Institute for Policy Reforms

Press Release, 25 March 2015

SBP's Monetary Policy Statement Gives too Optimistic a Picture

A positive story cannot replace sound policy or change indicators of economic trends. This is the reading from a Fact Sheet released today by the Institute for Policy Reforms on the State Bank of Pakistan's Monetary Policy Statement (MPS) for March 2015. In IPR's view, the MPS takes an overly optimistic of government's economic performance. It fails to refer to economic problems, which will hinder economic performance in months to come. As an autonomous institution, it is expected that SBP would take notice of these happenings

The MPS estimates that growth rate will exceed FY 14 outcome of 4.1%. It is not clear how this growth rate will be achieved as in the first seven months large scale manufacturing has shown sluggish growth rate while the agricultural sector has been hit by the floods (albeit less than originally anticipated). According to IPR, it will be surprising if the agricultural sector registers a growth rate of more than 3% in 2014-15

According to MPS, the inflation has come down from 8.2% in June 2014 to 3.2 % in February 2015. IPR notes, however, that this is mostly because of precipitous decline in international oil prices. IPR states that inflation rate will rise in the next few months since international oil price has risen by 20% in February, andbecause of higher gas prices accompanied by high procurement price of wheat.

The MPS fails to highlight the high level of government borrowings from commercial banks in FY 2015, which has led to a 'crowding out' of credit to the private sector. The retirement of commodity financing is slow at Rs 55 billion as compared to Rs 133 billion last year. Export of wheat was not possible, despite subsidy, because of its low price in the international market.

The MPS praises the Government for restricting the fiscal deficit to 2.2% of the GDP, in the first half of 2014-15. The reason for this is the limits on expenditure. There is negative growth in expenditure of debt servicing and releases for PSDP are only 24% of the annual target in the first six months. IPR estimates that the fiscal deficit in the first eight months has jumped to 3.7% of the GDP. It seems likely that the deficit will exceed 4.9% of the GDP in 2014-15. FBR will fall short by almost Rs 200 billion in meeting the annual target. Moreover, on 6 March 2015, the cash surplus of the four Provincial Governments combined is only Rs 77 billion, well below budgeted amount.

The MPS highlights the decline in the current account deficit in the first eight months of 2014-15. The decline in exports has been more than compensated by the buoyancy of home remittances,fall in imports,large CSF payment, and other inflows like the Ijara-Sukuk bond flotation and releases from the IMF.

FDI has stopped growing. Net external concessional assistance from traditional donors too has decreased. Therefore, the financial account of the balance of payments has become more vulnerable.

Finally the rupee has risen in value with respect to Euro. Can Pakistan retain its competitiveness in the EU, despite the presence of GSP+ ? The SBP will need to explain its exchange rate policy, it says.