-targeted energy subsidies that accrue mostly to the well-off and are several times greater in magnitude.

Further, international institutions may consider supporting such subsidies as a targeted intervention to reduce wealth inequality.

This programme is but an example. The importance of policies to reduce wealth inequality cannot be overemphasised. This is even more poignant now as rising international energy and commodity prices are raising inflation, squeezing further the household budgets of the less well-off and driving the wedge of wealth disparity deeper and sharper in the social fabric. It was only about a decade ago that the desperation of one Tunisian fruit-seller, Mohammed Bouazizi, in the face of rising inequities, drove him to douse himself in petrol and set himself on fire. That one act started the Arab uprising in the Middle East. It should be a lesson to us. Proactive programmes to reduce wealth inequality in a sustainable manner need to be front and centre of our priorities for our progressive and peaceful future.

The writer is former governor

Lessons from a by-poll



KHALID BHATTI

In the by-poll held on June 16, the MQM-P retained the NA-240 Karachi constituency by a razor-thin margin of just 65 votes. The party managed to pull off a victory after trailing most of the night behind the Tehreek-e-Labbaik Pakistan (TLP) which came very close to winning its first National Assembly seat.

There were many twists and turns throughout the night. First, the MQM-H took an early lead against the TLP and MQM-P. Then, TLP maintained a narrow lead over the MQM-P till the last few polling stations. The last eight polling stations, though, have a 65-vote victory margin to the MQM-P.

According to the results announced by the regional election commissioner, Nadeem Haider, the MQM-P's Muhammad Abu Bakar won the by election after bagging 10,683 votes. The TLP candidate, Shahzada Shahbaz, was the close runner-up after securing 10,618 votes.

The MQM-H candidate, Syed Rafiuddin, obtained 8,383 votes while the PPP's Nasir Rahim Lodhi polled 5,248 votes and the PSP's Shabbir Qaimkhani was able to secure 4,797 votes. Both the MQM-P and TLP witnessed a significant drop in their support while the PPP, MQM-H and PSP maintained their support base.

This result should be a matter of concern for the MQM-P. Even though it retains the seat with a narrow margin, its share of votes saw a significant drop. The party had won this seat in

the 2018 general elections with a large margin of more than 30,000 votes. The TLP then too was a distant runner-up. This election result shows that nothing can be taken for granted. The MQM-P was expecting to win this seat with a comfortable margin but seemingly failed to mobilize its voters in this constituency which is considered its stronghold.

It will be wrong to assume on the basis of a close election that TLP support has surged. The TLP has become what the JUP once was in Karachi, and will maintain a certain support base in some constituencies. It was a nail biting finish to an election otherwise marred by low turnout, allegations of rigging, and violence. The low turnout of 8.38 per cent and violent clashes in which one life was lost and several others injured were the main highlights of this by-poll. Only 43,388 votes out of 5,29,855 total votes were cast. Nearly 92 per cent voters preferred to remain in their homes instead of going out to exercise their democratic right of voting. Essentially, they rejected all the contesting candidates and political parties. This should be a real matter of concern for all the political parties.

Women voters show least interest in the by-poll as only 5.42 per cent women voters turn up at polling stations. Younger voters also showed little or no interest in the elections. In the 2018 general elections, 1,77,759 (37.38 per cent) of 475523 registered voters had polled their votes in this constituency.

There seem to be three main reasons behind this low turnout and lack of interest of voters. One reason is the decision of the PTI and JI to stay away from this by-poll. Both parties have a considerable vote bank in the constituency as they finished at the third and fourth place in 2018. Both parties got nearly 47,000 votes in the 2018 elections. MQM-London also ran a boycott campaign through social media which also played its role to keep some voters away from the polling stations.

The second reason seems to be the low profile of the candidates. No political big gun was in the running. The MQM-P put a relatively new candidate in the race. The weak candidates failed to mobilize their supporters in big numbers. It was a lackluster election campaign

without much enthusiasm and interest. The election campaign failed to inspire the electorate or motivate them.

