Day Break

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Economy

Status Quo Maintained; Prudent Approach with Focus on Upcoming Events

- In the latest Monetary Policy Announcement (link) the State Bank of Pakistan (SBP) kept policy rate unchanged at 22%. The Committee noted that macroeconomic stabilization measures have led to improvement in both inflation and external position, however, the level of inflation still remains high and outlook is susceptible to risks. Recent geopolitical events have increased uncertainty while upcoming budgetary measures may also have implications on medium-term inflation. Based on this, MPC has continued to adopt a prudent approach & emphasizes continuation of tight monetary stance to bring inflation down to target range of 5-7% by Sep-25.
- The Committee noted that few key developments since last MPC meeting which include recovery in economic activity at a moderate pace led by agriculture sector and sizeable C/a surplus in Mar-24 which allowed stability to FX reserves despite substantial debt repayments.
- Inflation is likely to continue its downward trajectory owing to base effect. However, any further adjustments in administered energy prices or fiscal measures may pose risk to inflation outlook. SBP noted that it take IMF's new program and upcoming Federal Budget in to consideration for any changes in interest rates

SBP Maintains Status Quo

In the latest Monetary Policy Announcement (link) the State Bank of Pakistan (SBP) kept policy rate unchanged at 22%. The Committee noted that macroeconomic stabilization measures have led to improvement in both inflation and external position, however, the level of inflation still remains high and outlook is susceptible to risks. Recent geopolitical events have increased uncertainty while upcoming budgetary measures may also have implications on medium-term inflation. MPC also highlighted that most of the central banks in advanced and emerging economies have maintained a cautious monetary stance after noticing slowdown in inflation. Based on this, MPC has continued to adopt a cautious approach and emphasizes continuation of current monetary stance to bring inflation down to target range of 5-7% by Sep-25.

Exhibit: Monetary Policy Rate Decision

	Current	Previous	Chg. (bps)
Target Policy Rate	**22.00%**	**22.00%**	**0**
Discount rate (Ceiling Rate)	23.00%	23.00%	0
Floor Rate	21.00%	21.00%	0

Source: SBP, IGI Research

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Exhibit: National CPI Heat Map

	Mar-24	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23
General	**17.4**	**20.7**	**23.1**	**28.3**	**29.7**	**29.2**	**26.8**	**31.4**	**27.4**	**28.3**	**29.4**	**38.0**
Food	10.8	17.2	18.1	25.0	27.5	28.0	26.8	33.1	38.5	39.5	39.5	48.7
Transport	11.0	11.2	15.0	26.2	28.6	26.5	30.1	31.3	23.0	13.6	20.3	52.9
Utility/Rent	37.9	36.6	36.1	38.6	37.7	33.0	20.5	29.7	6.2	10.8	11.6	20.5
Essentials	14.5	15.8	18.4	19.5	18.6	18.9	18.6	18.2	16.5	16.7	16.7	17.5
Disc.	16.2	19.2	26.5	32.4	34.9	37.4	39.2	40.8	43.1	43.5	44.9	49.4

Source: SBP, IGI Research

Key takeaways from analyst briefing

SBP in its post MPS briefing highlighted key updates on CAD, debt repayments and foreign exchange reserves which included:

- C/a balance recorded a large surplus of US$ 619mn in Mar-24 driven by higher remittances, which were Eid related. As a result C/a deficit stands US$ 0.5bn in 9MFY24 down by 87.5%y/y. Exports also continue to grow led by higher rice exports. This significant reduction in C/a amid weak inflows has allowed SBP to make substantial debt repayments while sustaining FX reserves at US$ 8bn. The MPC highlighted that further buildup in reserves is essential to absorb external shocks and support sustainable growth.
- Real GDP growth remains unchanged and is expected to be in the range of 2-3% for FY24. Agriculture sector has remained key growth driver with 6.8% growth in 1HFY24. This growth was supported by significant incline in cotton, rice, maize and wheat harvest. LSMI recorded a slight decline of 0.5% during 8MFY24. Activity is expected to pick up in the coming months owing to improved capacity utilization and employment conditions along with favorable base effect.
- Total debt repayment for FY24 stood at US$ 24.3bn (US$ 20.4bn in principle and US$ 3.9bn in interest). SBP stated that most of these payments have been settled and only US$ 1.8bn in principal is to be paid in the remaining months of FY24.
- Fiscal Deficit increased to 2.6% of GDP during 7MFY24 compared to 2.3% in the same period last year whereas primary surplus has improved to 1.8% of GDP from 1.1% in the similar period last year.

