REVIEW OF PAKISTAN'S ECONOMY

- The economy of Pakistan has been undergoing a **stabilization phase** since the last three years.
- The country faced **multiple adverse shocks** of commodity and oil prices and the fallout of the global financial crisis.
- This year saw the unprecedented calamity of the great floods. These floods wiped out about **2 percentage points from the growth** as well as inflicted a **massive damage of $10 billion** on country's economic structure. Some **20 million people were displaced** as **more than 50,000 Sq. Km area** was submerged in water.
- **Exports** registered a growth of 28 percent in the first 10 months of the year compared to same period last year. Crossing the **$20 billion** mark for the first time, exports are set to exceed $24 billion. **Trade surplus** is of nearly **$748 million**.
- The **remittances** have also recorded a strong performance by crossing the double digit mark and are set to reach the historic level of more than **$11.2 billion**.

- For most of last fiscal year, **inflation** was coming down, but the shocks of floods and oil price have reversed the declining trends. It should be noted that with rising commodity and oil prices, inflation has affected all countries both regionally and globally. Two price indices like **CPI and SPI** witnessed a clear downtrend in recent months; however**, WPI** remained on upward trajectory. However, in the second half of the year, the rising inflationary trend has been stemmed and inflation is now hovering around 14 percent.

- The overall monetary survey indicated modest growth in monetary aggregates.

- The Real GDP growth is estimated to remain at around **2.4 percent**. The set back was due to the agriculture sector which was badly affected by floods. However, the strong performance of services sector which grew at 4.1 percent has kept the overall growth in a reasonable range.

- **Monetary developments:** The SBP has kept its **tight monetary policy** stance for some time. The SBP has raised the policy rate by 150 basis points (bps), staggered in three stages of 50 bps each, since July 2010. SBP raised the policy rate by 50 bps to 13 percent on 2nd August 2010. Soon after this the economy experienced an exogenous shock in the form of massive Floods which engulfed almost one-fifth of the country. The inflation became a challenge in the aftermath of the floods which compelled the SBP to raise the policy rate further by cumulative 100 bps points to 14 percent up to 30th November 2010. Since then the need for further adjustment in policy rate was not felt simply because the inflation had started moderating and fiscal discipline was restored, with government borrowing from SBP significantly brought down.

- **Government borrowing** for budgetary support has recorded an increase of Rs.614.2 billion as compared to Rs.397.6 billion in the comparable period of the last year. The SBP financing has shown a net increase of Rs.146.8 billion and financing from scheduled banks witnessed a net increase of Rs.467.4 billion during July 01, 2010- May 21, 2011.

- Weighted average **lending rate** increased from 13.3 percent in April 2010 to 14.4 percent in April 2011. Weighted average deposit rate on the other hand has fractionally decreased from 7.37 percent in April 2010 to 7.35 percent in April 2011 which implies increase in the spread amidst intensive deposit mobilization efforts on the part of the banks. The weighted average yields on 6 months T-bill has increased by almost 141 bases points to 13.46 percent in April 2011 as against 12.05 percent in April 2010.

- **External Debt and Liabilities** (EDL) stood at $ 59.5 billion by end-March 2011 up from end-June level of $55.9 billion. The major chunk originates from translation impact of weaker dollar against major currencies such as euro and yen.

- The **Economic Stabilization Program** of the government includes measures like:

(i) Broadening of tax base through reformed GST and other tax measures;

(ii) Elimination of subsidies especially the power sector subsidies and

(iii) Amendment in SBP Act to place limit on government borrowing from SBP; and

(iv) Direct cash grants to poorest of the poor through Benazir Income Support Program (BISP) and Watan Card Scheme for flood affected people.

In addition to above; the **Reform Agenda** in the economic and financial sector also include:

- Restructuring of Public Sector Enterprises
- Power Sector Reforms
- Debt management strategy
- Fiscal austerity to reduce fiscal deficit
- Tight monetary policy to check inflation
- Building foreign exchange reserves to stabilize the exchange rate
- Promoting exports
- Incentivizing home remittance
- Strengthening social safety nets to mitigate impact of stabilization measures through Benazir Income Support Program (BISP)
- Promoting growth, and raising domestic revenues
- Rationalizing subsidy regime to reduce pressure on the budget
- Tax administration and policy reform to mobilize domestic resources.

The above reforms agenda is comprehensive as it takes into account the major challenges that remain on horizon. In the years ahead government is determined to sustain macroeconomic stability, spur growth through the new growth framework that relies more on building peoples, markets and institutions of governance and other softer sides of intervention as opposed to single-minded focused on brick and mortar infrastructure. Inclusive growth will only be possible when people are empowered and their productivities are enhanced to a level where they can compete confidently at the global level.

(Reference: Pakistan Economic Survey 2011-2012)