

economicletter

a weekly publication of The Institute of Bankers Pakistan

Pakistan

The State Bank of Pakistan (**SBP**) in its latest Monetary Policy Statement (**MPS**) has reduced its Key Discount Rate by 100 basis points (bps) **from 9.5% to 8.5%** effective January 26, 2015 valid for two months. Some of the relatively more important aspects, observations and forecasts of the MPS as per the Executive Summary of the SBP are briefly noted below:

- key **macroeconomic indicators** continue to show signs of improvement;
- although the **trade deficit** in the first half of FY 15 widened over the same half of FY 14, it was still well managed;
- higher **financial inflows** have helped foreign exchange reserves maintain an upward trajectory;
- containment of **fiscal deficit** bodes well for the economy and confirms constructive and consistent government policies;
- the **performance of the economy** in the first half of FY 15 signals positivity for the full fiscal;
- **CPI inflation** in the current full fiscal is now expected to be in the range of 4.5-5.5% against the target of containing it at 8.0%;
- the release of due tranches by the IMF under the EFF programme and inflows under the International Sukuk bond have helped improve the **overall BoP position**;
- non realisation of **privatisation proceeds** and lack of private inflows could pose risks in achieving a sustainable BoP position;
- **portfolio investment and exports** have been showing a declining trend lately to reverse which policy measures need to be introduced to attract private foreign direct investment;
- lower than projected revenue collection by the **FBR** and **security expenditures** may strain the fiscal deficit position;
- **monetary growth (MZ)** may be in the region of 11.0-12.0% during the current fiscal;
- **credit off-take** by the **private sector** in the first half of FY 15 has been lower compared to the same half of FY 14;
- average **growth in deposits** has been 12.0% in the first half of FY 15 against 14.26% in the same half of FY 14, a situation demanding improvement;
- **GDP growth** is likely to sustain last fiscal's momentum.

The **SBP** has issued fresh **guidelines** to regulate **service charges** being levied by banks to be effective from July 01, 2015.

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	8.82	9.07	Rs.151.26	Rs.113.65	Rs.100.94	34,026	Rs.42,257
Ending	8.33	8.58	Rs.152.37	Rs.114.32	Rs.101.07	34,443	Rs.42,214
Change	- 0.49	- 0.49	+ 1.11	+ 0.67	+ 0.13	+ 417	- 43

According to **SBP**, the **banking spread** in 2014 stood lower at 6.0% compared to 6.2% in 2013.

The **SBP** has kept the overnight **repo rate** unchanged at 6.0% but has reduced the overnight **reverse repo rate** from 9.50% to 8.50%.

The **SBP** has revised upwards higher **risk management** of upto 60% for banks and DFIs for lending to small microfinance banks and microfinance institutions.

According to **SBP**, **repatriation of profits and dividends** by foreign firms operating in Pakistan during July-December 2014 amounted to \$ 790.8 mn compared to \$ 577.4 mn in the same half of 2013.

According to SBP, total **liquid foreign exchange** reserves as on January 23, 2015 stood at \$ 15.063 bn of which \$ 10.248 bn was held by SBP and the rest with banks.

According to Economic Affairs Division (**EAD**), total **external financial inflows** inclusive of multilateral and bilateral international donors and International Sukuk bonds amounted to \$ 3.24 bn during July-December 2014 or 43% of targeted \$ 7.4 bn for the full fiscal.

The ECC of the Cabinet has approved **export** of 1.2 mn tonnes of **surplus wheat** with a **subsidy** of Rs. 6.0 bn.

The large scale manufacturing (**LSM**) sector registered a growth of **2.48%** during July-November 2014 over the same period of 2013.

Exports of **non-textile products**, f.o.b. data, during July-December 2014 fell to \$ 5.182 bn against \$ 5.695 bn in the same period of 2013.

Export of rice f.o.b. data during July-December 2014 amounted to \$ 976.784 mn against \$ 944.077 mn in the same half of 2013.

K-Electric has reached agreements with two Chinese firms to setup **two coal-fired power plants** each with a capacity of 350 MWs of electricity to be completed by 2018 at an estimated cost of \$ 1.0 bn.

INTERNATIONAL

The **U.S. and India** have reached agreements to promote bilateral trade, address the needs of climate change, taxation renewable energy and defence cooperation. The most important of these are the **waivers** allowed by the U.S. to develop **nuclear energy** for civilian use inclusive of transfer of technology.

The European Central Bank (**ECB**) would start buying **sovereign debt bonds** worth **1.0 trillion** euros beginning from March 2015 to September 2016 to ease liquidity needs of debt-ridden countries in the EU bloc. The IMF has bailed the measure.

GDP growth in Britain was recorded at 2.6% in 2014, the fastest pace since 2007.

The **German government** has revised **growth prospects of the economy** to 1.5% this year against earlier forecasts of it being 1.3%, on the back of realised growth of 1.5% in 2014.

The **Bank of Canada** has cut its key overnight **lending rate** by 0.25% to 0.75%, the first cut since September 2010.



Editor: Syed Mahdi Mustafa [M.Sc. (Econ.) London School of Economics]

Composed by: Faisal Nadeem

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

Phone: (021) 35277538 | Fax: (021) 35222416 | Email: publications@ibp.org.pk | Website: www.ibp.org.pk

General Disclaimer: Data used in the Economic Letter is based on government sources besides recognised representative private sector trade bodies as reported in the print media. They are cross-checked before release. Yet an error or two may creep in, regrettable as they may be as part of human nature. Reporting is unopinionated. The Institute of Bankers Pakistan stands totally absolved of any error contained in the Economic Letter, either in reporting or composing.