MONETARY POLICY FORECAST

Monetary Policy will be announced on Monday and based on Economic Performance our views are as under:

1. State bank of Pakistan ("SBP") is of the view that:

Quote:

'With this decision on interest rates dated 16 July 2019, adjustment related to interest rates and the exchange rates from past imbalances has taken place'. **Unquote**,

2. Current account deficit has massively declined by 73% for the month of July 2019, which stood at US dollar ("$") 579 million as compared to the $2.1 billion during the corresponding period last year, this downward trend is encouraging,
3. Trade deficit has declined by 38% to $3.98 billion during July-August FY2019-20 as against $6.37 billion in July-August FY2018-19, exports are up by around 7% year on year basis,
4. Remittances have been declined by $341 million or 8% to $3.73 billion during July-Aug FY2019-20 as compared to $4.07 billion during the same period last year, this downward inflow needs to be fixed quickly,
5. Foreign exchange Reserves are likely to increase in FY20 on account of additional forex inflows from the international creditors including to Saudi deferred oil facility,
6. In the interbank market, PKR has established its ground against the dollar at 156, which is an encouraging sign. However, the Six Months forward exchange rates is quoted at PKR 161-162,
7. The CPI rebasing in the month of August 2019 that stands at 10.5% via new base (11.6% in August 2019 via old base) which may downward revise the projected inflation going forward, and
8. 12 months weighted average T-bill yield has been declined to 14.03%, which is a welcoming sign for the economy.

Based on the overview of aforementioned economic performance, we are of the view that the aforesaid factors establish the 'ground' for the central bank to cut in the interests' rates maximum by 25bps in the forthcoming monetary policy.

However, we believe that the curtailment of fiscal deficit will be an uphill task for the government going forward. The gravity of the situation can be understood from the fact that the budget deficit (PKR 3444 billion) has ballooned to highest ever in eight year eating up 84% of the FBR's tax revenue (PKR 3829 billion) impacting economic dynamics of the country.

In our opinion, the key feature of the IMF program revolves around FBR's tax revenue target of PKR 5550 billion. During the first quarter of the current fiscal year, FBR is required to raise PKR 1071 billion tax revenues. Till August 31, 2019; FBR has generated PKR 580 billion against the target of PKR 640 billion. FBR needs to raise additional PKR 491 billion in the month of September to accomplish the IMF target of PKR 1071 billion, which seems highly unrealistic in the wake of economic crunch and slow down country is facing. As a result, missing FBR tax revenue target will be a serious blow to the economy and may trigger 'new strings' by the IMF.

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