

### **Economy will improve within a year, says SBP governor**

ISLAMABAD: Conceding twin deficits as biggest challenge confronting Pakistan's economy, the State Bank of Pakistan (SBP) Governor Dr Reza Baqir on Thursday said the economic condition of the country will improve within a year.

He defended exchange rate policy under the IMF conditions arguing that it should be reflective of demand-supply gap of total dollar inflows and outflows. He also said the biggest risk being faced by the country was on domestic front and that was in shape of 'cynicism' as there is need to be optimistic and not fall prey to those who are out for promoting cynicism.

"The overvalued exchange rate kept in the past was tax on exporters and subsidy provided to importers and it took toll on our foreign exchange reserves," Reza Baqir said while addressing conference-cum-lunch organised by Ikram Sehgal, Chairman Pathfinder Group in the honour of visiting the World Economic Forum (WEF) president here on Thursday.

The SBP governor said the compliance on Financial Action Task Force (FATF) was in the interest of Pakistan as there was commitment at the highest level to make decisive progress. He said that there was need to focus on three areas including giving all out support to ensure competitiveness as exchange rate depreciation was not ultimate solution.

The solution, he said, lies in competitiveness and getting viable exports as no country had ever made progress without boosting exports. Secondly, he said cooperation from potential taxpayers was needed as the government was conscious that squeezing of already existing into tax system would not help achieve equitable and fair taxation system. Thirdly, he said partnership with the international community was important as the government moved and now the IMF package got approved as it would help credibility and seriousness for undertaking crucial reforms. He said the IMF programme would also help getting cheap borrowings.

Reza Baqir said the president of WEF was visiting Pakistan at a time when the country was facing challenges, but InshAllah, he would be among those who saw changes happening on the ground. He elaborated two causes of recent economic challenges including external deficit and fiscal deficit. He said the gap between dollar inflows and outflows had risen to \$2 billion per month. It used to be zero on monthly basis over few years back, he maintained.

At same time, he said the exchange rate was not reflective of demand-supply gap and overvalued real effective exchange rate proved tax for exporters and subsidy for importers, resulting into heavy toll on foreign exchange reserves position. He said foreign exchange reserves had depleted rapidly.

"The second cause of economic challenge is fiscal deficit," he said, and added that public debt had gone up and exceeding 70 percent of GDP. He said that they took definitive steps to overcome twin deficits as the current account deficit, which was hovering around \$2 billion per month, was halved to \$1 billion.

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