

## Fixed Income Monthly Review June-19

### *Fitch Solutions revised Pakistan's real GDP growth to come at 3.2%*

Fitch Solutions have revised its forecast for Pakistan's real GDP growth to come in at 3.2% in fiscal year 2018-19 (slightly lower than the government's expectation of 3.3%). Government presented Annual Budget for the fiscal year 2019-20, under this budget, the key decision was removal of zero-rating facility of five export-oriented sectors and imposition of normal 17% GST, increased income tax rates to maximum of 35% from 25% and reduced by half the taxable income bracket to Rs.50,000/month for salaried and Rs.33,333 for non-salaried individuals. Government also has targeted \$26 billion exports for the next fiscal year 2019-20 against projection of \$24.656 billion for the outgoing fiscal year.

The Economic Coordination Committee approved in principle up to 191% increase in gas tariff and allowed signing of agreement with Saudi Arabia for formal start of \$270 million monthly oil import on deferred payment. Qatar promises to make \$3bn worth of new investment in Pakistan, in the form of deposits and direct investment.

Country's trade deficit for 11 months (Jul-May) FY2018-19 was \$29.21 billion compared to the deficit of \$33.81 billion from the corresponding period of FY2017-18. During May 2019, the inflow of remittances amounted to \$2.315 billion which is 30.17% higher than April 2019. Total remittances reached at \$20.19 billion in first 11 month of FY2019 compared with \$18.285 billion received during the same period of in the preceding year.

In a regular bond auction conducted on 26<sup>th</sup> June 2019, SBP received bids of PKR 31.65bn, 82.2bn and 127.2bn in 3Y, 5Y and 10Y PIBs, which SBP has accepted PKR 2.25bn, 27.05bn and 89.12bn at rate of 13.6999%, 13.80% and 13.70% respectively. In PIB Floater SBP accepted PKR 15bn out of 56bn at the spread of 75bps.

In its routine MTB auctions conducted on 3<sup>rd</sup> and 19<sup>th</sup> June 2019, SBP received mild participation in auctions of 3<sup>rd</sup> June. At the cutoff of 12.7493% and 13.15%, amounting PKR 102.5bn and 500mn were accepted for 3-months and 12-months against the target of 500bn, no bids were received in 6-months. Furthermore, in June 19<sup>th</sup> auction, SBP received bids of PKR 24.8bn, 5bn and 15bn in 3-months, 6-months and 12-months from which SBP accepted PKR 3.874bn at the level of 12.7491%, bids in 6-months and 12-months were rejected.

Market liquidity remained calm throughout the month as the central bank managed the liquidity condition through frequent OMOs, SBP continued to conduct regular OMO (Injection) to stabilize the liquidity condition. PBS announced CPI of 8.9% for the month of June on YoY, and increase of 0.4% on MoM basis.

