PAKOMAN ASSET MANAGEMENT

Pre-Monetary Policy – Sep 2013

Date: 06/09/13

World Interest Rates

Country	Interest Rates (%)
India	7.25
Bangladesh	7.25
Srilanka	7.00
China	6.00
Canada	1.00
UK	0.50
France	0.50
Germany	0.50
Hong Kong	0.50
USA	0.25
Japan	0.00

Pakistan Discount Rates

Fiscal Year	DR (%)
2013	9.00
2012	12.00
2011	14.00
2010	12.50
2009	14.00
2008	12.00

The State Bank of Pakistan is scheduled to announce its next Monetary Policy Statement on September 13, 2013. We anticipate that policy rate, which currently stands at 9% after a cut of 50 bps in last monetary policy, will stay the same in the upcoming monetary policy. The anticipation is based on the details given in documents of three year extended fund facility program prepared by the government of Pakistan to the IMF board.

IMF has recently approved a new loan to Pakistan of the amount USD 6.68bn, which will be provided based on certain conditions. Of the total amount USD544mn will be released immediately and the rest will be released in equal installments after quarterly review of economy by the board of IMF. During the term of the loan, inflows of around USD 5.5bn are also expected from other sources like World Bank & ADB etc, which will provide some room for the currency stabilization.

The implementation plan of government of Pakistan, which is provided in memorandum on economic and financial policies to IMF, includes following points:

1) Privatization or winding up of some state owned entities: list of 65 entities is prepared for divestment on priority basis, of which, plans for 30 companies will be announced by the end of September and plans for the remainder will be announced by the end of December.
2) On the fiscal front, the government has agreed to reduce budget deficit by 2% of GDP or PKR 250bn in the current year.
3) On the monetary side, the government has assured that monetary and exchange rate policies will focus on rebuilding foreign exchange reserves and maintaining price stability. The monetary policy will be moderate during this year, but government will move towards more monetary tightening in second & third year of the program.
4) Subsidies on electricity will be phased out gradually
5) Gas shortage will be overcome by importing LPG
6) Banks will be asked to comply with minimum capital requirement

According to IMF's forecast the GDP growth for this fiscal year is forecasted to be 2.5%, and targeted inflation at the end of the program is 6%-7%. However, due to weakening of rupee while reserves are rebuilt and elimination of subsidies, inflation may rise initially.

The average CPI inflation during FY13 remained 7.40%, which has risen to 8.40% during 2MFY14. The inflation target set by government for current fiscal year is 8.00%. However, the inflation will touch the double digit in next few months as subsidies on electricity will be reduced and hike in international oil prices will affect prices of goods. We anticipate that inflation for FY14 will reach at 9.5% to 10%.

On the basis of government's moderate stance on monetary policy during this year as described in Letter of Intent submitted to IMF, we foresee status quo in upcoming monetary policy. The policy rate might be increased by 100-150bps in the second half of this fiscal year.

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