

GDP to grow by 2.5pc in FY21: SBP

KARACHI: The State Bank of Pakistan (SBP) expects GDP growth to stay within the range of 1.5–2.5 per cent in FY21 against the target of 2.1pc set by the government, said the annual State of the Economy report for 2019-20 issued on Wednesday.

This year-on-year improvement is expected to come from a steady performance of agriculture and a recovery in the services sector, especially finance and insurance, and transport and communications.

However, the report said that these growth projections are subject to risks, including from the evolution of Covid-19, extreme weather conditions, external demand, and progress on the reform front.

“As a result, while a rebound in growth is expected in nearly all the regions in 2021, downside risks remain high,” said the report.

The overall global economic outlook also remains uncertain due to high infection rate in some countries, expiration of temporary unemployment support measures in the US, and continuation of the US trade dispute with China, said the report.

For the full year, the SBP expects export to clock in the range of \$23.4–23.8 billion in FY21 – higher than the \$22.5bn recorded in FY20.

Similarly, the SBP expects full-year imports to remain higher than last year, given the anticipated pickup in economic activity following the lifting of lockdowns, and firms’ efforts to replenish inventories.

In particular, the concessions for the construction industry and progress on housing finance would revive steel imports, the report added.

The report said that there are also some upside risks, especially in the context of resurgence in business confidence in the country following the ease in lockdowns and falling Covid-19 cases.

“The debt servicing relief of \$2.7bn (equivalent to 1pc of GDP) provided to Pakistan under the G-20’s Debt Servicing Suspension Initiative will help create expenditure space for Covid-19-related spending,” said the report.

Overall, the SBP expects headline inflation to fall within the range of 7-9pc in FY21 against the target of 6.5pc. The CPI in FY20 was 10.7pc.

The report said the fiscal deficit could be in the range of 6.5-7.5pc in FY21 while the government had set the target at 7pc. The fiscal deficit in FY20 was 8.1pc.

The SBP estimates the country's current account deficit in the current fiscal year at 1-2pc against the target of 1.6pc; the deficit was 1.1pc in FY20.

The report predicts that the remittances in FY21 would be in the range of \$22-23bn while the target was \$21.5bn. In FY20, the remittances were \$23.1bn.

With the improvement in Pakistan's macroeconomic fundamentals, the SBP foresees economy to resume on path towards recovery on which it had embarked prior to the Covid-19 outbreak, said the report.

For the first time in Pakistan's history, the exchange rate depicted orderly two-way movement reflecting FX availability in the interbank market. In fact, the SBP's net FX reserves buffers increased by approximately \$7bn during the fiscal year despite the pandemic outbreak.