

## Economy

### Monetary Policy Statement

## Expecting a Status Quo in Upcoming Monetary Policy Statement

- The State Bank of Pakistan (SBP) is scheduled to announce Monetary Policy Statement (MPS) for the next two months on Monday 24<sup>th</sup> January, 2022. We expect policy rate to remain 'Unchanged' at current level of 9.75%.
- Larger portion (~65%) of market participants expects policy rate to remain unchanged.
- While we consider rates to remain unchanged in the upcoming Jan-22 monetary policy statement, but we expect higher policy rates in Mar-22 and subsequently in May-22. On a cumulative basis we expect a 100-150bps further rise in policy rate from c. 9.75% to 10.75% - 11.25%.

### Status quo expected in upcoming monetary policy announcement

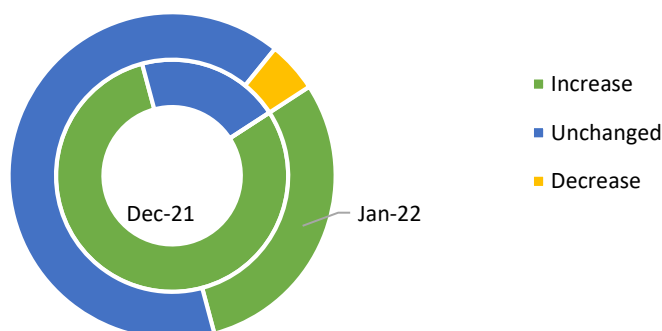
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### Market consensus remains skewed to "unchanged" status

SBP forward guidance on keeping near-term rates unchanged back in Dec-21 monetary policy statement, has meant a larger portion (~65%) of market participants expects policy rate to remain unchanged, 30% expects rate hike while remaining expects rate cut.

### Exhibit: Market Consensus

Around ~65% of the participants we talked have an 'unchanged' stance, followed by ~30% expecting a rate increase and the rest expecting a decline.



### Looking at Dec-21 numbers, Inflation seems to be moderating ...

Dec-21, monthly inflation shown sign of moderating with mere m/m decline of -0.02% compared to previous 3months average of +2.3% m. The headline inflation recorded a +12.3%y growth during the month compared to previous, Nov-21, +11.5%y and +9.2% in Oct-21.

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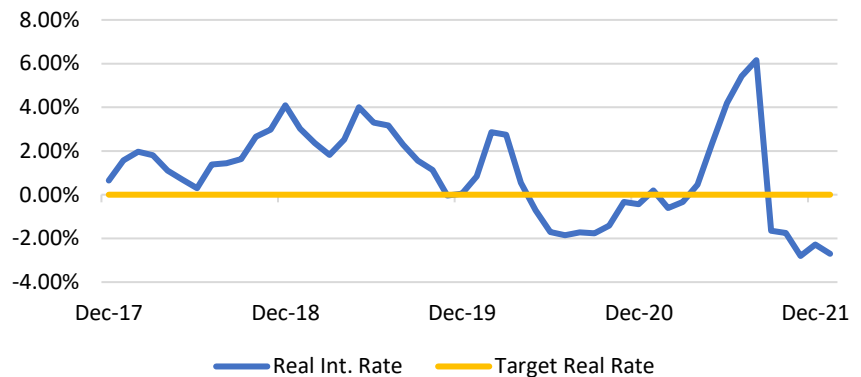
**... However, current month and remainder of FY22 suggests the otherwise**  
 However, for Jan-22, leading SPI index, changes in petroleum prices and quarterly revision in house rental index, suggests +1.2% increase. This will take Jan-21 national CPI inflation to +13.8%y. Similarly, with key decision on upward energy price adjustments still in the hanging amid ongoing negotiations with IMF, recent budgetary measures and upward trending international oil prices indicates to a stronger monthly inflation influx in the second half of FY22.

**Real Interest rate seems far from mildly positive**

Looking at 3months forward inflation (Jan-to-Mar) we forecasts average headline inflation would likely come in at +13.5%, bringing, and current real rates just under ~ 3%. This leaves significant room for policy rates to re-adjust upward, considering SBP targeting a gradual positive real rates.

**Exhibit: Real interests rates**

Using a 3 Month forward inflation forecast and 0% real interest rate target; current real rates comes close to ~3.0%



Source: SBP, IGI Research

**Outlook: Rates to tighten as economic weaknesses show up**

While we consider rates to remain unchanged in the upcoming Jan-22 monetary policy statement, but we expect higher policy rates in Mar-22 and subsequently in May-22. On a cumulative basis we expect a 100-150bps further rise in policy rate from c. 9.75% to 10.75% - 11.25%. For our policy rate call, we have mainly factor in a) double digit inflation, b) weak external account position, and c) elevated/volatile international commodity prices.

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