



External Relations Department

ERD/M&PRD/PR/01/2016-126

December 30, 2016

Preliminary macroeconomic data signals a stable growth momentum during the year – says SBP report

State Bank of Pakistan has today released its First Quarterly Report for FY17 on the State of Pakistan's Economy. According to the report, preliminary macroeconomic data signals a stable growth momentum during the year.

According to the report, a strong growth in sugarcane and maize production, improved production of cotton, and better supplies of minor crops suggest some recovery in the agriculture growth. While acknowledging the subdued performance by large-scale manufacturing (LSM) in Q1-FY17, the report expected that the growth would gain some pace going forward, on the back of supporting policies and encouraging outlook for automobile, sugar, pharmaceuticals and construction-related sectors.

The report also noted the increase in the average headline CPI inflation from 1.7 percent in Q1-FY16 to 3.9 percent in Q1-FY17. According to the report, this increase was expected as inflation had already dipped to ultra-lows last year; further push came from supply-side factors, which included a gradual rise in international prices of some key commodities. For the full-year, the CPI inflation is expected to remain within the target of 6 percent for the year.

According to the report, the large retirement of private sector credit in Q1-FY17 was commensurate with an extraordinary off-take during the month of June 2016. Moreover, a few large corporates also remained shy from borrowing despite the historic low interest rates. A positive development, however, was the higher loan demand for fixed investment purposes, particularly for energy-related capital expenditures.

The report highlighted the increase in fiscal and current account deficits in the first quarter, and pointed out that this YoY increase was driven primarily by the absence of inflows under Coalition Support Fund (CSF). In case of the current account, additional pressure came from a widening trade deficit (with rising imports and declining exports) and a fall in workers' remittances - the first such decline in the past 14 quarters.

On fiscal side, the report noted that the decline in non-tax revenues and lower than expected tax collections, contributed towards a rise in the deficit during Q1-FY17. However, the report appreciated the marginal decline in current expenditures following the cut down in subsidies by the government. Interest payments remained unchanged as the gains realized from low interest rates were largely offset by an accumulation of public debt stock. Furthermore, the report also positively views the increase of 12.4 percent YoY in development expenditures, especially by provinces that scaled up their infrastructure spending during the quarter.

Finally, the report reiterated the role of private businesses for higher growth. In particular, fiscal incentives announced by the government in the FY17 budget and a historic low policy rate offer private businesses an opportunity to demonstrate that they can compete with their peers in other emerging markets and contribute to the growth momentum of Pakistan's economy.
