

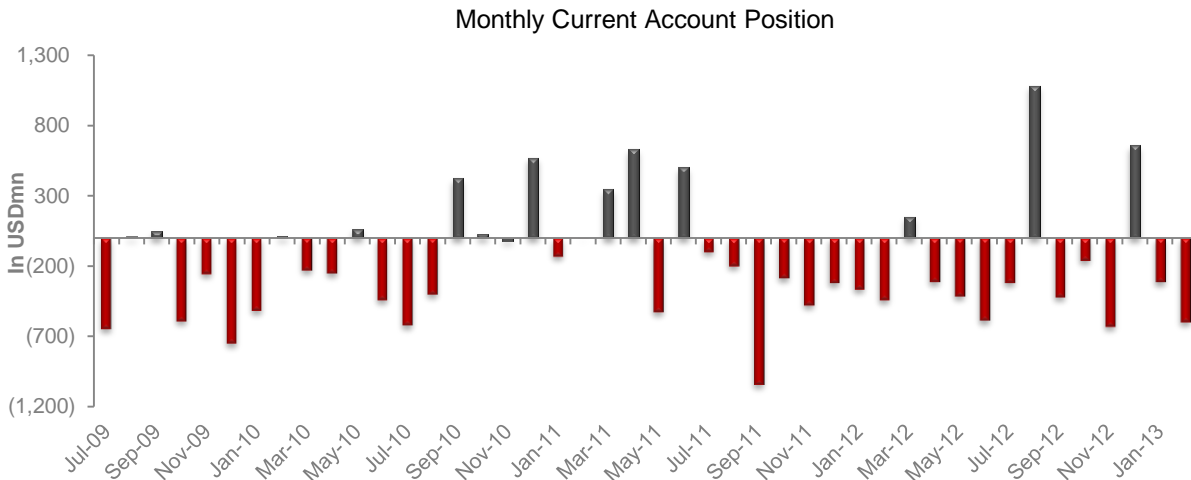
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Research Note – BoP influences April 2013 MPS

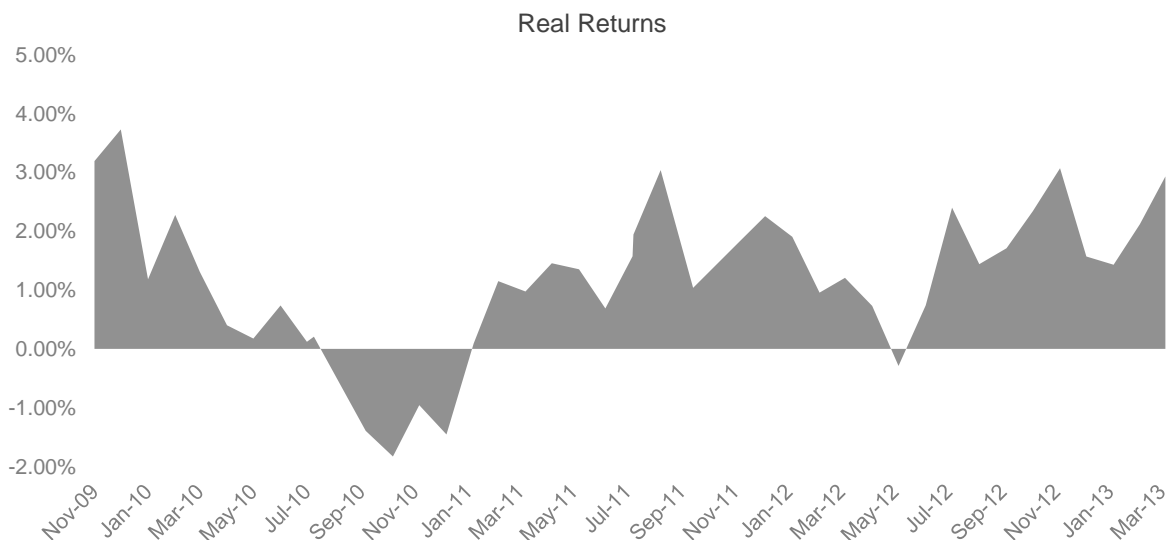
April 12, 2013

Balance of Payment influences Monetary Policy

On April 12, 2013 State Bank of Pakistan announced Monetary Policy stance (applicable for April and May 2013) keeping the Discount Rate unchanged at 9.5% against the backdrop of severe external account crisis. Buffeted by huge IMF Payments under the Stand By Agreement current account has remained under pressure since the start of FY13. So far Pakistan has honored USD 2.2 billion during the first three quarters FY13 taking the Forex Reserves from USD 15.28 billion (in June 2012) to USD 11.75 billion (as of April 05, 2013). Going forward scheduled payment of USD 838 million needs to be retired till June 2013 with considerably low expectation of foreign financial support.

