

Economy showing signs of recovery: SBP

KARACHI: The biggest challenge is uncertainty in the economy but the country has been coming out from difficult times as the two big challenges of current account and fiscal deficits are being addressed properly, said the recently appointed Governor of the State Bank of Pakistan Reza Baqir on Monday.

“We are decidedly addressing issues of current account and fiscal deficits, the two biggest challenges for the economy,” Dr Baqir asserted while speaking on Economic Outlook of Pakistan.

Explaining the current economic situation with a few graphs to the media, the SBP governor said the current account deficit was coming down and this year it would be around \$13 billion compared to \$20bn of the fiscal FY18; thus saving \$7bn.

He rejected the impression that decline in current account deficit was due to low oil prices and said if the average oil price in FY18 was considered for FY19, the deficit could further go down to \$10bn.

He said the SBP was fighting inflation by increasing the interest rate.

“This was the only choice to fight the inflation but finally it will help to get control over fiscal deficit as well as inflation,” he added.

Obligations required for deal with IMF complete, says Reza

The governor made it clear that the exchange rate regime was market-based but it was not free float. “We will continue with the market-based exchange rate but no free float. We keep a close eye on exchange rate and help market to stabilise in case of volatility in the market, but there would be no fixed rate like it was in the past,” he said.

His figures showed that current account deficit was rising when the exchange rate was fixed and the deficit declined (during this fiscal FY19) when the exchange rate was left to market.

In reply to questions about the final or real value of the dollar against the Pakistani rupee, the SBP governor said in Egypt their currency was fixed at eight pounds per dollar, when the exchange rate was freed it touched the real value of 18. On the black market, the US dollar was available at 18 Egyptian pounds. However, he said, in case of the Philippines the local currency emerged stronger to 39 compared to 55 when the exchange rate was fixed.

Dr Baqir said when the economy improved the exchange rate also improved in favour of the economy. He said a market-based exchange rate would improve with higher inflows to balance the supply and demand.

He said market-based exchange rate was good for exports and imports. He said it would help competitive local industry with the imported goods. Like the shoes industry in Pakistan was facing difficulties to survive due to cheaper inflow of foreign shoes, he added.

The SBP governor said that with staff-level agreement with the International Monetary Fund (IMF), positive signals would go to all segments of the economy, investors and financial institutions.

“We have completed the obligations required for the agreement with the IMF and on July 3 the IMF board meeting would decide in favour of Pakistan,” he said confidently.

He said the details of agreement with the IMF would be released by the IMF after approval in the board meeting. “This is the beginning of relations with the IMF,” he added.

He was of the opinion that agreement with the IMF had greatly increased the confidence of international institutions and investors in Pakistan’s economy.

About the fiscal deficit, Dr Baqir said the increased interest rate would curtail the fiscal deficit while the government’s decision not to borrow from SBP was a great step to bring down inflation.

“The government borrowing from the State Bank is inflationary in nature. It would give positive signals from domestic to international investors and boost their confidence in the economy,” he said.

He said due to a large fiscal deficit and debt accumulation, poor segment of the population was neglected. “This was the first austerity budget affectively addressing the social aspects of the economy,” he added.

He made it clear the only nationality he had was that of Pakistan and said he had cross-country experience that would help his team in Pakistan to address challenges and issues.

In the next monetary policy, he said, the SBP would assess the developments that had so far emerged in the economy due to the reforms. Dr Baqir said: “We should be forward looking and would like to adopt flexible inflation policy.

“There is no need to bring down the current account deficit at zero level. What is required is to maintain a balance between inflows and outflows,” he added.

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