

# economicletter

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## Pakistan

The **SBP** in its **Quarterly Report** on the **State of the Economy** covering the first quarter of the current fiscal (July-September 2014) has forecast **CPI inflation** to be in the range of between **4.5-5.5%** in the full fiscal compared to the target of containing it at 8.0% averaged during 2014-15. Some of the relatively more important aspects and forecasts of the Report are noted below:

- **CPI inflation** during July-December 2014 was recorded at 6.1%, year-on-year;
- the prospect of achieving the **GDP growth target of 5.1%** in the current fiscal is handicapped by a slower than anticipated growth in the large scale manufacturing (**LSM**) sector as also due to lower than targeted production of **kharif crops** mainly due to floods;
- the government target of reducing the **fiscal deficit** from 5.5% of GDP in 2013-14 to 4.9% of GDP in the current fiscal is posing challenges;
- **structural reforms**, already on cards, including greater revenue generation and privatisation of some ailing public sector enterprises (PSEs) need to be implemented urgently;
- while **gross revenue collection** by the FBR increased by 13.1% in the first quarter of FY 15 year-on-year, it was yet short of the targeted growth

of 24% set for the above periods;

- while the **trade imbalance** continues to be disturbing, falling oil prices are bound to improve the situation as the oil sector constitutes 35% of all imports;
- **private sector credit off-take** in the first quarter of FY 15 registered a positive growth of 1.5% compared to net retirement in the same quarter last fiscal.

According to **SBP**, net private foreign direct investment (**FDI**) during July-January 2014-15 was recorded at \$ 545.4 mn against \$ 553.2 mn in the same period of 2013-14. **Portfolio investment** rose to \$ 169.2 mn against \$ 40.3 mn during the above periods.

According to **SBP**, the **current account deficit** in the first seven months of the current fiscal (July-January 2014-15) narrowed to \$ 2.307 bn against \$ 2.537 bn in the same period last fiscal.

According to **SBP**, **government borrowing** for budgetary support from scheduled banks during the first seven months of the current fiscal (July-January 2014-15) rose to Rs. 870 bn against Rs. 103 bn in the same period of 2013-14.

According to **SBP**, the **non-performing loans of the housing sector** rose to Rs. 15.93 bn by end September 2014 against Rs. 15.66 bn as on end >>

## 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	8.26	8.51	Rs.156.10	Rs.115.95	Rs.101.43	33,943	Rs.41,142
Ending	8.22	8.47	Rs.156.45	Rs.115.38	Rs.101.73	33,993	Rs.41,100
Change	- 0.04	- 0.04	+ 0.35	- 0.57	+ 0.30	+ 50	- 42

June 2014. The overall housing finance portfolio currently stands at Rs. 52.9 bn.

According to **SBP**, Pakistan Real-time Interbank Settlement Mechanism (**PRISM**), for large-scale payments, a settlement of 188,424 transactions through the Real Time Gross Settlement System (**RTGS**) was reached during the second quarter of the current fiscal (October-December 2014), showing a rise of 14% over the previous quarter. The value of these transactions rose to Rs. 42.4 trillion, a rise of 38% during the above quarters.

According to SBP, total **liquid foreign exchange** reserves as on February 13, 2015 stood at \$ 16.036 bn of which \$ 11.194 bn was held by SBP and the rest with banks.

**Pakistan and Turkey** have signed a number of agreements to promote **bilateral trade and overall economic cooperation**. Trade between the two countries is targeted to rise to \$ 3.0 bn annually in the short-term against \$ 600 mn as of now rising progressively to \$ 10 bn in the longer-term. Other areas of cooperation include banking and finance, insurance, capital market, anti-money laundering measures, exchange of information to combat terrorism and promotion of private sector relations of the two countries.

According to Pakistan bureau of Statistics (**PBS**), f.o.b. data, total **merchandise export earnings** during the first seven months of the current fiscal (July-January 2014-15) declined to \$ 14.136 bn against \$ 14.677 bn in the same period last fiscal. Total **merchandise import payments** during July-January 2014-15 rose to \$ 27.266 bn against \$ 25.808 bn in the same period of 2013-14.

According to Pakistan Bureau of Statistics (**PBS**), **export earnings of the services sector** in the first half of the current fiscal (July-December 2014) rose to \$ 2.822 bn against \$ 2.427 bn in the same half last fiscal. **Import payments** of the sector rose to \$ 4.017 bn against \$ 3.934 bn during the above periods.

The National Electric Power Regulatory Authority (**Nepra**) has cut power tariff by **Rs. 3.24** per unit by way of its fuel adjustment policy for the month of December 2014.

## INTERNATIONAL

The International Monetary Fund (**IMF**) is to provide **Ukraine** a **\$ 17.5 bn** line of credit for its reconstruction needs over the next four years of a pool need of about \$40 bn required to put the economy on an even keel.

**The Japanese economy** moved out of recession by registering a growth of 0.6% in the last quarter (October-December) of 2014 having shrank consecutively in the preceding two quarters. On an annualised basis, Japan's GDP growth clocked **2.2% in 2014** compared to a growth of **1.6% in 2013**.

Private foreign direct investment (**FDI**) into **China** in 2014 was recorded at \$ 119.6 bn, higher by 1.7% over 2013, excluding investment in the financial sector.

The **eurozone economy** registered a combined GDP growth of 0.9% in 2014, signaling a shift from recession to a path of growth though unevenly in member countries.

**CPI inflation in Britain** fell to 0.3% in January this year compared to 0.5% in December last year.



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