



MCB Bank Limited

Treasury & FX Group

## *Quid Pro Quo*

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*Economic report*

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### **It Matters!!**

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#### **Controversy-**

An economic upswing, not equally supported by a general betterment in the standard of living, can possibly die a premature death.

#### **Contention-**

Even though, after Independence, Pakistan has made significant achievements in agriculture and food production, energy, healthcare, education and various fields of science and technology, it falls considerably short on many fronts when compared to countries of similar age. Not much has been done to alleviate poverty, illiteracy and unemployment.

#### **Market impact-**

A closer look at the poverty line along with disparity ratios is very revealing. Even though the absolute level of poverty has decreased, disparity ratios indicate that the advantage has only gone to a small portion of the population.

#### **Risk-**


Shoddy infrastructure (who has not been affected by the recent downpour), lack of accountability, poverty and illiteracy, high crime rate, volatile political and security situation are open risks to our march forward

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Pakistan turned 59 years on Monday, 14 August 2006. Fervent celebrations by Pakistanis, here and abroad, were widely documented. Although, anniversaries like Independence Day are a time for celebration, but they are also a time for introspection. By all means rejoice, but also pause and reflect on the persistence of some of our shortcomings.

Enormous though this achievement is, its glory is diminished by what Pakistan has not been able to do. Nearly sixty years of a planned economy has not been able to provide universal healthcare or literacy, or timely justice, nor has it quelled the clamor of secessionists. Pakistan still has widespread discriminatory practices against women and vast areas of the country are black holes of underdevelopment. Despite vast expenditures, the country's physical infrastructure is shoddy — run-down roads, schools, health centres and publicly-owned industries speak volumes of the desperate conditions.

Even though, after Independence, Pakistan has made significant achievements in agriculture and food production, energy, healthcare, education and various fields of science and technology, it falls considerably short on many fronts when compared to countries of similar age. Not much has been done to alleviate poverty, illiteracy and unemployment. We read daily about the how well different sectors of the economy are doing, how our economic indicators are improving and how foreign investors are eyeing the country as investment-worthy. We have written about that many times as well, but in the spirit of our recently passed independence day, we felt like reflecting on some relevant social issues that affect the freedom loving citizens of Pakistan. An economic upswing, not equally supported by a general betterment in the standard of living, can possibly die a premature death.

In any case, the recent government has to be given credit for giving Pakistan hope by putting it on the path of economic recovery. But it is a slow process and will take time. A statement by our former SBP Governor, Dr. Ishrat Hussain, sheds light on this process.




“The recent government has provided an enabling and conducive environment for growth of economic activities in the future and foundation has been laid which will result in economic prosperity and stability. In the short term we have to fight against inflation because it has hit the lower income groups and fixed wage earners the most. It will take five to ten years of sustainable high growth rates of 6 percent or above to bring the incidence of poverty down to 16-17 percent from the present levels and improve the standard of living of the majority of population. This is possible if the policies are consistent and continued, external environment remains favorable and there are no sanctions or discrimination against Pakistan, good governance is practiced, institutions for delivery of basic services to the poor are strengthened but most important political stability is entrenched. All political parties should agree on a uniformed agenda that economic policies would continue in the larger interest of the country whichever party comes to power. After all they are all agreed on the need for rapid economic growth, macroeconomic stability, poverty reduction, improvement in social indicators and prosperity for the majority of the population. Of course, there will be fine tuning, adjustments and adaptation in the course of implementation, but the vision and direction would remain unchanged.”

It has to be kept in mind that Pakistan a developing country, is the sixth most populous in the world and is faced with a number of challenges on the political and economic fronts.

A closer look at the poverty line along with disparity ratios is very revealing. The poverty line after adjusting for inflation, has increased from Rs 723.4 per adult equivalent in 2000-01 to Rs 878.64 in 2004-05. According to an official review of Finance Division, the poverty estimate for the 2000-01 period has been revised from 32.1 percent to 34.5 percent, whereas the overall poverty level for 2004-05 has been estimated at 23.9 percent.

This indicates that percentage of population living below the poverty line has declined by 10.6 percentage points between 2000-01 and 2004-05 period.




