

## Monetary Policy Statement

### SBP decided to maintain the policy rate 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%.

#### Key Points and Outlook:

- **Inflation:** since the last monetary policy meeting, inflation had peaked at 27.3%y in Aug-22, and then dropped down to 23.2%y in Sep-22, as the govt. took administrative measures and electricity charges came 65% lower; however, both core and food inflation ticked up in the aftermath of floods. Going ahead, it is expected that the supply shock from the flood likely to put pressure on headline inflation in the upcoming months and could raise average headline inflation in FY23 above the pre-flood projection of 18-20%.
- **Growth:** most demand and supply indicators reported lower figures since the last MPC meeting. MPC expects growth to drop to 2% compared to earlier projection of 3-4%. The existing policy rate strikes an appropriate balance between managing inflation and economic growth.
- **Fiscal:** During the 1qFY23, FBR tax collection rose to PKR 1.625 trillion, surpassing the target by PKR 27 billion. While the floods could make it challenging to achieve the planned fiscal consolidation this year, the government has so far been able to meet urgent spending needs through re-allocation and re-appropriations of budgeted funds. Going forward, additional foreign inflows, including in the form of grants, should help fund any fiscal slippages.
- **Current Account Balance:** C/a balance for the month of Aug-22 came at deficit of US\$0.7bn, which is half the level in July-22. Recently, PBS shared trade data for the month of Sep-22 where trade deficit has further narrowed down to US\$2.9bn compared to US\$ 3.6bn in previous month. Looking ahead, the floods are likely to result in greater need for some agricultural imports such as cotton and a few perishable food items. At the same time, exports of rice and textiles are likely to be negatively affected. However, these adverse impacts could to a large extent be offset by downward pressures on the import bill from lower domestic growth and falling global commodity prices and shipping costs.
- **US\$/PKR parity:** A continuation of prudent monetary policy and orderly movements in the Rupee should help contain core inflation going forward.

The MPC will continue to carefully monitor developments affecting medium-term prospects for inflation, financial stability, and growth.

#### Analyst

Abdullah Farhan

Abdullah.Farhan@igi.com.pk

Tel: +92 21 111 234 234 Ext: 912

Aariz Raza

Aariz.Raza@igi.com.pk

Tel: +92 21 111 234 234 Ext: 810

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IGI Finex Securities Limited  
Research Analyst(s)  
Research Identity Number: BRP009  
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## Contact Details

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Syeda Mahrugh Hameed	Branch Manager (Lahore)	Tel: (+92-42) 38303564	mahrugh.hameed@igi.com.pk
Shakeel Ahmad	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	shakeel.ahmad1@igi.com.pk
Zaid Farook	Branch Manager (Stock Exchange) Karachi	Tel: (+92-21) 32462651-52	zaid.farook@igi.com.pk
Asif Saleem	Equity Sales (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Equity Sales (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

### Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Aariz Raza	Analyst	Tel: (+92-21) 111-234-234 Ext: 810	Aariz.raza@igi.com.pk
Ajay Kumar	Analyst	Tel: (+92-21) 111-234-234 Ext: 912	ajay.kumar@igi.com.pk
Huzaifa Yaseen	Analyst	Tel: (+92-21) 111-234-234 Ext: 912	huzaifa.yaseen@igi.com.pk

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Website: [www.igisecurities.com.pk](http://www.igisecurities.com.pk)

#### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
 Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
 UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
 Fax: (+92-21) 35309169, 35301780

#### Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,  
 Stock Exchange Road, Karachi.  
 Tel: (+92-21) 32429613-4, 32462651-2  
 Fax: (+92-21) 32429607

#### Lahore Office

Shop # G-009, Ground Floor,  
 Packages Mall  
 Tel: (+92-42) 38303560-69  
 Fax: (+92-42) 38303559

#### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir  
 Plaza,  
 Block- B, Jinnah Avenue, Blue Area  
 Tel: (+92-51) 2604861-2, 2604864, 2273439  
 Fax: (+92-51) 2273861

#### Faisalabad Office

Office No. 2, 5 & 8, Ground Floor, The  
 Regency International 949, The Mall  
 Faisalabad  
 Tel: (+92-41) 2540843-45

#### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
 Model Town, Town Hall Road  
 Tel: (+92-68) 5871652-3  
 Fax: (+92-68) 5871651

#### Multan Office

Mezzanine Floor, Abdali Tower,  
 Abdali Road  
 Tel: (+92-61) 4512003, 4571183

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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