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Pakistan's economy performing well but risks increasing: SBP Report

Pakistan's economy has performed 'reasonably well' in the first quarter (July-September) of the current 2007-08 fiscal year but risks to the economy are increasing as it is evident that neither the global nor the domestic economic environment is as benign as in past years.

This observation was made in the First Quarterly Report for FY08 on the State of Pakistan's Economy, based on data and information available for the first quarter and updated whenever possible till November 2007, issued by the State Bank of Pakistan today. The report was approved at a meeting of the Central Board of Directors of SBP held under the chairmanship of Dr Shamshad Akhtar, Governor, State Bank of Pakistan in Karachi today.

The Report pointed out Pakistan has had substantial success in managing its large external account imbalances in recent years, but these imbalances have grown in FY08, increasing the risk that the country could be impacted adversely, particularly if the domestic demand pressures grow in forthcoming months and if problems in the international credit markets worsen.

The Report said that the threat of renewed macroeconomic complications, after five years of good performance, would be heightened if prompt actions are not undertaken to correct the recent drift in fiscal indicators. The fiscal imbalance has already led to a substantial rise in government borrowings from the central bank, which rose to Rs 191.3 billion during July-December 1 of FY08, exceeding both quarterly and annual ceilings and preceding years trend. "This has enhanced monetary expansion significantly and is likely to fuel inflationary pressures, compounding the impact of the strength in international commodity prices," the Report added.

It said Gross Domestic Product growth is expected to remain below the annual target of 7.2%. "Despite the likelihood of some deceleration, the FY08 growth outcome is likely to remain reasonable," the Report added. It said inflation is forecast to be significantly above the target of 6.5%, due principally to the high food and energy commodities' prices. Moreover, the rising prices of these commodities are driving a "second round" inflationary impact as evident in the rise of core inflation. If SBP had not proactively tightened Monetary Policy in June 2007, domestic inflation would have been even higher.

The detailed report can be accessed at www.sbp.org.pk.