In absolute numbers, the count of poor persons fell from 49.23 million in 2000-01 to 36.45 million in 2004-05.

However, when we look at another ratio we see that the benefit has only gone to a small portion of the population. One measure of inequality, which measures the gap between the rich and the poor, also increased marginally from 3.76 in 2000-01 to 4.15 in 2004-05. In urban areas, gap between the rich and the poor widened relatively more from 10.40 in 2000-01 to 12.02 in 2004-05, compared to the rural areas where the gap between the rich and the poor remained more or less unchanged from 2.22 in 2000-01 and 2.19 in 2004-05.

Another important area, which needs to be tackled on top priority is our education system. Though the present government talks about its agenda of poverty reduction but it has to look into the factors such as ignorance and illiteracy that are responsible for generating poverty at a massive level. Government has allocated certain funds for the reduction of poverty, under which money is distributed among the poor. These funds should be used for imparting education and training of the poor to address the issue on permanent grounds instead of distributing money which redresses the grievances only on temporary grounds. There is good news on this front as well, according to various reports prepared by donors and international financial institutions, Pakistan has achieved significant macroeconomic stability and medium term prospects for job creation and poverty reduction are at satisfactory levels. This has enabled the government to raise allocations for developmental projects, a necessary step towards achieving across the board development in social sectors. Reduced tensions with India and the ongoing peace process raise new hopes for a prosperous and stable South Asia.

Is our momentum on the path of progress sustainable? Our economy has shown resilience in the face of several external and internal shocks, be it the post-9/11 military action in Afghanistan, military tensions with India, or the earthquake tragedy that hit Pakistan.



However, shoddy infrastructure (who has not been affected by the recent downpour), lack of accountability, poverty and illiteracy, high crime rate, volatile political and security situation are open risks to our march forward.

Hence the answer to that question – only time will tell.

## ECONOMIC SNAPSHOT

		Fiscal year 06													
Units		July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	March	April	May	June	July	Aug
<b><u>Inflation</u></b>															
Headline Inflation	%	8.99	8.41	8.53	8.27	7.89	8.51	8.76	8.05	6.91	6.16	7.12	7.65	7.63	
Core inflation	%	7.62	7.55	7.58	7.81	7.59	7.36	7.34	7.00	6.67	6.43	6.58	6.29	6.28	
Food inflation	%	9.73	7.82	7.52	6.41	5.84	8.1	8.17	7.48	5.42	3.64	5.59	7.78	7.44	
Non-food inflation	%	8.47	8.83	8.25	9.61	9.38	8.8	9.18	8.44	7.98	8.01	8.21	7.55	7.77	
<b><u>T-bill (Wgt Avg)</u></b>															
3 month	%	7.69	7.99	8.10	8.10 id rejected		8.09	8.10	8.10	8.10	8.10	8.10	8.29	8.32	8.63
6 month	%	7.97	8.12	8.14	8.14 id rejected		8.25	8.29	8.29	8.29	8.29	8.29	8.45	8.49	8.81
12 month	%	8.69	8.78	8.79	8.77	8.79	8.77	8.75	8.78	8.79	8.79	8.79	8.79	8.79	9.00
<b><u>External Sector</u></b>															
Export	Mln US\$	1,159	1,360	1,318	1,317	1,205	1,451	1,252	1,287	1,536	1,432	1,498	1,508	n.a	n.a
Import	Mln US\$	1,749	2,056	2,037	2,021	2,024	1,929	2,037	1,854	2,269	1,664	2,299	2,585	n.a	n.a
Trade balance	Mln US\$	(590)	(696)	(719)	(704)	(819)	(478)	(785)	(953)	(733)	(232)	(801)	(1077)	n.a	n.a
Remittances	Mln US\$	313	348	341	373	309	336	391	339	444	401	507	464	376	n.a
Forex reserves	Mln US\$	12,613	12,124	12,000	11,715	11,341	11,669	11,505	11,516	12,487	13,021	13,003	13,137	12,725	12,631
<b><u>Key</u></b>															
n.a	not available														
n/a	not applicable														



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