

Day Break

Friday, 24 November 2017

Economy

Exhibit: Real interest rates

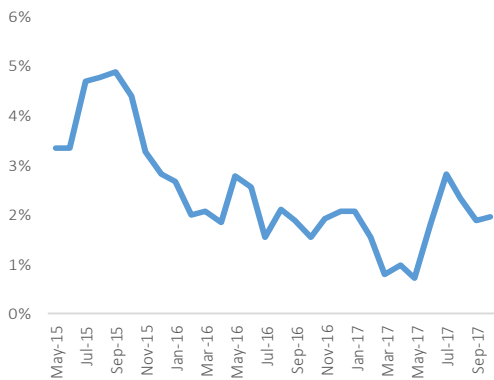
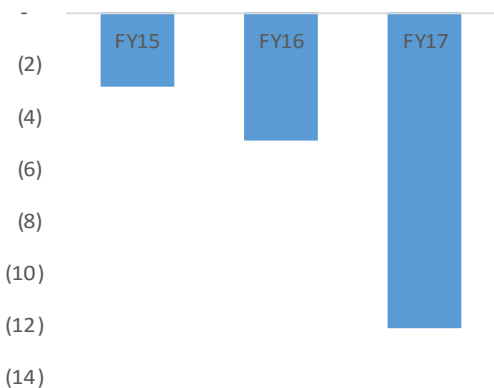


Exhibit: Rising C/a deficit since 2015



Source: SBP, PBS & IGI Research

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Monetary Policy

MPS: Status quo to be maintained; Target Policy rate to be kept at 5.75%

- The state Bank of Pakistan is expected to announce its Monetary Policy stance today (24-Nov-17), wherein, we expect the regulator to maintain status quo, prolonging the 17-month streak of decade low policy rate at 5.75% (discount rate at 6.25%) to yet another month
- Given the subdued commodity prices internationally and expected range-bound oil prices, inflationary pressure is expected to remain meagre justifying monetary policy status quo
- Given the current price level and election cycle led political considerations, we expect monetary status quo to be maintained in near future unless real interest rates reaches the negative territory

SBP to keep interest rates unchanged

The state Bank of Pakistan is expected to announce its Monetary Policy stance today (24-Nov-17), wherein, we expect the regulator to maintain status quo, prolonging the 17-month streak of decade low policy rate at 5.75% (discount rate at 6.25%) to yet another month. We anticipate this decision based on persistent low interest rate and Government's determination to maintain expansionary economic environment.

Subdued inflation minimizes the chance of monetary cycle reversal

For the 4MFY18, inflation has remained modest, averaging +3.5%YoY. Primary dampener is food index which has recorded a meagre +1.5%YoY increase over the 4 moths. On the other hand, rise in world oil prices as well as continued increase in HRI has led to a modest increase in non-food inflation over the same period – up by +5.0%YoY. Simultaneously, although core inflation is at an elevated level, it has been declining in the last few months wherein it has decreased by 30bps to +5.3%YoY from a high of +5.6%YoY in Jul-17, which indicates some let down in built up demand pull inflationary pressures in the economy. Given the subdued commodity prices internationally and expected range-bound oil prices, inflationary pressure is expected to remain meagre justifying monetary policy status quo.

Outlook: Policy rate to remain unchanged unless inflation accelerates

Moving forward, we expect subdued international commodity prices and range-bound oil prices to keep inflation at bay. However, external account concerns led potential PKR depreciation could result in imported inflationary pressure to drag real interest rate lower, in turn forcing the regulator to reverse its monetary policy stance. Yet, given the current price level and election cycle led political considerations, we expect monetary status quo to be maintained in near future unless real interest rate reaches the negative territory.

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