

# Day Break

Friday, 23 September 2016

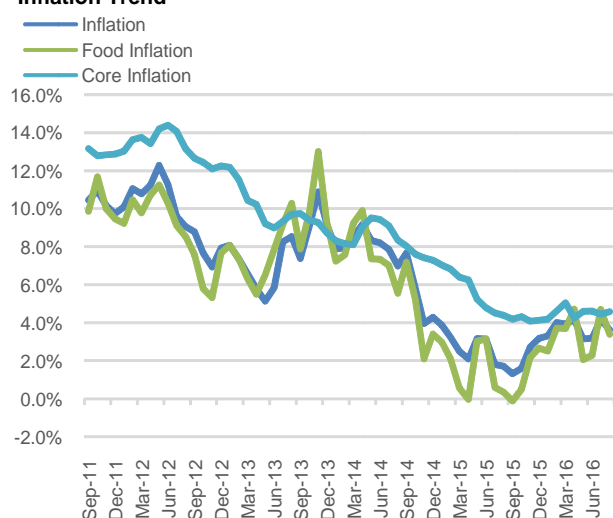
## Economy

### Monetary Policy History

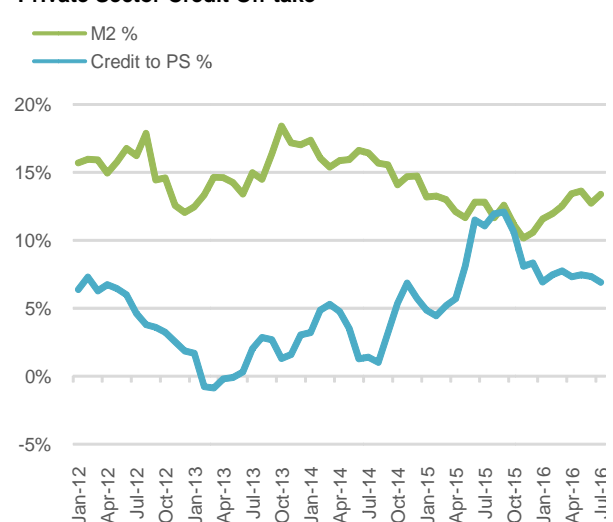
Month	Discount	Policy	Floor
November-14	9.50%	7.00%	-
January-15	8.50%	6.00%	-
March-15	8.00%	5.50%	-
May-15	7.00%	5.00%	6.50%
September-15	6.50%	4.50%	6.00%
May-16	6.25%	4.25%	5.75%
<b>September-16 *</b>	<b>6.25%</b>	<b>4.25%</b>	<b>5.75%</b>

\* Expected (IGI Research)

### Inflation Trend



### Private Sector Credit Off-take



Source: IGI Research, SBP

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## Monetary Policy

### SBP likely to keep rate unchanged focuses on inflation challenge

- State Bank of Pakistan (SBP) is schedule to announce the 2nd monetary policy statement for the year FY17, on 24th Sep-16. We expect discount rate to remain unchanged at 6.25% and policy rate at 5.75%
- We highlight rising inflation trend on the back of unsupportive base effect, higher oil prices and rising M2 growth on back of private sector credit growth.

### SBP likely to keep discount rate rates unchanged at 6.25%, focuses on Inflation Challenge

State Bank of Pakistan (SBP) is schedule to announce the 2nd monetary policy statement for the year FY17, on 24th Sep-16. We expect discount rate to remain unchanged at 6.25% and policy rate at 5.75%, contrary to market expectation of 25-50bps rate cut. We highlight rising inflation trend on the back of unsupportive base effect, higher oil prices and rising M2 growth on back of private sector credit growth.

### Underlying domestic inflation pressure

In the previous monetary policy statement, the SBP kept the discount rate unchanged at 6.25% as expected. The decision to keep rate unchanged came broadly on two grounds, a) uncertain global oil prices poses a risk to inflation outlook, and b) increased economic activity may impact inflation – by that SBP primarily meant rising M2 growth.

### Inflation trajectory well in-line with SBP Projections

For the month of Aug-16, headline CPI inflation printed a +3.6%YoY growth bringing 2MFY17, CPI inflation to +3.9%YoY growth compared to +1.8%YoY in 2MFY16. On a monthly basis, CPI recorded a decline of 0.3%MoM, the main downward drivers of monthly inflation were, food prices down by nearly ~1%MoM. As a result, core inflation showed a muted growth trajectory. Given the current trend, we estimate inflation for FY17 is likely to fall just under SBP target of 4.5-5.5%. Hence, we feel the risk of inflation off shooting SBP targeted inflation will be slightly higher in case of further policy rate cuts.

### M2; feeding well on Private Sector Credit growth

SBP in post MPC statement stated that lag in monetary policy

transmission in Pakistan is around 11 to 12 months, where after we can start seeing pick-up in private sector. As of Jul-16 ending, M2 growth has shown a +13.6%YoY growth, with private sector credit showing a +12%YoY growth. With banks' investments expected to show a muted growth in FY17, we see private sector credit likely to gain further traction. This could potentially lead to additional expansion in M2 growth.

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