

economicletter

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Pakistan

The SBP in its Monetary Policy Statement (MPS) for February-March 2011, has left the discount rate unchanged at 12%. Some of the relatively more important aspects of the MPS are as under:

- notwithstanding a moderate growth in aggregate demand, pressure on the rupee liquidity is likely to continue due to uncertain foreign financial inflows and government borrowing for budgetary support;
- a sizeable increase in domestic and foreign investment is needed to sustain economic recovery which should mainly be focused on meeting energy shortages;
- underlying inflationary pressures continue to persist with CPI inflation recorded at 10.1% in January 2011 over January 2010; CPI inflation in the full current fiscal is likely to be in the range of 11-12%;
- government borrowing from the banking system to cover its fiscal deficit during July 1, 2011 to February 3, 2012 stood at Rs 444 bn against the full fiscal target of Rs 293 bn;
- despite the substantial increased borrowing it appears unlikely that the government would be able to contain the fiscal deficit at 4.7% of GDP, as was targeted at the beginning of the fiscal;
- although the total revenue collection has posted a growth of 27.1% in the first half of the current fiscal over the same half last fiscal to Rs 840 bn, the full fiscal collection target of Rs 1,952 bn may pose problems;
- the circular debt in the energy sector as also losses being incurred in public sector enterprises are major causes of concern;
- the rupee depreciation by 5.2% so far from the beginning of the current fiscal is posing challenges in its management relative to international currencies;

• private sector credit demand may remain weak for yet another year in the current fiscal partly due to large government borrowing crowding out its access but also due to energy distortions, interest rate reduction notwithstanding;

• investment by banks in government papers while ensuring safe returns and rising levels of non-performing loans in the private sector are also impeding private sector credit needs despite being productive in character;

• risks to external position have increased due to worsening terms of trade, fragile global economic condition and debt servicing of \$ 1.1 bn to the IMF in the second half of the current fiscal;

• although home remittances are showing a healthy growth averaging over \$ 1.0 bn a month in the last seven months of 2011, the current account deficit may yet be in the range of \$ 3.5 - 5.5 bn or 1.5% - 2.4% of GDP;

• net capital and financial inflows in the first half of the current fiscal amounted to \$ 167 mn but if the government's projections are realized, they could reach a level of \$ 3.8 bn by end-June 2012.

According to SBP, home remittances in the first seven months of the current fiscal (July-January 2011-12) rose by 21.54% to \$ 7.44 bn against \$ 6.11 bn in the same period last fiscal.

According to SBP, net foreign investment in the first seven months of the current fiscal fell by 63.9% to \$ 446.2 mn against \$ 1.236 bn in the same period last fiscal. Of the total, foreign direct investment (FDI) was lower by 40.7% to \$ 593.9 mn against \$ 1.002 bn during the above periods. Foreign portfolio investment during July-January 2011-12 recorded an outflow of \$ 147.7 mn against an inflow of \$ 304.2 mn in the same period last fiscal.

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Markets at a glance

Weekly Review	KIBOR (6months)		Foreign Exchange Rates			KSE	Gold Rate
	Bid %	Offer %	GBP (£)	Euro (€)	USD (\$)	100 Index	(10gm)
Beginning	11.60	11.85	Rs 143.43	Rs 120.34	Rs 90.66	12,231	Rs 50,485
Ending	11.68	11.93	Rs 142.21	Rs 118.01	Rs 90.72	12,491	Rs 50,185
Change	+0.08	+0.08	- 1.22	- 2.33	+0.06	+ 260	- 300

Merchandise exports during July-January 2011-12 rose by 0.25% over the same period last fiscal to \$ 13.15 bn while imports rose by 17% during the above periods to \$ 26.33 bn. The trade deficit during July-January 2011-12 widened by 40% over the same period last fiscal to \$ 13.17 bn.

Large-scale manufacturing (LSM) output posted a growth of 0.83% in the first half of the current fiscal over the same period last fiscal.

The U.S. Administration has sought Congressional approval for disbursement of \$ 2.4 bn to Pakistan in fiscal 2013 for both civilian and military use.

Pakistan and Sri Lanka have signed three memorandums of understanding (MOUs) related to trade promotion, technical education and media with volume of trade targeted to grow from current \$ 370 mn to \$ 2.0 bn by 2014.

The Federal Board of Revenue has allowed tax exemption to foreign non-resident investors holding OGDCL's exchangeable bonds.

According to SBP, liquid foreign exchange reserves as on February 10, 2012 stood at \$ 16.768 bn of which \$ 12.286 bn was held by the SBP and the rest with banks.

International

Five leading U.S. banks, the federal government and 49 states have offered a deal worth \$ 25 bn to help home-owners cut their mortgage debt, or seek compensation to avoid default and return back to their abandoned home. The housing bubble burst of 2008 estimated at \$ 700 bn triggered the financial crash, worst for 80 years.

Standard and Poor's has downgraded 34 Italian banks, including some major ones, citing the overall Italian economic woes.

The European Central Bank (ECB) has adopted looser collateral rules which would allow banks in parts of the eurozone area to swap a wider range of the traditional-style loans they give to firms and consumers for ECB funding.

Inflation in Britain fell to 3.6% in January 2011, lowest since November 2010.

Unemployment in Greece was recorded at 20.9% of workforce at end-2011 against 7.6% at end-2007.

The Reserve Bank of Australia has cut the country's GDP growth prospect for the first half of 2012 from 4.0% to 3.5%.

Bangladesh has banned the import of new oil-fired turn-key electric generators essentially on account of forex pressures afflicting the country's economy adversely. The liquid foreign exchange reserves have fallen by near 10% to \$ 9.38 bn at end-January 2012 against \$ 10.38 bn in the same period of 2011 after a peak of \$ 11.32 bn in April last year.

Inflation in India eased to 6.55% in January 2011, year-on-year, lowest since November 2009.

Japan's economy contracted by 0.9% in 2011 after having grown by 4.4% in 2010.

Japan's current account surplus at \$ 125 bn or 2% of GDP in 2011 was down by 44% over 2010 and lowest for 15 years.

The Japanese government has forecast that the country's population would shrink by about one-third by 2060 from its current level of 128 million people. By 2060 the total population may stand at 87 million people of whom 40%, twice as of now, would be of 65 years or above of age. The fertility rate in 2060 is being projected to come down further to 1.35 against 1.39 in 2010, both well below the required 2.0 to meet the country's optimum population need by then.



Editor: Syed Mahdi Mustafa

Published by: The Institute of Bankers Pakistan, M.T. Khan Road, Karachi 74200, Pakistan

Phone: (021) 35689718, 35680783 | Fax: (021) 35683805 | Email: ibp@ibp.org.pk | Website: www.ibp.org.pk

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