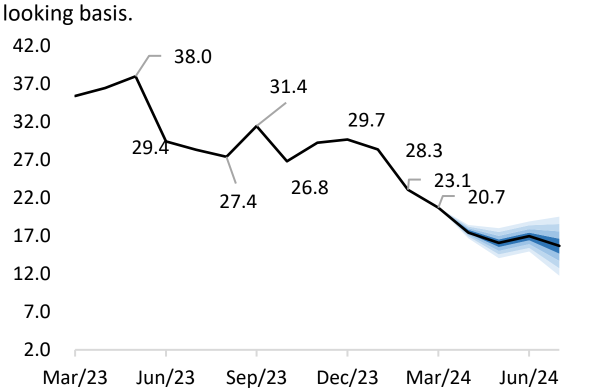
Sizeable increase in interest payments and elevated debt levels have led to an expansion in overall deficit. The MPC highlighted that overall fiscal consolidation is essential for ensuring price stability and sustainable economic growth.

- M2 growth moderated to 17.1%y/y in Mar-24 compared to 16.1%y/y in Feb-24. Reserve money increased to 10% in Mar-24 compared to 8.2% in Feb-24. This improvement came due to expansion in net foreign assets on the back of improved FX reserves and increased net budgetary borrowing from banks. This underlying compositional change in M2 is likely to bode well for inflation outlook.
- SBP also clarified that it does not set a specific target for REER as it is influenced by domestic inflation, inflation of other countries and various other economic developments.
- During 9MFY24, dividend and profits repatriated stood at US$ 0.8bn compared to US$ 0.24bn last year. SBP profit that will be transferred to government upon audit completion is expected to be over PKR 2trn for FY24 compared to PKR 0.97bn last year.
- SBP noted that it take IMF's new program and upcoming Federal Budget in to consideration for any changes in interest rates.

Outlook

Decline in inflation during Mar-24 has turned real rates positive on spot basis, which has strengthened the case for rate cuts. Although pace of decline in inflation has slowed down due to adjustment in administered energy prices, inflation is likely to continue its downward trajectory owing to base effect. However, any further adjustments in administered energy prices or fiscal measures may pose risk to inflation outlook.

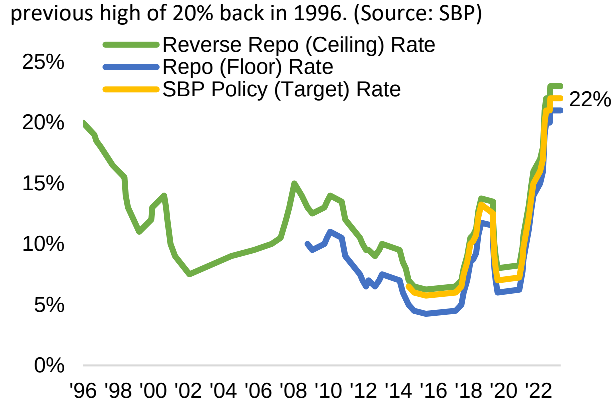
Exhibit: CPI likely to continue its downward trajectory with real rates also significantly positive on a 12 month forward looking basis.



Source: SBP, PBS, IGI Research

Exhibit: Pakistan Policy Rate (historical)

Discount rate of 23% remains at historic high against previous high of 20% back in 1996. (Source: SBP)



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