

economicletter

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Pakistan

The SBP in its latest Monetary Policy Statement (MPS) has reduced its key discount rate by 50 basis points (bps) from 8.50% to 8.0%. Some key aspects and forecasts of the MPS are noted below:

- **GDP growth** in the current fiscal is expected higher than realised in last fiscal;
- **workers' remittances** are growing at a fast pace and appears sustainable;
- the **current account deficit** may be lower than last fiscal due to higher home remittances, declining higher import payments;
- **fiscal deficit** continues to be contained;
- the **external sector** outlook backed by higher inflows is promising;
- headline **CPI inflation** in full FY 15 may be in the range of 4.5%, well below the target of it being 8.0% or less;
- while net domestic assets have decreased **net foreign assets** have increased;
- broad money supply (**M2**) growth decelerated sharply during July 2014-February 2015 to 11.5%, compared to an annual average rise of 13.6% in the last five fiscals, driven mainly by a decrease in net domestic assets;
- **private sector credit off-take** during July-February FY 15 was lower at Rs. 158.9 bn against Rs. 298.3 bn in the same period of FY 14;
- **macroeconomic stabilisation** has opened a window of opportunity for introduction of structural reforms to sustain growth;
- the **repo rate** has been cut by 50 bps to 8.00%. The **reverse repo rate** would be available at 5.50% and would serve as a benchmark to determine the interest rate corridor;
- the **discount/repo rate** would be effective for two months beginning **March 24, 2015**;

According to **SBP**, export earnings of the **services sector** during July-February 2014-15 rose to \$ 4.226 bn against \$ 3.442 bn in the same period of 2013-14. Import payments of the sector were higher at \$ 5.350 bn against \$ 5.260 bn during the above periods. The trade deficit of the sector narrowed to \$ 1.125 bn during July-February 2014-15 against \$ 1.818 bn in the same period of 2013-14.

The **SBP has amended its housing finance prudential regulations** by allowing banks to provide long-term loans for installation of **solar panels for residential use**.

Markets at a glance

Weekly Review	KIBOR (6 months)		Foreign Exchange Rates			KSE	Gold Rate
	Bid %	Offer %	UK (£)	Euro (€)	US (\$)	100 Index	(10 gm)
Beginning	7.96	8.21	Rs.151.16	Rs.107.86	Rs.101.70	32,929	Rs.39,857
Ending	7.70	7.95	Rs.150.93	Rs.110.19	Rs.101.87	29,957	Rs.40,714
Change	- 0.26	- 0.26	- 0.23	+ 2.33	+ 0.17	- 2972	+ 857

According to SBP, total **liquid foreign exchange** reserves as on March 20, 2015 stood at \$ 16.131 bn of which \$ 11.067 bn was held by SBP and the rest with banks.

According to Pakistan Bureau of Statistics (**PBS**), total merchandise **export earnings** during July-February 2014-15 at \$ 16.005 bn was lower by 4.96% over the same period of 2013-14. Total merchandise **import payments** rose by 3.83% during the above periods to \$ 30.531 bn.

The Asian Development Bank (**ADB**) expects the **economy to grow** by **4.2%** in the ongoing fiscal against the target of 5.1% and realised 4.5% in 2013-14.

Moody's Investors Services, a top international credit rating agency, has upgraded **Pakistan's sovereign bond rating** by a notch to "Caa 1" or **from "stable" to "positive"**. The upgrade has been based on growing foreign exchange reserves, fiscal consolidation and external liquidity position, amongst other positive factors.

INTERNATIONAL

The International Monetary Fund (**IMF**) and the Asian Development Bank (**ADB**) have extended **their support** towards the establishment of the China-led Asian Infrastructure Investment Bank (**AIIB**). The U.S. has expressed its strong reservations against its coming into being and has urged good governance by the proposed bank lest its operations lead to unforeseeable disruption of the current financial structure at the global level.

The **IMF** has expressed its willingness to **include** the **Chinese yuan** in its market of currencies which determines its own Special Drawing Rights (**SDR**), reference currency value bank lest its operations lead to unforeseeable disruption of the current financial structure at the global level.

Britain has sought to **join** the China-led Asian Infrastructure Investment Bank (**AIIB**), the first Western country to do so. Following the decision of the British government, **Germany, France and Italy**, the top three eurozone economies, have also **applied to join** the bank.

India has raised **\$ 17.6 bn** through **auction of wireless spectrum**, the highest amount ever raised in the mobile phone sector. The country is the one of the world's largest smart phones market.

CPI inflation in Britain in February was recorded at 0.0% against 0.3% in January, year-on-year.

The Organisation for Economic Cooperation and Development (**OECD**) has raised its forecast for global GDP growth to **4.0% this year** followed by a growth of **4.3% in 2016** to be driven mainly by cheap oil prices. GDP growth in the 19-nation **euro bloc** has been forecast at **1.4%** in 2015 rising to **2.0%** in 2016.

According to **Russia's** Economic Development Minister, the country's **budgetary deficit** in 2015 may reach a level of 3.8% of GDP (\$ 35.41 bn) compared to earlier estimates of it being 3.0% of GDP, assuming that international oil prices do not fall below \$ 50.0 a barrel.



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