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Pakistan's GDP growth to stay between 5.5%-6.0% range in FY08: SBP Report

Pakistan's real Gross Domestic Product growth is likely to remain in the range of 5.5% to 6.0% in the current 2007-08 fiscal year (FY08), says the State Bank's Third Quarterly Report for the fiscal year 2007-08 (FY08) on the State of Pakistan's Economy which was released today.

The Report said that the country's economy is witnessing some broad deterioration in key macroeconomic indicators due to a combination of adverse domestic and international developments, but it is important to note that the economy has fundamentally gained resilience as a result of structural reforms and liberalization measures over the last fifteen years.

The Report said that inherent resilience of the economy suggests that a policy focus on regaining macroeconomic stability through further reforms, and corrective measures could quickly reinvigorate the growth momentum of the economy.

The Report pointed that Real Gross Domestic Product growth in FY08 is expected to drop below the 6 percent level for the first time in five years, annual inflation is poised to return to double digits, the fiscal deficit is forecast to rise substantially, and the annual current account deficit, as a percentage of GDP, is projected to be at an all-time high.

The Report said over the last 6 months, expansionary fiscal policy has overshadowed and substantially weakened the impact of sustained monetary tightening by the State Bank. This impact of the heavy government borrowings has been particularly evident in FY08, with the borrowings rising to a record Rs 551.0 billion by 10th May, 2008 (compared to only Rs 45.7 billion in the corresponding period of FY07), almost doubling the total outstanding stock of borrowings to Rs 940.6 billion. "This trend cannot be sustained without risking a substantial further acceleration in inflation," it added.

The Report advised that the government has to urgently address the growth of the fiscal deficit as well as to diversify its financing away from the central bank. While information on fiscal developments is only available for H1-FY08, SBP assessment indicates that the Jul-Mar FY08 fiscal deficit (as a ratio of GDP) is likely to be greater than the FY07 annual figure. The new government has indicated an intention to broaden the tax base and rein-in expenditure growth in support of macroeconomic stability, it said and added it has also indicated an intention to diversify the financing of the deficit and reduce dependence on the central bank borrowings. "For the economy to retain its high growth momentum, it is important that these goals are achieved," the Report said.

It said removal of the excessive fiscal stimulus, the increase in administered energy prices, the recent exchange rate adjustments and continued tight monetary stance are expected to help correct the substantial increase in the country's trade deficit. "This correction is overdue," it added.
