

Monetary Policy Statement

SBP Raised Key Rates by +100bps as Inflationary Pressure Mounts

In the latest Monetary Policy Announcement ([link](#)) the State Bank of Pakistan (SBP) raised the policy rate by +100bps to 16%; majority of the market participants expected status quo ([link](#)). Interest corridor now comes at ceiling (Reverse Repo) 17% and floor (repo) rate of 15%.

Key Points and Outlook:

- **Inflation:** SBP reacted to the recent surge in inflation that came at 26.6%y/y (+4.7%m/m) during the month of Oct-22 due to normalization of fuel cost adjustments and food inflation. SBP's view is that short run costs of bringing down inflation are lower than long run costs of allowing it become embedded, and for that reason SBP decided to act proactively. In addition, curbing food inflation is of top priority through necessary imports and administrative measures to ease supply bottlenecks. SBP has revised its average inflation projections during this FY23 to the range of 21-23% from 18-20% anticipated previously.
- **Growth:** SBP noted that economic activities continued to moderate since the last meeting in Oct-22. Recall that SBP revised its growth forecast in its previous meeting in Oct-22 from 3-4% to roughly 2% due to disruptions from floods, ongoing tightening fiscal and monetary policies. Much of the cascading effects stemmed from sizeable output losses in crop yields particularly rice and cotton that are likely to weigh on growth this year.
- **Fiscal:** Fiscal balance slumped in Q1FY23 and the deficit jumped from 0.7 to 1 percent of GDP, with the primary surplus declining. This degradation is primarily due to fall in non-tax revenues and significantly large interest payments. SBP further added that floods could make it even more challenging.
- **Current Account Balance:** Going forward, the decline in rice and textile imports likely to be compensated by continued moderation in overall imports due to the economic slowdown and softer global commodity prices. C/a deficit is expected to remain moderate in FY23 with FX reserves gradually improving. It further added that the payment of bond maturity coming first week of Dec-22 will be made timely.

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