

## Economy

### SBP Raise Rate To 21%; To Counter High Near-Term Inflation

- In the latest Monetary Policy Announcement ([link](#)) the State Bank of Pakistan (SBP) raised the policy rate by 100bps to 21%; this is in line with our expectation ([link](#)) and slightly less than market expectation of +100bps increase.
- Mar-23 inflation rose further to 35.4%, and is expected to remain high in the near term. More importantly, core (national) inflation also ticked up to 20.4%. By 2QFY25, SBP expects inflation could fall to post 5-7%, hence with that view in sight SBP considers monetary policy stance as appropriate as real interest rate will be in positive territory on a forward-looking basis.

### SBP Raise Rate To 21%; To Counter High Near-Term Inflation

In the latest Monetary Policy Announcement ([link](#)) the State Bank of Pakistan (SBP) raised the policy rate by 100bps to 21%; this is in line with our expectation ([link](#)) and slightly less than market expectation of +100bps increase. In addition, the floor and ceiling rates now adjusted at 20% and 22%, respectively. This takes total rate hike during FY23 to 700bps; which is one of the steepest.

### Rate rise reflects SBP effort to anchoring inflation expectations in the medium term

Mar-23 inflation rose further to 35.4%, and is expected to remain high in the near term. More importantly, core (national) inflation also ticked up to 20.4%, indicating secondary round impacts of recently pass through of increases in taxes and duties, unwinding of untargeted energy subsidies and the exchange rate depreciation.

### SBP remains confident to end FY23 at US\$ 10bn reserves level

On external accounts, reduction in current account deficit is welcoming a sign, but despite that FX reserves remain critically low. In this regard resumption of IMF EFF program is deemed important. The government authorities have made significant progress on meeting IMF 9th review, but lack of commitments from lenders on bridging in external financing gap is keeping the issue hang by the thread.

With respect to external debt repayment, SBP informed that of the total US\$ 23bn, government has paid US\$ 18.5bn, whereas of the remaining

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US\$ 4.5bn, US\$ 2.3bn will be rolled-over and the net US\$ 2.2bn debt repayment gap will be filled by multilateral/bilateral loans.

<b>Exhibit: Pakistan Expected FX Reserve Position by FY23 end</b>		
In US\$bn		
Open FX Reserves	\$	16
Total Debt Repayment	\$	23
Total Debt Repaid	\$	19
Remaining	\$	5
-- of which Roll-over	\$	2
Net Debt repayments	\$	2
C/a Deficit	\$	6
Inflows	\$	3
<b>End FX Reserves</b>	<b>\$</b>	<b>10</b>

### **Growth may tails off more than estimated**

Real sector has slowed down significantly, as evident from LSMI contraction by 4.4%y during 7mFY23. However, this could further exacerbate, as such decline in electricity generation consecutively for the 9mFY23, shortfall in reaching wheat production target, fiscal consolidation combined with lagged effect of quantitative tightening suggest slowdown in economic growth exponentially this FY23. The effect of slowdown in growth are also visible from lower tax revenue collection, along with reduced imports, and insufficient policy measures to enhance tax net.

### **Outlook**

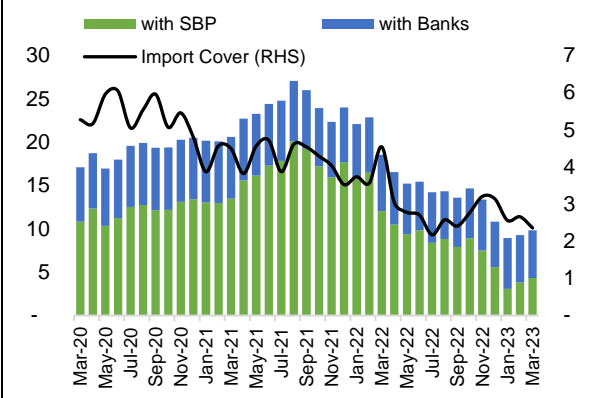
SBP notes that, post near-term inflation is expected to 'plateau' in the medium term albeit at an elevated level, hence the decision to raise the rates was critical to anchor inflation expectation. By 2QFY25, SBP expects inflation could fall to post 5-7%, hence with that view in sight SBP considers monetary policy stance as appropriate as real interest rate will be in positive territory on a forward-looking basis.

### **Risks remain plenty**

Having said that, risks remain plenty, starting with the rise in international oil prices and further PKR depreciation, tip-toeing global financial intuitions and banks and more importantly domestic political situation remain unhealthy.

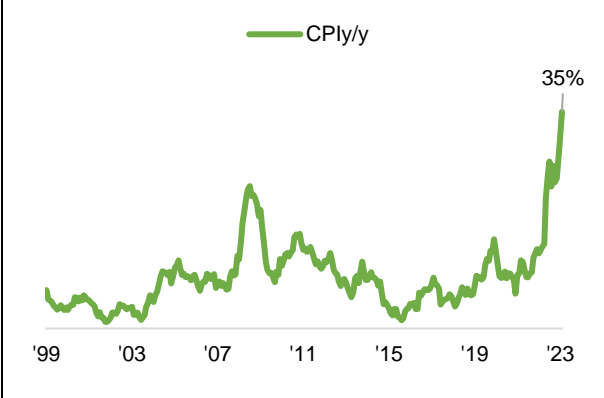
**Exhibit: Foreign Exchange Reserves**

As of latest, SBP reserves stand at US\$4.24bn leaving nearly a month of import cover.



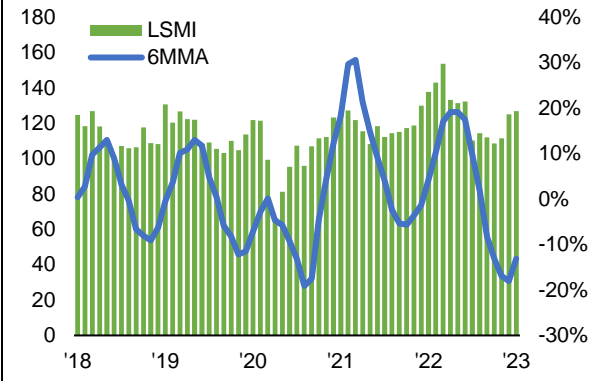
**Exhibit: Headline Inflation (historical)**

For the month of Mar-23 CPI rose to a multi-year high of +35.4%



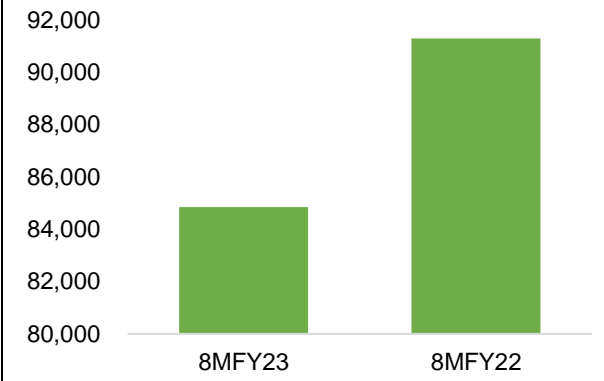
**Exhibit: Large Scale Manufacturing Slows Down**

Real sector slows down evidently as LSMI contracted by 7.9%y, and 4.4%y during Jul-Jan FY23 compared to same period last FY.



**Exhibit: Total Electricity Generation Slides**

During the 8mFY23 period, total electricity generation came at 84.8k GW/h compared to last year same period of 91.3k GW/h



Source: PBS, NEPRA, SBP, IGI Research

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