economicletter

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Pakistan

The SBP in its third quarterly report (January – March 2015) on the "State of the Economy" has predicted that GDP growth in the full July - June 2014 - 15 fiscal would be higher than 4.34% achieved in the 2013 - 14 fiscal. Although the growth realized in 2013 - 14 was lower than the largest of 5.1 % of it was yet highest since 2007 - 08. Some of the relatively more important aspects and forecasts of the Report are noted below:

- stability in the exchange rate due to prudent monetary management has led to containment of CPI inflation well below the full fiscal target of holding it to 8.0% year-on-year, or less;
- although a shortfall in the agricultural total output is on the cards, the shortfall in its contribution to the GDP, would be offset significantly by growth rates in the services and manufacturing sectors;
- the supply of adequate energy which is greatly stifling potential growth prospects, is likely to ease with the import of LNG in the power sector system;
- the fall in international oil prices would certainly, bring down the cost of production in all the productive sectors of the economy;
- the construction sector of the economy seems set to grow fast as the China-Pakistan Economic Corridor gets going from the 2015-16 fiscal;
- higher fixed capital formation is most likely as cost of production declines and terrorist networks are dismantled in the continuing operations against banned outfits;
- the woes of some public sector enterprises need to be redressed currently adversely straining governments resources which can be better utilised in augmented public sector development programmes (PSDPs) both at the central and provincial levels;
- while gross revenue collection has been progressively rising it is yet far from desirable tax-to-GDP ratio;
- documentation of the economy holds the key to growth as the shadow economy disrupts government's indicative planning posture;
- the trade sector imbalance needs attention via incentivised exports and lowering of imports through transfer of technology;

Markets at a glance

Weekly Review	KIBOR (6 months)		Foreigen Exchange Rates			KSE	Gold Rate
	Bid %	Offer %	GBP(£)	EURO(€)	USD($)	100 Index	(10 gm)
Beginning	6.80	7.05	Rs. 160.0	Rs. 111.50	Rs. 103.20	35,911	Rs. 39,085
Ending	6.78	7.03	Rs. 157.54	Rs. 111.34	Rs. 101.81	35,759	Rs. 37,371
Change	-0.02	-0.02	-2.46	-0.16	-1.39	+152	-1714

- structural reforms need to be put in place to achieve a sustainable growth path.

According to SBP, private foreign direct investment (FDI) during the July - June 2014 - 15 fiscal fell to $ 709.3 mn against $ 1.698 bn in the 2013 - 14 fiscal. Foreign portfolio investment rose to $ 924.6 mn against $ 622.8 mn during the above periods.

According to SBP, the current account deficit during the July-June 2014-15 fiscal narrowed to $ 2.28 bn against $ 3.13 bn in the previous fiscal.

According to SBP, total liquid foreign exchange reserves as on July 7, 2015 stood at $ 18.677 bn of which $ 13.543 bn was held by SBP and the rest with banks.

According to Pakistan Bureau of Statistics (PBS), f.o.b data total merchandise export earnings in the 2014 – 15 fiscal fell to $ 23.885 bn against $ 25.110 bn in the 2013 – 14 fiscal. Total merchandise import payments during the above periods were recorded at $ 45.980 bn against $ 45.073 bn.

According to PBS, exports of the services sector during July – May 2014 – 15 rose to $ 5.367 bn against $ 4.972 bn in the same period of 2013 – 14. Imports of the sector during the above periods were recorded at $ 7.389 bn against $ 7.311 bn.

According to Pakistan Bureau of Statistics (PBS), the large-scale manufacturing (LSM) sector registered a growth of 3.3 % during July – May 2014 – 15. Over the same period last fiscal, led by a growth of 5.9% in May.

International

Banks in Greece have reopened after remaining closed for seven consecutive days following the emergency bailout package of $ 96 bn provided to it by the 28 nation European Union (EU) bloc countries. Some of the weak and small banks seem destined to go bust as depositors withdraw their weakened deposits and non-performing loans (NPLs) mount.

Uncertainties surrounding the July 5, 2015 referendum in Greece led to a pruning of over $ 3.1 trillion in the value of shares in stock markets across the globe with the Shanghai market being the worst sufferer.

India has simplified rules for foreign companies to invest in its banking sector by clubbing together different categories currently applicable. Smaller banks stand to gain most.

CPI inflation in Britain fell back to zero percent in June after having risen by 0.1% in May, both year-on-year, stoking up fears that the country may court a deflationary spell this disincentirising new fixed capital investment required for high GDP growth rates.

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