

# Day Break

Tuesday, June 27, 2023



## Economy

### SBP Raised Policy Rate by 100bps to Counter Stubborn Inflationary Expectations

- In the latest Monetary Policy Announcement ([link](#)) the State Bank of Pakistan (SBP) raised the policy rate by 100bps to 22%; this was widely unexpected
- However, with recent further tightening developments from fiscal side as well as withdrawal of import restrictions on priority imports basis have raised concerns on inflationary outlook.
- The committee sounded hawkish in terms of whether key rates have reached its plateau or there is more way to go; SBP reiterated that it would continue to carefully observe any further developments that may hamper inflationary outlook and therefore may take appropriate actions further to keep medium term targets anchored.

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#### SBP raised policy rate to counter stubborn inflationary expectations

In the latest Monetary Policy Announcement ([link](#)) the State Bank of Pakistan (SBP) raised the policy rate by 100bps to 22%; this was widely unexpected as SBP in its last MPS on 12<sup>th</sup> June had decided to keep key rates unchanged as CPI was expected to drop sharply owing to high base effects. However, with recent further tightening developments from fiscal side as well as withdrawal of import restrictions on priority imports basis have raised concerns on inflationary outlook.

Exhibit: Monetary Policy Rate Decision			
	Current	Previous	Chg. (bps)
Target Policy Rate	22.00%	21.00%	100
Discount rate (Ceiling Rate)	23.00%	22.00%	100
Floor Rate	21.00%	20.00%	100

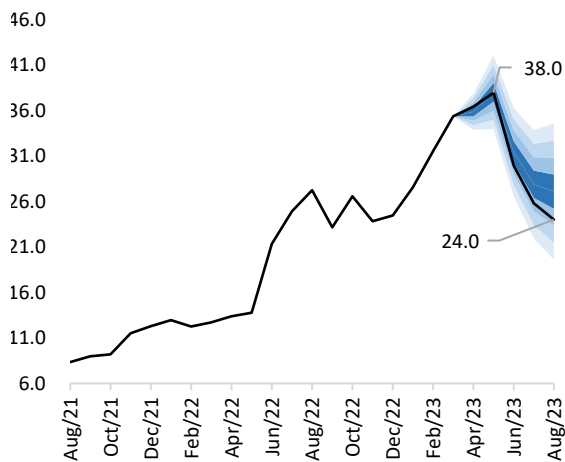
Source: SBP, IGI Research

Exhibit: National CPI Heat Map												
	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22	Sep-22	Aug-22	Jul-22	Jun-22
General	38.0	36.4	35.4	31.5	27.6	24.5	23.8	26.6	23.2	27.3	24.9	21.3
Food	48.7	48.1	47.2	45.1	42.9	35.5	31.2	36.3	31.7	29.5	28.8	25.9
Transport	52.9	56.8	54.9	50.4	39.1	41.2	44.2	53.4	64.5	63.1	64.7	62.2
Utility/Rent	20.5	16.9	17.5	13.6	7.8	6.9	9.9	11.9	3.4	27.6	21.8	13.5
Essentials	17.5	16.9	16.7	14.7	14.4	14.4	15.1	14.7	13.7	13.4	11.7	11.2
Disc.	49.4	46.4	43.5	35.8	31.0	28.6	27.2	27.2	26.1	23.6	20.8	18.7

## More Policy tightening in Place to Pave Way for IMF Tranche Release

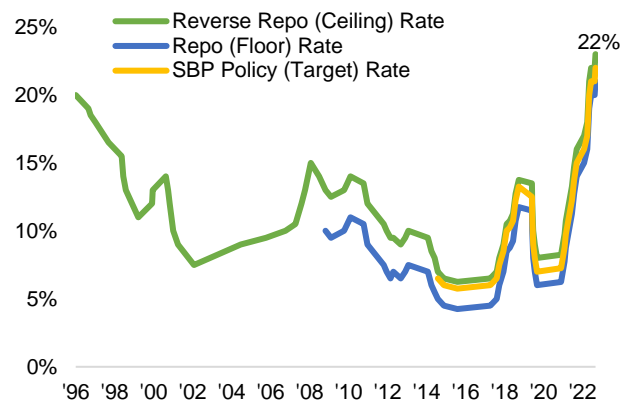
SBP in its recent monetary policy statement (MPS) mentioned that the committee has noticed two developments since the last meeting that have negatively affected the inflationary outlook going forward. Firstly, tightening measures like upward revisions in taxes, duties and PDL through amendments in Finance bill 2023 will keep inflation level elevated in the medium term. Secondly, withdrawal of restriction placed on commercial banks for importing on priority basis has fueled expectations of imported inflationary shock due to pressure on PKR that will pass through domestic prices. For these reasons SBP has acted proactively to anchor inflationary outlook and bring down the level in the range of 5-7% by the end of FY25.

**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)



## Outlook

The committee sounded hawkish in terms of whether key rates have reached its plateau or there is more way to go; SBP reiterated that it would continue to carefully observe any further developments that may hamper inflationary outlook and therefore may take appropriate actions further to keep medium term targets anchored.

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