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Pakistan's economy grows at 3.6%, inflation falls to single-digit: SBP Annual Report

Pakistan's economy grew at 3.6 percent and inflation fell to single-digit in FY13, says the State Bank's Annual Report on the State of Economy for the year 2012-13 released today. It said soft global commodity prices, downward revision in energy prices and a relatively stable exchange rate allowed the average inflation rate to fall to 7.4 percent in FY13, which was much lower than the 9.5 percent target for the year.

According to the report, robust growth in construction activity and capacity enhancement in a few sub-sectors, supported the industrial sector. Global prices helped contain Pakistan's import bill, and there was some improvement in exports. Furthermore, higher than anticipated Coalition Support Fund (CSF) inflows, and modest growth in worker remittances, reduced the current account deficit to 1.0 percent of GDP in FY13. Notwithstanding favorable developments, growing security concerns and persistent structural weaknesses continue to impede economic growth.

SBP report said that challenges in managing public sector enterprises; the need to expand the tax net to untaxed or under-taxed areas; to contain untargeted subsidies; to tackle theft and leakages in the energy sector; to revitalize the private sector; and to increase documentation, were largely unaddressed during FY13.

"In a repeat from the previous year, the budget deficit exceeded the target for FY13 by a wide margin, as the realized deficit was 8.0 percent of GDP, against a target of 4.7 percent," said the report. It added that the resulting pressure to secure financing, dominated policymaking throughout the year. For the third consecutive year, the energy sector was addressed by paying off the circular debt, which pushed the fiscal deficits above the respective targets for these years.

The report said that, with inadequate external funding, the onus of financing the fiscal deficit fell entirely on domestic sources – specifically the banking system. The government borrowed Rs 939.6 billion from commercial banks, and an additional Rs 506.9 billion from SBP. In effect, Pakistan's domestic debt increased by Rs 1.9 trillion, a 24.6 percent increase from the end of FY12.

According to the report, the lack of external inflows also created challenges in financing the relatively small current account deficit. The financial account recorded a net inflow of only US$ 0.3 billion during the year, compared to US$ 1.3 billion last year, and US$ 5.1 billion in FY10. This, along with significant repayments to the IMF, pulled down SBP's liquid FX reserves to a 55-month low of US$ 6.0 billion by end-June 2013.

According to the report, SBP projects GDP growth in the range of 3.0 - 4.0 percent for FY14, which is higher than the IMF's growth forecast of 2.5 - 3.0 percent. While inflation outlook based on October 2013 data, reported earlier, was in the range of 10.5 to 11.5 percent, a more realistic outlook based on latest data shows average inflation for FY14 to remain between 10 and 11 percent.

It further said that the approval of a 3-year (US$ 6.64 billion) Extended Fund Facility from the IMF, and expected financial support from other IFIs, should bring stability to the domestic FX market in FY14.

The detailed Report is available at SBP website www.sbp.org.pk.

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