INTERNATIONAL THE NEWS

Erum Zaidi

19th November, 2020

State Bank forecasts growth to rebound 1.5 to 2.5 percent in FY2021

KARACHI: The State Bank of Pakistan (SBP) expects the economy to grow in the range of 1.5 to 2.5 percent for the current fiscal year of 2020/21 as it says there has been a visible rebound in economic activity after easing in mobility restrictions.

"The economy is poised to resume the trajectory of recovery on which it had embarked prior to the Covid-19 outbreak," the SBP said in the annual state of Pakistan's economy report on Wednesday.

"While much will depend on the future global trajectory of the Covid-19 pandemic, there are reasons for optimism, including recent encouraging news on the vaccine front," it added. The government set the GDP growth target at 2.1 percent for FY2021 due to an expected steady performance of agriculture and a recovery in the services sector, especially finance and insurance, and transport and communications, according to the SBP. The State Bank said industrial performance is also estimated to post a modest recovery, primarily on account of a much contained contraction in large-scale manufacturing as compared to FY2020. The real GDP contracted 0.4 percent in FY2020 – the first contraction in 68 years – compared to the government's target of 4 percent.

"Pakistan's economy was on course towards steady recovery by February 2020 following moderation in the twin deficits," said the SBP. "However, the nascent recovery was abruptly disrupted by the domestic onset of COVID-19."

The State Bank underscored a need to build on the important progress made on the reform front so far, and address the economy's structural bottlenecks to boost competitiveness, improve the business environment and raise the economy's growth potential. "While the prevalent risk of another spike calls for a continuation of social distancing norms, the reopening of the economy (including services) has helped reduce some of the uncertainty around the overall macroeconomic outlook," it said. The SBP expects export values within the range of $23.4 to 23.8 billion in FY2021 – higher than the $22.5 billion recorded in FY2020. Preliminary customs' records for the first quarter of FY21 show a decline of 0.7 percent year-on-year in the country's exports, although a 7 percent increase was recorded in the month of September. 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.

The SBP said the concessions for the construction industry and progress on housing finance would revive steel imports. In addition, lower domestic production and supply-management issues have necessitated imports of wheat and sugar. Energy imports, however, would depend on the ongoing substitution trend between imported and local fuel sources. Though oil prices have more than doubled from 19-year lows ($ 19/barrel) in April 2020, Brent still hovered around $ 40 per barrel by end-October.

“Through the end of CY2021, the crude oil market is projected to remain range-bound – due to weaknesses in the aviation sector and the risk of re-imposition of lockdowns amid a still high number of active Covid cases,” said the SBP. However, an expected increase in power and gas tariffs together with resurgence in wheat and sugar prices would pose an upside risk to energy and food inflation. In contrast, the non-food-non-energy segment of consumer inflation is expected to ease further, as chances of a significant pick-up in domestic demand remain low due to weak financial position of businesses and households, it said.

The SBP expects headline inflation to fall within the range of 7-9 percent in FY2021. The State Bank sees continued challenges on the fiscal side as the government continues to focus on addressing COVID-related economic and social outcomes and supporting the initial economic recovery. For the full-year, the government has set the target for the fiscal deficit at 7 percent of GDP, with the primary balance also estimated to show a deficit of 0.5 percent. The SBP’s projection for fiscal deficit is 6.5 to 7.5 percent as compared to 8.1 percent a year earlier. The current account deficit is projected at 1 to 2 percent against the government’s target of 1.6 percent and actual 1.1 percent in FY2020.