Economy Brief

August 2013 Monthly

Taming the energy crisis in short term and its complete resolution in the long term has remained the foremost priority of the government since assuming power three months back. To this end the circular debt of Rs 480 million has been settled and progress has been made on curbing line losses owed to energy theft. These measures coupled with the seasonal rise in water levels of the dams and the decline in mercury levels have helped reduced the duration of power outages in the country. A number of projects for generation of electricity including the ones to be located in Gidani are on the anvil. These measures augur well for the resolution of energy crisis and for giving the much needed boost to the economy. However the recurrence of the circular debt (if media reports are to be believed) is a cause of concern and calls for steps aimed at addressing the issue on a permanent basis.

Given the prevailing macroeconomic environment the government decided to approach the IMF in July 2013 for an Extended Fund Facility to the tune of $7.3 billion. The loan from IMF will not only on its own support the weak balance of payments position but will also help Pakistan secure funding from multilateral institutions like World Bank, ADB and IDB and international financial markets. In fact Pakistan has already secured a loan of $150 million from IDB after making the funding request to the IMF.

The IMF has set certain prior conditions to be met for the loan request to be considered. Reportedly the priors include mopping up dollars from the market to jack up the low level of foreign reserves, ensuring that the provinces post a budget surplus and widening the tax base by chasing tax defaulters. As Pakistan has made sufficient progress on meeting the priors therefore it is very likely that the Fund will accede to the country's loan request.

The inflation (CPI) spiked during July 2013 to 8.3 percent (June 5.9) and inched up further to 8.5 percent by the end of August 2013. This happened on the back of depreciation of exchange rate, increase in fuel and utility prices, the one percentage point increase in GST announced in budget FY 2013-14 and somewhat easing of the monetary policy in June 2013 (The SBP's discount rate was slashed by 50 basis point to 9.0 percent on June 24, 2013). The increment in fuel and utility prices, the depreciation of exchange rate, the surge in inflation and the slight increase in foreign reserves during the last week of August all seem partially related to the IMF prior conditions. The increase in international oil prices has also contributed to the spike in inflation. Media report suggests that the government has budgeted for the purchase of oil at an average rate of $110 per barrel during 2013-14. The oil was trading at $117 per barrel on August 29 and if the Syrian crisis worsens the price may go up further. This would have adverse implications for the macroeconomic situation with the fiscal deficit, inflation, exchange rate, foreign reserves and trade deficit coming under pressure. However, currently the Syrian crisis seems on hold.

According to media reports provisional figures released by FBR suggest that during the first two months of the current fiscal year the FBR has collected revenues to the tune of Rs. 279 million against the budget of Rs. 286 million.

The overseas Pakistanis remitted an amount of $ 1,404 billion during July 2013. This reflects an increase of 21 percent over the June 2013 and 16 percent over the corresponding month of the previous year. The increase is broad based with remittance from almost all the countries registering an increase. The secular growth in remittances over the last couple of years is partly owed to better institutional arrangements for the speedy transfer of funds. It appears that the potential for increment in remittances by improving the institutional arrangement is yet to be exhausted.

The large Scale manufacturing index grew by mere 2.3 percent in May 2013. However the manufacturing activity picked up slightly in June 2013 with the index registering an increase of 4.3 percent. The LSM growth is very sensitive to supply of energy. If the provision of energy continues to improve consistently this augurs well for the manufacturing sector.

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Selected Economic Indicators						
Indicators	Measurement Unit	August 2013	July 2013	August 2012	Month on Month Growth (MoM) %	Year on Year Growth (YoY) %
Foreign Reserves	US$ Million	5,020	5,203.8	10,392	-3.5	-49.9
SBP's Discount Rate	%	9.0	9.0	10.5*		
Exchange Rate		104.55	101.0	94.46	3.5	10.7
6-month KIBOR	% p.a.	8.9	8.8	10.5		
6-month LIBOR	% p.a.	0.39	0.4	0.71		
	Measurement Unit	**July 2013**	**June 2013**	**July 2012**		
CPI	%	8.3	5.9	9.6		
SPI	%	9.8	7.9	7.7		
	Measurement Unit	**June 2013**	**May 2013**	**June 2012**		
LSM	%	4.8	2.7	–0.4		
	Measurement Unit	**July-June 2013**	**July-May 2013**	**July-June 2012**		
FBR	Rs. Billion	1,940.9	1,680.9	1,882.7		
	Measurement Unit	**July 2013**	**June 2013**	**July 2012**	**Month on Month Growth (MoM)**	**Year on Year Growth (YoY)**
Imports	US$ Million	3,390	3,174	3,430	6.81	–1.17
Exports	US$ Million	2,206	2,009	2,024	9.81	8.99
Trade Deficit	US$ Million	-1,184	–1,165	–1,406	1.63	–15.78
Remittances	US$ Million	1,404	1,117	1,204	20.6	16.6

*This figure is after the cut of 150 basis points on 13th August, 2012.

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