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Economic activities have gathered pace in Q1-FY16 and need to be sustained, says SBP Quarterly Report

The State Bank of Pakistan submitted its First Quarterly Report of FY16 titled 'The State of Pakistan's Economy' to the Parliament today. According to the report, notable improvements in the key macroeconomic indicators during the first quarter of the year can be observed; however, much needs to be done to ensure their sustainability.

The report states, 'Taking comfort from visible improvement in macroeconomic environment, SBP initiated monetary easing in FY15, which continued during the first quarter of FY16. This policy stance was augmented by a pro-growth budget for FY16. In addition, marked improvement in security conditions, relatively better energy management, and persistently low global commodity prices, have positioned the economy to further improve on its performance going forward.'

According to the SBP report, some improvements were already visible from the changes in key macroeconomic indicators during the first quarter of the year. Economic activity seems to be gearing up as large scale manufacturing recorded a noticeable increase over the last year. Further, the current account deficit narrowed, which was comfortably financed by higher financial inflows; the country's FX reserves recorded all time high levels, and were sufficient to finance import bill of seven months; fiscal deficit was reduced, along with a shift in its financing away from SBP; and inflation remained on low trajectory.

In the report, SBP mentions that while these positive developments are welcome, much needs to be done to ensure their sustainability. Following are some points of concern:

Although budget deficit for Q1-FY16 was lower than the same period last year, tax collection could not post the required growth. In order to keep the fiscal deficit within target without compromising on development spending, tax efforts have to be increased manifold, particularly by widening tax base and effective enforcement. It would be pertinent to mention here that with recent tax measures, FBR taxes have shown a significant YoY growth of 16.8 percent in Jul-Nov FY16.

Loss making PSEs remained a contingent liability on scarce fiscal resources. The privatization process of such PSEs is still at initial stages. This must be expedited to improve quality of services, and stem losses to the exchequer;

Dwindling exports continued to eclipse overall healthy performance of the external sector. Specifically, exports recorded a year-on-year decline for the 3rd quarter in a row. More disturbingly, this decline was attributed primarily to lower quantum;

In addition to exports, FDI also needs to contribute more towards external sector sustainability. While it is encouraging that FDI from China is likely to increase due to progress on various infrastructure projects under the CPEC, the country also requires foreign investment in exportable sectors; and

Extreme weather conditions in recent years have increased vulnerability of Pakistan's agricultural sector. In FY16 also, *Kharif* crops (cotton and rice) have suffered from heavy rainfall.

Finally, the report adds, it is encouraging that 9th review of the IMF program has been completed successfully and several important reforms have been introduced, like independent statutory Monetary Policy Committee, Credit Bureaus Act, etc. However, the slow progress on privatization process and persistent distribution & transmission losses in the power sector remain a challenge.

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