Monetary Policy Statement

SBP decided to keep the policy rate unchanged at 15%.

In the latest Monetary Policy Announcement (link) the State Bank of Pakistan (SBP) kept the policy rate unchanged at 15%.; in-line with our expectation (link). Interest corridor stays at ceiling (Reverse Repo) 16% and floor (repo) rate of 14%. Cumulatively speaking, the SBP has raised the policy rate by 800 bps since September 2021 to help economy to cool down and contain current account deficit.

Key points:

- SBP decided to pause the rising rates for now as leading demand indicators show signs of weakening economy after a robust growth witnessed in FY2022 of nearly 6%.
- Inflation yet to peak as effects of full energy subsidy reversals to be witnessed.
- Board meeting of IMF to be taken place on 29th of August, and release of USD 1.2bn tranche is expected.
- Pakistan additionally secured USD 4bn from friendly countries over and above its external financing needs in FY23.
- Global central banks view risks shifting from inflation toward growth.

Outlook:

- **Inflation**: since the last monetary policy meeting, inflation ticked up to 24.9%y in July, and further room to peak as effects of energy subsidy reversals yet to be reflected going forward; however, global commodity prices have begun to come down gradually and this will likely have positive impact on domestic inflation. It is expected to fall with 5-7% target range by the end of FY24, supported by lagged effects of monetary and fiscal tightening.
- **Growth**: MPC expects growth to moderate at 3-4%. Economic activity has moderated since last monetary policy meeting in July. Prolonged monsoon rains have degraded agricultural production outlook that can potentially have ripple effects on other industries.
- **Current Account Balance:** Trade balance fell sharply in July as energy imports fell sharply, moderation in non-energy imports, and Rupee appreciation against USD during the month of August have improved external outlook amid monetary support from friendly countries and resumption of IMF program. As commodity prices dampen gradually, this will likely further narrow down the current account deficit.
- **US$/PKR parity**: FX reserves are expected to rise to USD 16bn during FY23. To ensure sufficient FX reserves for future needs and continued strong rupee, CAD needs to be maintained at 3% of GDP, keeping IMF program on track, fiscal tightening and structural reforms over the next 12 months.

The MPC will be data dependent and will continue to monitor developments for inflation, financial stability and growth.

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