

Flash Note

Thursday, September 14, 2023



Monetary Policy Statement

Monetary Policy Committee Maintains Policy Rate

In the latest Monetary Policy Announcement [\(link\)](#) the State Bank of Pakistan (SBP) kept the key rate unchanged at 22%.

Key Points and Outlook:

Inflation:

Inflation rate decreased to 27.4% in August 2023. Real interest rates remain in positive territory. Expected ease in supply constraints due to better agriculture output and administrative measures against speculative activity in FX and commodity markets. Inflation projected to remain on the downward trajectory

Growth:

Moderate pick up in sales of key inputs like POL, fertilizer, and cement, and slight increase in import volumes. Also, Agriculture sector outlook has improved. Domestic demand will remain contained due to monetary tightening and envisaged fiscal consolidation

External Sector:

Overall imports are expected to remain in check, supported by favorable trend in non-oil commodity prices, moderate domestic demand, and improved cotton production. Favorable rice prices and available surplus bode well for the export outlook. Recent structural reforms related to exchange companies will strengthen their governance structure and improve market functioning

Fiscal:

FBR's revenues recorded a 27.2% increase over the same period last year. Achieving the targeted primary surplus of 0.4% of GDP is critical to support monetary policy in delivering on its objective of price stability. Moreover, Attaining fiscal consolidation through broadening the tax base, providing targeted subsidies only to the most vulnerable, and reducing losses of public sector enterprises through privatization or reforms would help bring inflation down in the targeted range and achieve sustainable economic growth over the medium term

Money and Credit:

Expected fiscal consolidation, the realization of planned external inflows, and uptick in economic activity would provide space for a moderate expansion in private sector credit this year.

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