ECONOMY
MPC Review

Economy: MPC persists with the wait & see approach

The Monetary Policy Committee (MPC) held its first meeting in CY2024, wherein it decided to keep the policy rate unchanged for the fifth consecutive time since Jun-23 at 22.0%. The decision is primarily based on i) stronger than anticipated inflation readings, and ii) high debt repayments. However, looking ahead i) containment of the Current A/c Deficit (CAD), ii) agriculture-led recovery in GDP growth, iii) consolidation of fiscal position and iv) bolstering SBP reserves bear promising signs as per the MPC.

Inflation forecast revised upwards to 23-25%

NCPI forecast has been revised upwards from 20-22% YoY to 23-25% YoY for FY24 on the back of substantial electricity/gas price adjustments which have revised the inflation expectations upward. We highlight, that the revised SBP projection is in line with Akseer's NCPI estimate for FY24.

Recovery in GDP growth; no change in projection

GDP forecast is estimated to fall between 2.0-3.0% YoY for FY24 mainly due to higher agricultural output emanating from favorable weather conditions. Moreover, 3.6% MoM increase in LSM for Nov-23 and higher capacity utilization (as per surveys) reflects positive business sentiments for the industrial sector as per the MPS. More importantly, the forecast remains unchanged from the last MPC meeting. We expect, these developments to have a positive spill over on the services sector as well.

Lower int'l commodity prices and demand compression bring CAD down

On the external front, CAD continues to remain in check mainly due to lagged impact of (i) PKR depreciation which continues to compress demand, (ii) lower int'l commodity prices and (iii) improved domestic supply. To recall, CA recorded a surplus (USD 397mn) in Dec-23, taking the 1HFY24 CAD to USD 0.8bn (-77% YoY). Recovery in textile volumes improved exports by 5.3% YoY during the period. The MPC maintained its CAD forecast at 0.5-1.5% of GDP for FY24.

Fiscal consolidation to complement the tight monetary stance

The MPC highlighted that the fiscal position has considerably improved in 1QFY24 on the back of increasing primary surplus from 0.2% of GDP (1QFY23) to 1.4% of GDP (1QFY24). The improved position has mainly emanated from 30.3% YoY increase in FBR tax collection and lower non-interest spending as a % of GDP.

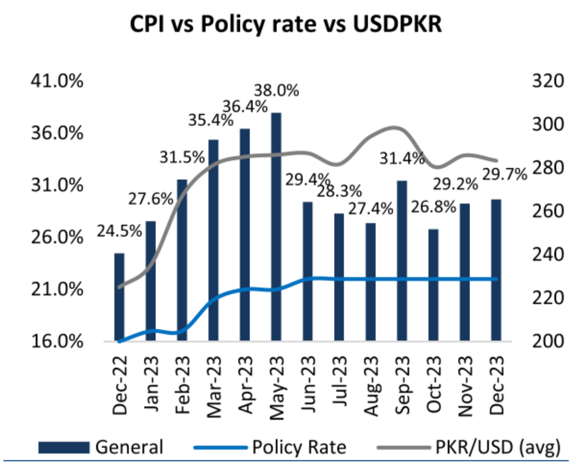
Dec-23 M2 growth is transitory

The growth in broad money (M2) accelerated to 17.8% YoY in Dec-23, up from 13.6% YoY last month. However, as per the MPC, this increase is transitory.

Outlook

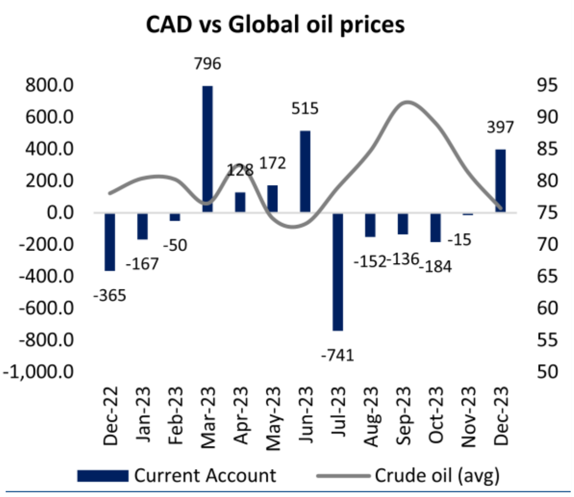
Looking ahead, the MPC reiterated that high base effect is expected to induce positive interest rates on a prospective 12M basis. In addition, continued fiscal prudence and meeting targeted fiscal consolidation has been highlighted as imperative for alleviating inflationary pressures and ensuring sustainability of public debt. On upside risks to inflation, the MPC views the surge in freight charges (due to escalating tensions in the Middle East) as a major development that could increase charges associated to trade and commodity prices thereby exerting upward pressure on inflation.

Stable currency and tight monetary stance key to reaching long-term inflation targets



Source: PBS, Akseer Research

Lower oil prices assisted in restraining CAD (USD mn)



Source: SBP, World Bank, Akseer Research

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Sell	Less than or equal to -5%

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