Monetary Policy Statement
January 28, 2017

The average inflation clocked in at 3.9 percent during the first half of the year, lower than the earlier projections due to smooth supply of perishable items, stable exchange rate, and government's absorption of the impact of higher international oil prices. The current trends suggest that the actual inflation would be lower than the target rate of 6 percent in FY17.

Growing CPEC-related imports, decline in exports, absence of Coalition Support Fund, and slowdown in remittances, pushed the current account deficit to USD 3.6 billion in the first half of FY17, from USD 1.7 billion in the same period last year. This higher deficit was financed by an increase in bilateral and multilateral funding along with pick up in investment flows. Overall surplus in the balance of payments stands at USD 0.2 billion in the first half of the current year. Going forward, with the aforementioned risks to the external sector, the need of financial inflows would grow further.

A sizeable net retirement of government borrowing to scheduled banks and an increase in bank deposits helped increase private sector credit. Benefiting from the historic low interest rates, private businesses are actively borrowing from the banking sector for upgrading and expanding their business processes. Private sector borrowed Rs 375 billion in first half of FY17 as compared to Rs 282.6 billion availed in the corresponding period of last year. Loans for fixed investments increased by Rs 134.1 billion in the first half of FY17 compared with an expansion of Rs 83.8 billion in the same period of last year. Demand for consumer financing, especially for auto loans, also gathered pace during the first half of the year.

Healthy credit expansion, along with higher production of *Kharif* crops, visible improvements in energy supply, and upbeat business sentiments signal recuperating real economic activities. Large-scale Manufacturing grew by 3.2 percent during the first five months of the current fiscal year and further increase is expected on account of growing infrastructure spending and recent policy support for export oriented sectors.

Based on an assessment of the above developments and after detailed deliberations, the Monetary Policy Committee has decided to keep the policy rate unchanged at 5.75 percent.