

## Economy

### Status Quo Maintained; Inflation to Continue its Downward Trajectory

- In the latest Monetary Policy Announcement ([link](#)) the State Bank of Pakistan (SBP) kept policy rate unchanged at 22%. SBP apprised that real rates are currently significantly positive based on 12 month forward looking basis and remain appropriate to anchor CPI towards target range of 5-7% by Sep-25.
- The MPC noted that the decision took in to consideration the recent sizeable adjustments in energy prices (especially gas prices) which has slowed down the pace of decline in inflation against earlier expectation. As a result, MPC has revised its timeline for achieving 5-7% inflation target to Sep-25 from previous Jun-25. Thus considering these developments along with elevated levels of headline and core inflation, the MPC decided to continue with tight monetary policy stance.
- SBP also revised upward its inflation target range for FY24 to 23-25% from earlier 20-22%. Real GDP growth remains unchanged and is expected to be in the range of 2-3% for FY24. CAD projection also remains unchanged and is expected to be in the range of 0.5%-1.5% of GDP.

#### SBP Maintains Status Quo

In the latest Monetary Policy Announcement ([link](#)) the State Bank of Pakistan (SBP) kept policy rate unchanged at 22%. SBP apprised that real rates are currently significantly positive based on 12 month forward looking basis and remain appropriate to anchor CPI towards target range of 5-7% by Sep-25.

The MPC noted that the decision took in to consideration the recent sizeable adjustments in energy prices (especially gas prices) which has slowed down the pace of decline in inflation against earlier expectation. As a result, MPC has revised its timeline for achieving 5-7% inflation target to Sep-25 from previous Jun-25. Thus considering these developments along with elevated levels of headline and core inflation, the MPC decided to continue with tight monetary policy stance. Non-energy prices continue to drop in line with Committee's expectation. However, inflation is likely to continue its downward trajectory owing to high base effects.

| 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

#### Analyst

Abdullah Farhan  
[Abdullah.farhan@igi.com.pk](mailto:Abdullah.farhan@igi.com.pk)

| Exhibit: National CPI Heat Map |        |        |        |        |        |        |        |        |        |        |        |        |
|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                                | Jan-24 | Dec-23 | Nov-23 | Oct-23 | Sep-23 | Aug-23 | Jul-23 | Jun-23 | May-23 | Apr-23 | Mar-23 | Feb-23 |
| <b>General</b>                 | 27.6   | 29.7   | 29.2   | 26.8   | 31.4   | 27.4   | 28.3   | 29.4   | 38.0   | 36.4   | 35.4   | 31.5   |
| Food                           | 23.5   | 27.5   | 28.0   | 26.8   | 33.1   | 38.5   | 39.5   | 39.5   | 48.7   | 48.1   | 47.2   | 45.1   |
| Transport                      | 26.5   | 28.6   | 26.5   | 30.1   | 31.3   | 23.0   | 13.6   | 20.3   | 52.9   | 56.8   | 54.9   | 50.4   |
| Utility/Rent                   | 39.0   | 37.7   | 33.0   | 20.5   | 29.7   | 6.2    | 10.8   | 11.6   | 20.5   | 16.9   | 17.5   | 13.6   |
| Essentials                     | 18.2   | 18.6   | 18.9   | 18.6   | 18.2   | 16.5   | 16.7   | 16.7   | 17.5   | 16.9   | 16.7   | 14.7   |
| Disc.                          | 31.8   | 34.9   | 37.4   | 39.2   | 40.8   | 43.1   | 43.5   | 44.9   | 49.4   | 46.4   | 43.5   | 35.8   |

### Key takeaways from analyst briefing

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

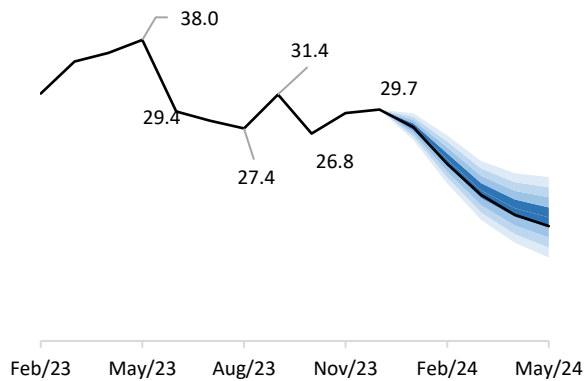
- Real rates remain in positive territory on a 12 month forward looking basis and inflation. MPC noted that currently policy rate is appropriate to anchor inflation down to target range of 5-7 by Sep-25. SBP also revised upward its inflation target range for FY24 to 23-25% from earlier 20-22%.
- Real GDP growth remains unchanged and is expected to be in the range of 2-3% for FY24. Kharif crops' output has remained stronger than last year while same is anticipated for Rabi crop. LSMI recorded a moderate increase in Nov-23 whereas slight decline was reported in 5MFY24. Activity is expected to pick up for industrial sector in 2HFY24.
- CAD projection also remains unchanged and is expected to be in the range of 0.5%-1.5% of GDP. C/a surplus of US\$ 0.4bn in Dec-23 has led to a total C/a deficit of US\$ 0.8bn in 1HFY24 which is down by 77%/y/y. Rise in exports was supported by growth in rice and HVA textile whereas imports declined due to lower commodity prices, oil imports and better crop output.
- SBP's reserves have also improved to US\$ 8.3bn as at 19-Jan-24 owing to increase in official inflows and receipt of IMF-SBA tranche.
- Fiscal Deficit has reduced to 0.8% of GDP compared to 1.5% in the same period last year whereas primary surplus has improved to 1.4% of GDP from 0.2% in the similar period last year. Decline in non-interest spending has helped to contain overall expenditure. Continuation of fiscal consolidation is critical in ensuring price stability and sustainability of public debt.
- M2 growth increased by 18%/y/y as at Dec-23, which is temporary and is likely to reverse in coming months. The currency to deposit

ratio has been falling persistently owing to substantial increase in bank deposits and decline in currency in circulation.

