DAWN

Editorial

8th January, 2020

SBP report

THE first detailed report of the State Bank on the economy in the first quarter of the ongoing fiscal year has just been released and it paints a disquieting picture of the developments it covers. The headline item in the report is the State Bank's assertion that the economy is unlikely to meet the GDP growth target of 4pc by the end of the fiscal year. On the face of it, this is not a thunderous announcement, especially since much of it has already been noted by the IMF and the Asian Development Bank. But coming from the State Bank, it carries additional weight; after all, it is a Pakistani institution that is adding its voice to the growing chorus of scepticism over this target. It is important to keep this in mind, because many of the other projections that the government is counting on, principally on the revenue side, depend on this target. An acknowledgement that the overall slowdown in the economy is set to persist is significant, and unless the second quarter sees some real green shoots of recovery, there is little reason to doubt what the State Bank is pointing out. Needless to say, all indicators thus far confirm that the second quarter has seen no meaningful uptick in the pace of economic activity.

Alongside this, the bank also stands by its inflation forecast, saying average monthly inflation as measured by the Consumer Price Index will remain within 11pc-12pc by the year end. This forecast could be challenged, given the large fuel and power price increases that have just been, or are about to be, passed through. Monthly average inflation is already hovering near the upper limit of this forecast, at 11.8pc, and further pressures might push it to breach the ceiling. How the government manages to keep this pressure in place, while actively trying to quicken the pace of economic growth in the remaining months of the fiscal year, is not yet clear. Additionally, a detailed reading of the report shows that the fiscal indicators may well have become better, but much of this improvement has been achieved through price increases in power and fuel, from where a large portion of the incremental tax collection has come. Given the details revealed in the report, it is unlikely that stabilisation efforts are going to end anytime soon.