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Economy showing signs of recovery

ISLAMABAD: The finance ministry has predicted low inflation and acceleration in economic activities in the second half of current fiscal year but it is unsure about the inflation reading for this month and has given a wide range of 5.5% to 7.5%.

The Federal Board of Revenue (FBR) also achieved its downward revised eight-month tax collection target of Rs2.9 trillion with a 6% growth in revenues.

However, the growth in monthly collection was almost flat, as the FBR provisionally received Rs327 billion in February. The FBR had revised down the monthly target to Rs327 billion, which was almost at last year's level.

In its economic outlook report for February, the Ministry of Finance said that prospects of economic growth were showing visible signs of improvement and would continue to show improvement in the second half of current fiscal year.

The ministry said that the future inflation rate may follow a lower path but it unexpectedly gave a wide inflation range of 5.5% to 7.5% for February - just two days before the end of month. This suggests that the ministry is uncertain about the inflation reading. In January, the inflation rate decelerated to 5.7% on an annualised basis due to a steep reduction in prices of perishable food items.

The finance ministry did not discuss the impact of double-digit growth in money supply in the market on the inflation rate.

The ministry mentioned the money supply only for July 1 to February 12 of current fiscal year, when it increased by Rs732.2 billion or 3.5%.

It did not talk about the total money supply which increased by Rs1.04 trillion to Rs6.54 trillion - up 19% - till February 12 on an annualised basis.

The finance ministry noted that in agriculture, a downside risk to cotton production still persisted, however, it was expected that better production of other Kharif crops would mitigate the risk.

Furthermore, for the Rabi season 2020-21, wheat crop is expected to achieve the production target.

During the current Rabi season (Oct-Dec), urea offtake was recorded at 1,827 thousand tonnes, which decreased by 1.1%, while DAP offtake stood at 791 thousand tonnes, also down 8.9% over the same period of previous season.

The finance ministry said that one of the reasons of low offtake during Rabi 2020-21 was unexpectedly high offtake of DAP during the previous months. It said that large-scale manufacturing remained positive on a monthly basis in the current fiscal year.

LSM surpassed its preCovid production level in December 2020, recording 11.4% growth on a year-onyear basis. It said that the overall economic recovery was on its way and may accelerate in the coming months.

Especially industrial sectors have started showing robust growth. Timely measures of the government are supportive in spurring economic growth, decelerating inflation and at the same time preserving external balance, said the ministry.

Commenting on the external sector, the finance ministry said that imports in February were expected to remain lower or at around the same level as observed in January 2021.

On the other hand, exports are expected to pick up to a higher level. As a consequence, in the baseline scenario, the trade balance is expected to show further improvement as compared to the previous two months.

The finance ministry admitted that exports showed a cumulative negative growth of 3.8% during the July-January period of current fiscal year.

It claimed that impetus had been given to exportoriented industries by fixing the power tariff at $0.07/unit and gas tariff at $0.065/mmbtu. Banks have also been directed by the State Bank of Pakistan (SBP) to increase their construction sector loans to 5% of their total portfolio by December 2021.

The ministry said that loans to private sector business - demand for working capital loans - had shown expansion of only Rs39.8 billion during the Jul-Jan period of current fiscal year compared to Rs63.8 billion last year.

But fixed investment loans increased by Rs111 billion against retirement of Rs5.6 billion last year.

Under subsidised schemes, Long Term Financing Facility (LTFF) loans increased by Rs80.6 billion compared Rs24 billion last year. Under the Export Finance Scheme (EFS), the private sector credit increased by Rs77.2 billion against Rs68.7 billion last year.