

Flash Note

Thursday, March 2, 2023



Monetary Policy Statement

SBP Increased Policy Rate by 300bps+

In the latest Monetary Policy Announcement ([link](#)) the State Bank of Pakistan (SBP) raised the policy rate by +300bps to 20%; majority of the market participants expected 200bps hike. Interest corridor now comes at ceiling (Reverse Repo) 21% and floor (repo) rate of 19%. Next MPC meeting is scheduled to be held on 04th-Apr-2023.

Exhibit: Monetary Policy Rate Decision			
	Current	Previous	Chg. (bps)
Target Policy Rate	20.00%	17.00%	300
Discount rate (Ceiling Rate)	21.00%	18.00%	300
Floor Rate	19.00%	16.00%	300

Source: SBP, IGI Research

Key Points and Outlook

- **Inflation:** Most of the external and fiscal adjustments highlighted in previous meeting have materialized which are partially reflected in Feb-23 inflation. As a result, MPC expects inflation to further rise in next few months, as result of these adjustments and currency depreciation.
- **Growth:** MPC assessed impact of monetary policy on financial stability and near-term growth outlook and is of the view that financial stability is contained while short-term cost of bringing down inflation is less than long-term cost of allowing it to entrench.
- **External:** FX reserves and exchange rate remain under pressure as external side vulnerabilities persist due to decline in financial inflows and domestic uncertainties. MPC highlights that conclusion of IMF EFF 9th review will be critical in easing pressure on external front.
- **Fiscal:** Recent fiscal measures and energy price adjustments will help contain widening fiscal and primary deficit. Fiscal consolidation is necessary to complement monetary tightening in bringing down inflation.
- **Outlook:** The average inflation for FY23 is now expected to fall in the range of 27-29% against previous estimate of 21-23% highlighted in Nov-22 due to recent fiscal measure, currency depreciation and energy price adjustments. However, MPC noted that after today's decision real rates have pushed in positive territory and this will steer inflation in the medium-term target of 5-7% by end of FY25.

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