Economy

Status Quo Maintained; A Cautious Approach to Tackle Risks to Inflation Outlook

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- The Committee noted that further adjustment in administered prices and fiscal measures can push prices up in the near to medium term. Although commodity prices have remained stable, oil prices have increased recently partly due to tense situation in Red Sea.
- Moreover, considering uncertainty surrounding inflation outlook, most of the central banks in advanced and emerging economies have maintained a cautious monetary stance in recent meetings.

SBP Maintains Status Quo

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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

	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23
General	**23.1**	**28.3**	**29.7**	**29.2**	**26.8**	**31.4**	**27.4**	**28.3**	**29.4**	**38.0**	**36.4**	**35.4**
Food	18.1	25.0	27.5	28.0	26.8	33.1	38.5	39.5	39.5	48.7	48.1	47.2
Transport	15.0	26.2	28.6	26.5	30.1	31.3	23.0	13.6	20.3	52.9	56.8	54.9
Utility/Rent	36.1	38.6	37.7	33.0	20.5	29.7	6.2	10.8	11.6	20.5	16.9	17.5
Essentials	18.4	19.5	18.6	18.9	18.6	18.2	16.5	16.7	16.7	17.5	16.9	16.7
Disc.	26.5	32.4	34.9	37.4	39.2	40.8	43.1	43.5	44.9	49.4	46.4	43.5

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:

- CAD projection also remains unchanged and is expected to be in the range of 0.5%-1.5% of GDP, which is likely to support forex reserve position. C/a balance has remained manageable owing to higher food exports, subdued imports due to improved domestic demand / supply dynamics and consistent rise in remittances since Oct-23. The SBP is targeting its forex reserves at US$ 9.1bn which has been agreed with IMF as well.
- 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 wheat crop output also looks promising. LSMI recorded a slight decline of 0.5% during 7MFY24. Activity is expected to pick up in the coming months owing to improved capacity utilization and employment conditions.
- Total debt repayment for FY24 stood at US$ 24.3bn (US$ 20.4bn in principle and US$ 3.9bn in interest). Out of this US$ 13.5bn has already been repaid or rolled over. The remaining US$ 10.8bn remains payable in the next 3.5months. US$ 2bn loan is already in process of rollover while US$ 4bn is set to be rolled over in Jun-24. Thus total of US$ 3.5bn needs to be repaid including US$ 1bn payment of Eurobond in Apr-24.
- Debt repayments are likely to remain high in FY25 as well, similar to FY24. Out of the total debt repayment in FY25, a total of US$ 12bn is to be rolled-over.
- Fiscal Deficit increased to 2.3% of GDP during 1HFY24 compared to 2.0% in the same period last year whereas primary surplus has

improved to 1.7% 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 macroeconomic and price stability.

- M2 growth moderated to 16.1%y/y in Feb-24 compared to 17.8%y/y in Dec-23. This moderation came from lower growth in net domestic assets of banking system mainly due to contraction in private sector credit growth. The currency to deposit ratio has been falling persistently owing to substantial increase in bank deposits and decline in currency in circulation. This is likely to bode well for inflation outlook.

Outlook

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. Furthermore, secondary market yields and KIBOR are already below policy rate. Thus, decline in inflation will turn real rates positive on spot basis in coming months, which would strengthen the case for rate cuts.

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

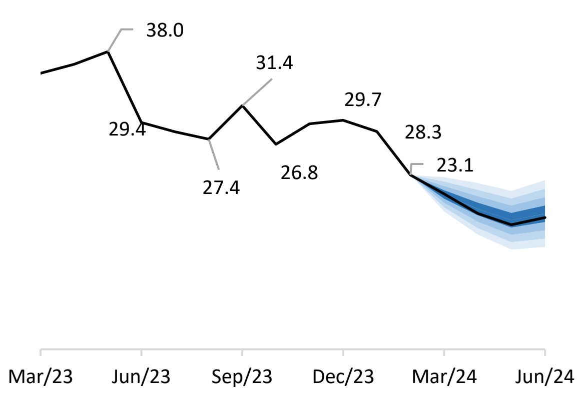
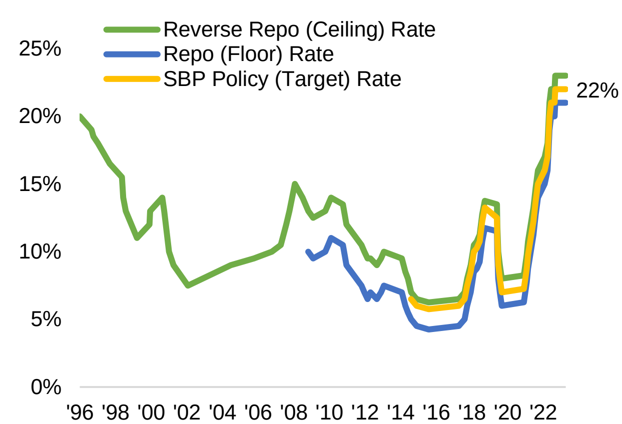


Exhibit: Pakistan Policy Rate (historical)
Discount rate of 23% remains at historic high against previous high of 20% back in 1996. (Source: SBP)



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