08 March 2024

ECONOMY

MPC Preview

Alpha Capital REN # REP-004

AKSEER RESEARCH REN # REP-400R

Pakistan Research

Economy: MPC likely to persist with the wait & see approach

We anticipate SBP to keep the policy rate unchanged for the 6th consecutive time at 22.0% in the upcoming MPC meeting on March 18th, 2024. Our expectation is driven by the need to build external buffers and loosely anchored inflation expectations on account of (i) volatile energy & POL prices and (ii) second round impacts after potential approval of IMF warranted taxation measures.

Acceleration expected in Housing & Utility and Food segments

The headline inflation rate is expected to moderate from 23.1% YoY in Feb-24 owing to the high base effect. However, we project an acceleration on a MoM basis primarily due to an FCA led increase in electricity prices, the Ramadan effect on food inflation and upward adjustments in POL prices. To recall, higher import premiums and international oil prices manifested in Petrol/HSD hikes (16th February & 1st March) of PKR 6.9/8.3 per liter which will be reflected in the Mar-24 reading.

Expected taxation measures to slow disinflation

We believe that the MPC should hold interest rates until a clear downward trend emerges in core inflation levels. While the latest reading for NFNE U/R of 0.3%/0.4% MoM during Feb-24 depicted a deceleration from 1.1%/1.2% MoM last month, the recent adjustments in energy and POL prices and the potential implementation of an 18% GST on POL products would manifest second-round effects on core inflation.

Building shock absorbers key going ahead

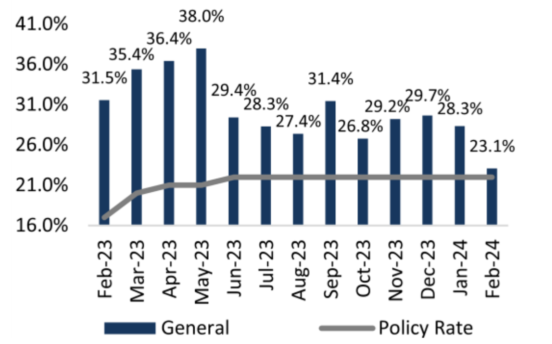
Easing import restrictions saw CAD significantly increasing in Jul-23. However, multilateral support in confluence with the IMF helped boost the SBP FX reserves by USD 3.6bn in Jul-23. Ever since, the SBP FX reserves have remained static on the back of muted CAD possibly due to the lagged impact of PKR devaluation and unusually high interest rate keeping the overall demand in check. The CAD in 7MFY24 fell by a hefty 71.2% YoY to USD 1.1bn. The improving external account points to a stable outlook for the PKR.

Looking ahead, an IMF condition mandating a market-based exchange rate amid large external financing requirements could see PKR coming under pressure which could be accentuated by the expected rate cuts leading to higher import spending. From a macro standpoint, prioritizing a build-up of FX reserves, which are currently too low relative to short-term liabilities, should help improve SBP's ability to tackle any abnormal price movements ahead.

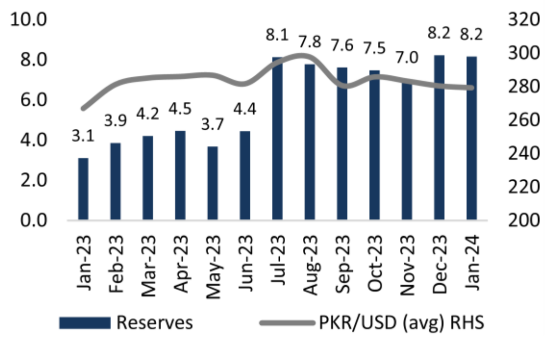
Status quo for now

In light of the above scenario, we expect SBP to persist with the wait & see approach until at least the end of FY24. Furthermore, we believe that monetary policy needs to remain tight and proactive in an attempt to guide inflation back to SBP's long-term target of 5-7%.

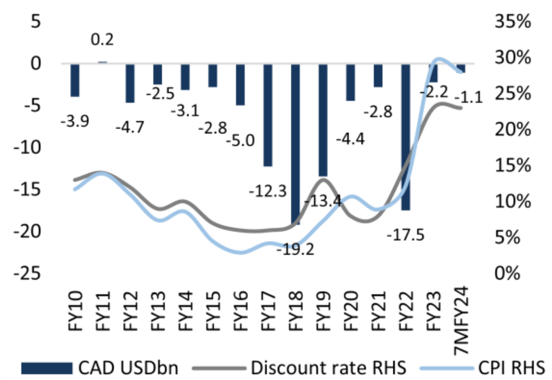
Tight monetary stance crucial to guide inflation towards long-term targets



SBP reserves (USD bn) and USD-PKR stationary post-SBA approval in Jul-23



Economic slowdown kept CAD in balance



Source: SBP, PBS, Akseer Research

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Sell	Less than or equal to -5%

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