

# Pakistan Business Forecast Report Q1 2015

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## Abstracts

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### Core Views

Pakistan's Prime Minister Nawaz Sharif will withstand calls for his resignation by Pakistan Tehreek-e-Insaf (PTI) leader Imran Khan and cleric Tahir-ul-Qadri. However, the protests have weakened his authority, and an end to the demonstrations is likely to come as part of a deal with the powerful military elite to relinquish Sharif's control of foreign affairs, which will undermine relations with India and put Pakistan's fiscal reform progress in jeopardy.

The State Bank of Pakistan (SBP) held its benchmark policy rate at 10.0% at its September monetary policy meeting, and we expect this long pause to continue over the coming quarters. Despite a number of structural disinflationary forces at play in the Pakistani economy, which should see the trend of consumer price inflation (CPI) head lower over the coming years, we have made an upward revision to our forecasts owing to the impact of the recent floods and renewed reform uncertainty. We forecast CPI to average 7.6% year-on-year (y-o-y) in Fiscal Year 2014/15 (July-June), from an average of 8.6% seen in FY2013/14.

The Pakistani government is moving ahead with its privatisation drive, looking to raise at least USD2bn through the international sale of shares in Pakistani energy and banking companies. Successful share sales in sales in Oil and Gas Development Co and Habib Bank would provide crucial support to the government's fiscal coffers, and pave the way for more privatisations over the coming year.

The recent political crisis and severe flooding throw into doubt our relatively strong real GDP growth forecast of at 4.0% for fiscal year 2014/15 (July-June). The anti-

government protests have disrupted business operations to a degree over recent months, and will undermine business confidence. Meanwhile, the flooding seen in September in major growing regions of the country will adversely impact production of key crops.

The Pakistani rupee looks set to continue weakening over the coming months due to the country's widening trade deficit, still-high inflation and lingering political uncertainty. We forecast an end-year target of PKR105.00/USD and PKR110.25/USD by the end of 2015.

### **Major Forecast Changes**

We have slightly revised our forecasts for the PKR and inflation. We see the rupee heading lower over the coming months, and forecast an end-year target of PKR105.00/USD and PKR110.25/USD by the end of 2015. Regarding inflation, we have revised up our average forecast for Fiscal Year 2014/15 to 7.6%, from 6.5%, owing partially to the impact of recent floods.

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