### Outlook

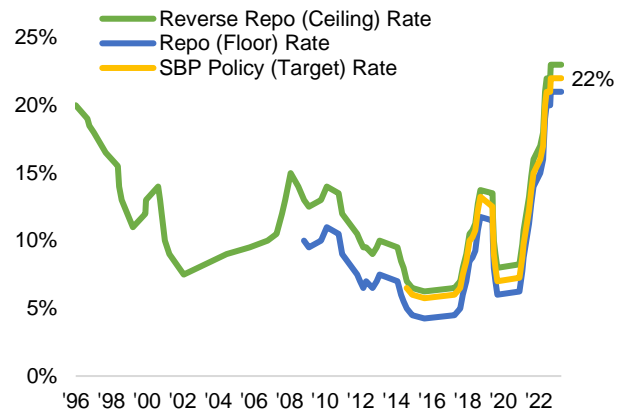
The MPC has noted that tight monetary policy alongside fiscal consolidation, improved crop output and lower commodity prices have helped in moderating food and core inflation. However, sizeable adjustment of energy prices has negated the positive impact of these developments. Although inflation is still expected to continue its downward trajectory, rise in oil prices and freight cost due to Middle East tension, PKR depreciation and lack of foreign inflows remain key 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.



**Exhibit: Pakistan Policy Rate (historical)**

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



# Important Disclaimer and Disclosures

**Research Analyst(s) Certification:** The Research Analyst(s) hereby certify that the views about the company/companies and the security/ securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

**Disclaimer:** The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. The subject Company (ies) is a client of the IGI Finex Securities Limited and IGI Finex Securities offers brokerage services to Subject Company (ies) on a regular basis, in line with industry practice. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

**Rating system:** IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

## Recommendation Rating System

Buy if target price on aforementioned security (ies) is more than 10%, from its last closing price(s)

Hold if target price on aforementioned security (ies) is in between -10% and 10%, from its last closing price(s)

Sell if target price on aforementioned security (ies) is less than -10%, from its last closing price(s)

**Risk:** Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

**Basic Definitions and Terminologies used:** **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, **Last Closing:** Latest closing price, **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **EPS:** Earnings per Share. **DPS:** Dividend per Share. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2024 IGI Finex Securities Limited

# Contact Details

## Equity Sales

|                      |  |                          |                            |
|----------------------|--|--------------------------|----------------------------|
| Zaeem Haider Khan    | Head of Equities                           | Tel: (+92-42) 35301405   | zaeem.haider@igi.com.pk    |
| Muhammad Naveed      | Regional Manager (Islamabad & Upper North) | Tel: (+92-51) 2604861-62 | muhammad.naveed@igi.com.pk |
| Syeda Mahrukh Hameed | Branch Manager (Lahore)                    | Tel: (+92-42) 38303564   | mahrukh.hameed@igi.com.pk  |
| Shakeel Ahmad        | Branch Manager (Faisalabad)                | Tel: (+92-41) 2540843-45 | shakeel.ahmad1@igi.com.pk  |
| Asif Saleem          | Equity Sales (RY Khan)                     | Tel: (+92-68) 5871652-56 | asif.saleem@igi.com.pk     |
| Mehtab Ali           | Equity Sales (Multan)                      | Tel: (+92-61) 4512003    | mahtab.ali@igi.com.pk      |

## Research Team

|                 |                  |                                    |                            |
|-----------------|------------------|------------------------------------|----------------------------|
| Abdullah Farhan | Head of Research | Tel: (+92-21) 111-234-234 Ext: 912 | abdullah.farhan@igi.com.pk |
| Sakina Makati   | Research Analyst | Tel: (+92-21) 111-234-234 Ext: 810 | sakina.makati@igi.com.pk   |
| Laraib Nisar    | Research Analyst | Tel: (+92-21) 111-234-234 Ext: 974 | laraib.nisar@igi.com.pk    |

## IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Pakistan Stock Exchange Limited |

Corporate member of Pakistan Mercantile Exchange Limited

Website: [www.igisecurities.com.pk](http://www.igisecurities.com.pk)

### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
 Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
 UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
 Fax: (+92-21) 35309169, 35301780

### Lahore Office

Shop # G-009, Ground Floor,  
 Packages Mall  
 Tel: (+92-42) 38303560-69  
 Fax: (+92-42) 38303559

### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
 Block- B, Jinnah Avenue, Blue Area  
 Tel: (+92-51) 2604861-2, 2604864, 2273439  
 Fax: (+92-51) 2273861

### Faisalabad Office

Office No. 2, 5 & 8, Ground Floor, The  
 Regency International 949, The Mall  
 Faisalabad  
 Tel: (+92-41) 2540843-45

### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
 Model Town, Town Hall Road  
 Tel: (+92-68) 5871652-3  
 Fax: (+92-68) 5871651

### Multan Office

Mezzanine Floor, Abdali Tower,  
 Abdali Road  
 Tel: (92-61) 4512003, 4571183

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2024 IGI Finex Securities Limited