

## Economy

### SBP Maintains Status Quo as Inflation Outlook Broadly Within Target Range

- In the latest Monetary Policy Announcement ([link](#)) the State Bank of Pakistan (SBP) kept policy rate unchanged at 22% contrary to market expectation of 100-200bps hike.
- The decision to maintain status quo was mainly based on a) inflation reading expected to decelerate from Oct-23 after peaking in Sep-23 and continue to decline, b) recent measures to curb illegal activities in foreign exchange market has narrowed the gap between interbank and open market, c) growth outlook unchanged with expected recovery in agriculture and industrial output and, d) CAD largely in line with expectation.
- Considering the reasons highlighted by MPC for status quo which includes expected deceleration in inflation and real rates in positive territory, it may seem that Policy Rates may have peaked. However, we highlight key factors which are yet to be incorporated that may keep inflation on higher side include potential hike in fuel/gas/electricity prices, delays in US\$ inflows, slowdown in exports and remittances and rise in import bill due to removal of restrictions and increase in oil prices.

#### SBP keeps Policy Rate Unchanged

In the latest Monetary Policy Announcement ([link](#)) the State Bank of Pakistan (SBP) kept policy rate unchanged at 22% contrary to market expectation of 100-200bps hike. SBP apprised that real rates are currently positive based on inflation estimates.

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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

Exhibit: National CPI Heat Map												
	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22	Sep-22
<b>General</b>	<b>27.4</b>	<b>28.3</b>	<b>29.4</b>	<b>38.0</b>	<b>36.4</b>	<b>35.4</b>	<b>31.5</b>	<b>27.6</b>	<b>24.5</b>	<b>23.8</b>	<b>26.6</b>	<b>23.2</b>
Food	38.5	39.5	39.5	48.7	48.1	47.2	45.1	42.9	35.5	31.2	36.3	31.7
Transport	23.0	13.6	20.3	52.9	56.8	54.9	50.4	39.1	41.2	44.2	53.4	64.5
Utility/Rent	6.2	10.8	11.6	20.5	16.9	17.5	13.6	7.8	6.9	9.9	11.9	3.4
Essentials	16.4	16.7	16.7	17.5	16.9	16.7	14.7	14.4	14.4	15.1	14.7	13.7
Disc.	43.1	43.5	44.9	49.4	46.4	43.5	35.8	31.0	28.6	27.2	27.2	26.1

### Key takeaways from analyst briefing

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

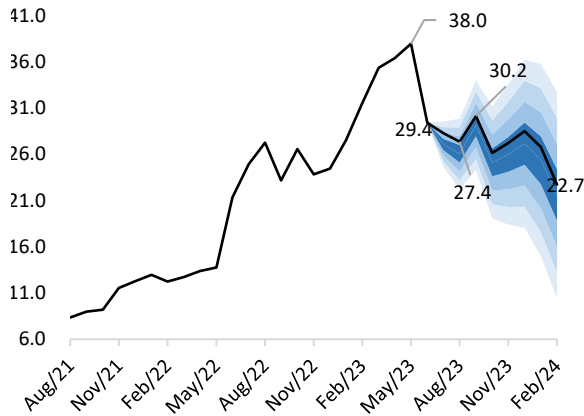
- Interest rates remain in positive territory after factoring in recent rise oil prices.
- Total debt repayment for FY24 stands at US\$ 22bn out of which US\$ 2.2bn has been repaid already. After excluding total roll over of US\$ 11bn, total financing gap stands at US\$ 8bn for FY24.
- A total of US\$ 14bn commitments have been received so far for FY24. With CAD expected to be in the range of 0.5%-1.5% of GDP (US\$ 1.5-5.5bn) and foreign exchange reserves of SBP at US\$ 7.6bn, SBP expects Pakistan's capacity adequate for debt repayment.
- The Governor also highlighted that SBP has met all the quantitative targets set by IMF for Sep-end which includes forward swap ceiling of US\$ 4.2bn, NDA ceiling of PKR 15tn, GoP's borrowing from SBP for budgetary support of PKR 4.7tn and floor on net international reserves of US\$ 14.5bn.
- Also the spread between interbank and open market rate of 1.25% has also been met.

### Outlook

Considering the reasons highlighted by MPC for status quo which includes expected deceleration in inflation and real rates in positive territory, it may seem that Policy Rates may have peaked. However, we highlight key factors which are yet to be incorporated that may keep inflation on higher side include potential hike in fuel/gas/electricity prices, delays in US\$ inflows, slowdown in exports and remittances and rise in import bill due to removal of restrictions and increase in oil prices. These risk factors if materialized may change monetary policy outlook. Therefore to highlight,

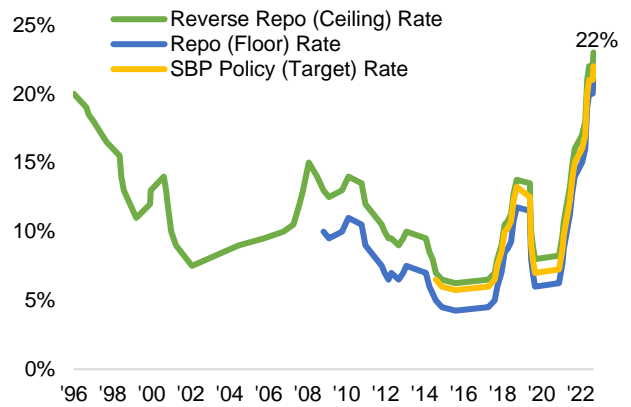
SBP reiterated that it would continue to carefully observe any further developments that may hamper inflationary outlook and therefore may take appropriate actions to keep medium term targets anchored.

**Exhibit: CPI likely to plummet in the near term before moderating rest of the FY24. Real rates to remain negative in the until Dec-23 before turning positive later.**



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

Discount rate of 23% breaks previous high of 20% back in 1996. (Source: SBP)



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