Both the MQM-P and the TLP have lost support in the constituency. The MQM-P's votes fell from more than 61,165 in 2018 to 10,683 votes while the TLP dropped from 30,535 votes in 2018 to 10,618 votes in 2022. So the close election is the result of a drastic fall of support for the MQM rather than a huge surge for the TLP.

The third reason seems to be the disappointment of the electorate as a result of the recent hike in petrol prices and a new wave of commodity price hike. Many people were hoping that the new coalition government will bring down the prices of food and daily essentials.

Instead of bringing down the rising inflation and providing relief to already struggling people, the coalition government further burdened the people with a massive increase in the prices of petroleum products. This decision has shocked many. And the MQM-P has borne the brunt of this hike as the key coalition partner of the PDM government.

Eruption of violence also marred the by-poll. Despite declaring 203 out of 309 polling stations sensitive, law-enforcement failed to prevent this violence taking place. One life was lost and several others injured in the clashes that took place in the Landhi area between activists of the TLP and PSP. Both parties accused each other for the violent clashes. The police and Rangers too failed to intervene immediately. We can learn necessary lessons from this by-poll experience to improve electoral management and ensure a peaceful, violence-free and transparent polling atmosphere for voters. The Election Commission of Pakistan and local administration including police and Rangers need to make better arrangements for polling day to prevent violence and to end the malpractices of polling staff and others in order to manipulate the results.

We need to discourage the use of violence and strong-arm tactics to manipulate and influence the elections. Karachi has seen the use of violence and strong-arm tactics during elections for more than three decades. This culture must come to an end.

Oil from Russia?

DR FARRUKH SALEEM

A false narrative is a story that isn't real. A false narrative is a "story that you perceive as being true but has little basis in reality". Spreading a false narrative is conveying a story that isn't real. A false narrative is a "subtler and more dangerous form of misinformation". A false narrative is a lot more dangerous than fake news.

Question: Why do political parties create false narratives? Answer: To avoid facing mistakes. Question: Why do political leaders spread false narratives? Answer: Political leaders fabricate stories about other political leaders in order to "pass the blame for one's own errors — and to avoid the responsibility of changing. It is easier to fabricate a story where someone else is to blame than to confront tough things."

If a political party's narrative is not 'aligned with reality, the party's future could be in danger'. A false narrative is a lie — and a lie has no legs to stand on. Because a lie has no legs to stand on, it is unsustainable. A political party continuously trying to brand itself through storytelling is a bad idea, because bad ideas are not sustainable.

We were going to buy Russian oil at a 30 per cent discount? The truth is that we have not signed any MOU to buy Russian oil. The truth is that Russian oil has always been traded at a deep discount way before the Ukrainian war. The truth is that none of our major oil refineries can refine Russian oil in large quantities (without upgradation). The truth is that we do not have rubles to buy Russian oil (Putin made it a requirement). The truth is that we do not have the foreign ex-

change reserves to buy Russian oil. The truth is that Iranian oil is available at a 50 per cent discount but we cannot buy Iranian oil because of sanction-related complications. The truth is that 62 million barrels of unsold Russian crude oil are sitting in vessels at sea.

The PTI's other false narratives include: bringing back \$200 billion of looted wealth; five million houses; ten million jobs; chicken-egg schemes; \$20 billion Saudi investment; massive oil reserves in Kekra; Reko Diq to pay off all foreign debt and the now infamous American conspiracy. The truth is that the PTI has no strategic narratives — all it has is false narratives. The PTI's current stream of narratives is incongruent with the reality — and if narratives are incongruent with the reality they will fail, sooner or later. The truth is that a political narrative is the 'most persuasive form of communication' but it must not be incongruent with the reality. The truth is that false narratives can have serious economic implications.

Imran Khan must avoid branding through mere storytelling, because that is temporary. Imran Khan must focus on branding based on reality, because that is permanent. Imran Khan must avoid stories that have no basis in reality. Imran Khan must avoid trying to 'shape facts' through storytelling, because that will only have a short-term impact. Imran Khan must avoid 'artificiality of storytelling'. Imran Khan must avoid false narratives, because false narratives are transient. Imran Khan must focus on strategic narratives, because strategic narratives are perpetual.

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