



External Relations Department

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Economy is maintaining growth momentum despite external headwinds

State Bank of Pakistan has released its First Quarterly Report for FY18 on the State of Pakistan's Economy today. According to the Report, preliminary data on key macroeconomic indicators suggest that growth momentum remained strong in the first quarter of current fiscal year. Several coincident indicators point to a further strengthening of aggregate supply and demand in the economy.

According to the report, with the exception of cotton, other major *kharif* crops achieved or surpassed the FY18 targets. This improvement is supported by sufficient water availability, healthy fertilizer off take and an encouraging increase in agricultural credit disbursements. The large-scale manufacturing also experienced a 10 percent high growth during Q1-FY18 — the highest quarterly growth since FY09. The performance was encouraging as all sectors, barring fertilizer, contributed positively. This broad-based growth can be attributed to: (i) better energy availability, (ii) improved security situation, and (iii) rising consumer demand on the back of higher purchasing power and access to affordable credit facilities. The healthy performance of commodity producing sectors had a positive impact on the services sector as well.

The Report highlighted that timely policy support, favorable cyclical movements, low and stable inflation along with growing confidence triggered an uptick in the private sector credit. In particular, the fixed investment loans expanded for the twelfth consecutive quarter in Q1-FY18.

The Report also observed the noteworthy rebound in FBR revenues on the back of increased economic activity. New infrastructure projects, surge in imports, higher consumption of consumer durables, and increased prices and consumption of POL products significantly contributed to both direct and indirect taxes. Notwithstanding this performance, the Report emphasized on the need for more concerted efforts aimed at expanding the tax base.

It also highlighted that the recent significant gains in export growth and foreign direct investment are welcome developments. However, these gains were not enough to contain the overall balance of payments deficit. On the back of an expanding economy, import payments far exceeded the aforementioned positives and the external sector remained under pressure. The widening of current account deficit along with an increase in economic activity is a recurring phenomenon for Pakistan, and one that has the tendency of disrupting growth cycles. There is, hence, an urgent need to find innovative policy mixes, avenues for raising foreign exchange earnings, and realigning policies favoring export growth.

In brief, the first quarter developments show that Pakistan's economy is well poised to continue on its growth momentum for FY18. However, in order to maintain this virtuous equilibrium of high growth and low inflation in the medium- and long-term, the Report underlines the need to address long-standing structural reforms in the fiscal and external sectors.
