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Our Correspondent

FPCCI says C/A surplus offspring of growth suppression

KARACHI: The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) on Wednesday termed current account surplus as the result of the contraction in economic growth due to curb on industrial imports.

Pakistan achieved current account surplus of $424 million in July after logging a deficit of $100 million in June due to some recovery in exports and increase in remittances with support from several policies and administrative initiatives taken by the central bank.

"But it is also the fact that the massive decline in imports inhibited economic activities, ultimately hitting the GDP growth rate," Anjum Nisar, president of the FPCCI said in a statement. "Drop in current account deficit is a big achievement as a sign of macroeconomic stability but it is never beneficial for industrial growth – the real indicator of economic performance and development of a nation."

Nisar, citing the World Bank, agreed that policy adjustments in Pakistan to address macroeconomic imbalances weighed on aggregate economic growth. The World Bank projected negative growth of 1 percent for Pakistan in the current fiscal year of 2020/21 as against the government's projection of 2.3 percent. The State Bank of Pakistan said the contraction in GDP is due mainly to decline in activities of industrial and services sectors.

GDP growth declined from 5.5 percent in 2018 to almost 3 percent last year before corona, indicating that government managed to ease current account deficit by chocking the economy.

"Unfortunately the present turnaround was largely due to the drop in imports, leading to an incisive slowdown in growth after unprecedented hike in markup rates in the past and rupee devaluation of over 45 percent, which sent shockwaves throughout the economy," he said. "The industry raw materials, which are even not being manufactured in the country, have also been included in list of product with high import duties."

FPCCI president said the government succeeded in narrowing the deficit from a historic high of $19.8 billion in FY2018 to $13.8 billion in FY2019.

"The large decline in imports has been the real force behind the reduction in the deficit because exports went up nominally," he said. "Despite massive decline in rupee's value, the country's exports have failed to record any visible improvement."

Nisar said the government's harsh import policy along with high cost of doing business due to continued hike in fuel rates and energy tariffs almost halted the industrial production.

"For the first time during the decade, the growth in large-scale manufacturing sector was restricted to 3.5 percent in the last fiscal year after almost all major industries reported decline in their outputs, raising concern over a deepening economic slowdown and a increasing unemployment," he said.

FPCCI emphasised the need for continued process of institutional reforms that ensure financial discipline with a view to consolidate the process of stabilising economy. Structural transformations are required in all sectors, including agriculture, industry and services, to improve productivity and export competitiveness, he said.