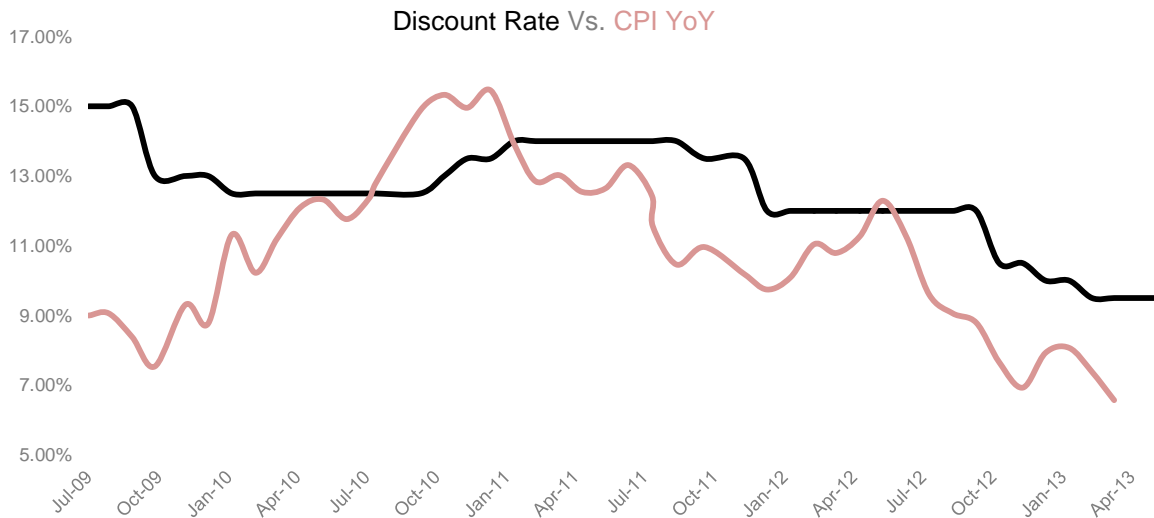


Although CPI, one of the major economic indicators, has shown substantial improvement which dropped from 11.26% in June 2013 to 6.57% in March 2013 yet SBP ignored the progress eyeing Rupee Devaluation as the biggest hurdle. Cutting the discount rate from current levels would further sprout the demand of Dollar thus lowering Rupee Value –which would be an undesirable economic move.

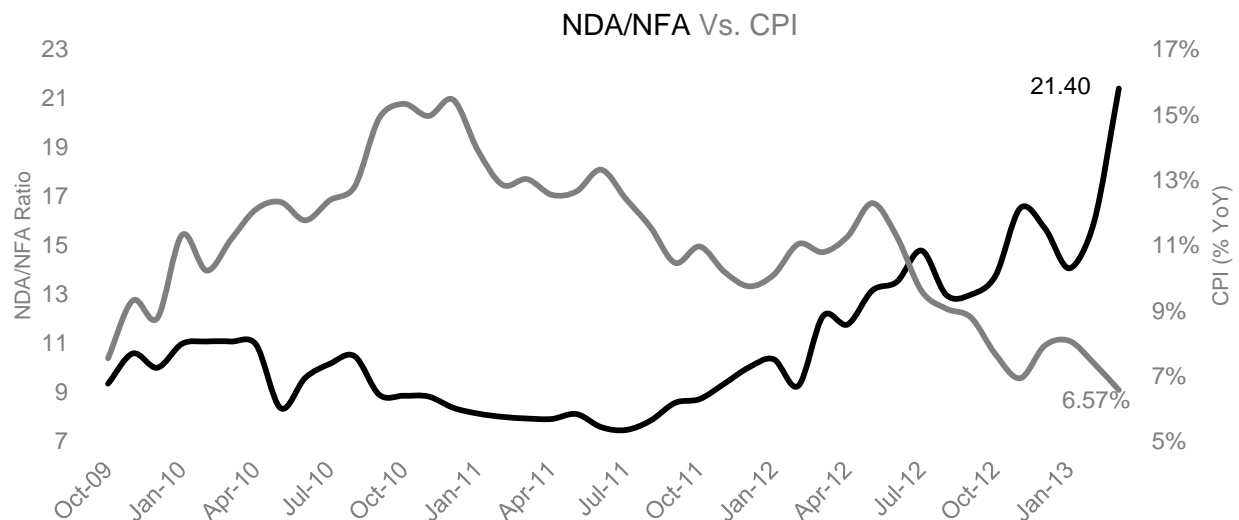


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Henceforth, we anticipate inflationary pressure to remain subdued and MPS to continue its emphasis on position of external account which is expected to deteriorate further till June 2013. Furthermore, SBP has encouraged reduction of subsidy burden from Government's exchequer so as to contain the swelling fiscal expenses which is taking domestic financing to phenomenal levels and crowding out for private sector.



SBP Governor has highlighted that the low levels of inflation is not a sustainable economic aspect and hence should be managed more effectively. Following graphical representation on NDA/NFA ratio further endorses the claims by SBP:



It's critical for Government to course-correct and devise strategies to pull the country out of the current economic mayhem. Once the fiscal discipline and political stability have been established the economy will experience. Conclusively, progress on talks with IMF will remain a key economic event to follow after the election season phases out.

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