

Pakistan

The SBP in its latest Monetary Policy Statement (MPS) for October-November 2012, has reduced the discount rate by 50 basis points (bps) from 10.5% to 10.0%. Some of the relatively more important aspects of the MPS are as under:

- CPI inflation has been progressively declining since May this year and was recorded at 8.8% in September;
- given the declining trend in overall inflation, it is highly likely that it would be contained at the targeted level of 9.5% in the full 2012-13 fiscal;
- double-digit rises both in the food and non-food groups has come down significantly in the last three years;
- non-food-non-energy (NFNE) 20% trimmed core inflation may be lower in the coming quarters;
- government borrowing from the scheduled banks during July 1 – September 28, 2012 amounted to Rs 437 bn and despite retirement of some loans to SBP it necessitated an injection by the SBP of Rs 611.5 bn by the end of the first quarter (July-September 2012) of the current fiscal;
- government borrowing from scheduled banks for budgetary support needs to be curtailed for while comprehensive fiscal reforms are inevitable;
- the external current account surplus has lately been showing signs of shrinking; the external current account posted a surplus of \$ 884 mn in the first two months of the current fiscal mainly due to home remittances of \$ 2.5 bn and release of \$ 1.12 bn of coalition support fund (CSF);
- energy shortages and weak global growth are constraining export growth while slower import growth is mainly due to price impacts internationally;

- greater coordination between the federal and provincial governments are called for in order to better manage gross fiscal consolidation;
- year-on-year growth in private sector credit has declined from 22.4% in 2007-08 to 0.7% in 2011-12;
- banks should improve upon their basic intermediary role by providing funding for the productive sectors of the economy particularly in the private sector;
- improvements in the energy sector management is key to sustainable medium to long term economic growth;
- the effectiveness of the latest monetary policy stance would hinge largely upon better fiscal management.

The SBP has lowered its overnight reverse repo rate by 50 basis points from 10.50% to 10.0%. The repo rate has been left unchanged at 7%.

The SBP has decreased the overnight cash reserve ratio (CRR) from 4% to 3% while average CRR period has been increased to a two-week period against previous one-week period. The changes apply to all banks including Islamic banks.

According to SBP, government borrowing from the scheduled banks for budgetary support in the first quarter of the current fiscal stood at Rs 532 bn.

According to SBP, home remittances in the first quarter of the current fiscal (July-September 2012) rose by 9.16% to \$ 3.599 bn against \$ 3.297 bn in the same period last fiscal.

According to SBP, liquid foreign exchange reserves as on October 5, 2012 stood at \$ 14.406 bn of which \$ 9.919 bn was held by the SBP and the rest with banks.

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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 | 9.55 | 9.80 | Rs 153.61 | Rs 123.39 | Rs 95.34 | 15,754 | Rs 54,428 |
| Ending | 9.64 | 9.89 | Rs 152.98 | Rs 123.07 | Rs 95.51 | 15,698 | Rs 54,000 |
| Change | +0.09 | +0.09 | - 0.63 | - 0.32 | + 0.17 | - 56 | - 428 |

The IMF expects Pakistan's GDP growth in the current fiscal to hover around 3.0-3.5% rather than be at 4.2% as targeted by the government.

According to the annual year book of the Federal Board of Revenue (2011-12), the Board's gross collection of revenue in 2011-12 amounted to Rs 1,883 bn, which equaled 97% of the target set for the fiscal. In order to achieve the targeted collection of Rs 2,381 bn set for 2012-13, an increase of about 27% would be required over last fiscal's level.

According to Pakistan Bureau of Statistics (PBS), merchandise trade deficit in the first quarter of the current fiscal narrowed by 9.97% to \$ 4.666 bn against \$ 5.183 bn in the same period last fiscal, with exports rising by 4.26% and imports declining by 2.37% during the above periods.

According to the Central Directorate of National Savings, the agency mobilized fresh savings of over Rs 150 bn in the first quarter of the current fiscal against the target of Rs 55 bn.

The government has revised downwards rates of return on various deposit schemes of National Savings in line with its adjustive policy relative to SBP's discount rate stance.

The National Electric Power Regulatory Authority (NEPRA) has notified an increase of Rs 0.85 per unit for all the distribution companies operating under its aegis by way of its monthly fuel adjustment policy.

The Oil & Gas Regulatory Authority (OGRA) has revised the prices of different petroleum products by way of its weekly fuel adjustment policy related to changes in averaged weekly prices of crude oil and natural gas in international markets. The changed prices of some of them now stand as under: petrol at Rs 105.49 per litre; kerosene oil at Rs 101.97 per litre; CNG for the Northern region at Rs 96.57 per kg and for the southern region at Rs 88.22 per kg.

International

The IMF has lowered its forecasts for world economic growth to 3.3% in 2012 and to 3.6% in 2013 against earlier forecasts of their being 3.5% in 2012 and 3.9% in 2013.

The World Bank has revised downwards growth prospects in the economies as a whole of the Asia and Pacific region to 7.2% in 2012 against the earlier forecast of it being at 7.6%.

The World Bank has lowered the growth prospect of the Chinese economy to 7.7% in 2012, slowest since 1999, against the earlier forecast of it being at 8.2%. The country's economy expanded by 9.3% in 2011.

Japan posted a current account surplus of \$ 5.8 bn in August, higher by 4.2% over the previous month.

The Finance Ministers of the 17-nation eurozone bloc have approved a permanent fund of 500 bn euros to help needy countries in the bloc to deal with their economic restructuring. The new fund would need to be approved by the larger 27-nation European Union (EU) bloc before becoming effective.

Unemployment in the Organization for Economic Cooperation & Development (OECD), the group of the richest countries in the world, fell to 7.9% of workforce in August against 8.0% in July leaving 13.1 million people out of any regular full-time job.

The French government expects GDP growth as flat in 2012, better than a negative growth signaling recession. The country would need a per quarter growth of 0.3% in 2013 to cut its fiscal deficit to the ECB set norm of 3.0% of GDP.

According to the non-partisan Congressional Budget Office (CBO), the U.S. budgetary deficit in the fiscal ending September 2012 amounted to \$ 1.09 trillion against \$ 1.297 trillion in the previous fiscal. As a proportion of GDP, the deficit was 7.0% against 8.7% during the above periods.



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