Alpha Capital REN # REP-004
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ECONOMY

MPC Review

Pakistan Research

Economy: SBP to assess IMF talks and budgetary outcomes before monetary easing

The Monetary Policy Committee held its bi-monthly meeting wherein it decided to hold the status quo for the seventh consecutive time to bring down inflation to its target range of 5-7% by Sep-25. The decision mirrored the Monetary Policy Committee's belief that (i) inflation is still at elevated levels, (ii) the evolving geopolitical situation is contributing to uncertainty, and (iii) the upcoming budgetary measures would impact the inflation trajectory. Moreover, MPC also took into account the cautious stance of leading central banks after a slowdown in the pace of disinflation.

However, the MPC sees promising signs in (i) an agriculture-led recovery in GDP growth, (ii) continuous improvement in the Current Account, (iii) the consolidation of the fiscal position, and (iv) the maintenance of FX buffers despite higher debt repayments and weak inflows.

Inflation, Fiscal measures and IMF discussions key for policy rate

The MPC will closely monitor the inflation trajectory, upcoming budgetary measures, and the outcome of IMF discussions as key events for setting monetary policy. Meanwhile, the external position has considerably improved despite hefty debt repayments and weak inflows, as reflected in increased FX reserves and lower forward liabilities.

Bottoming of Commodities and revenue driven fiscal consolidation pose a risk to inflation

Inflation has continued to moderate in 2HFY24 as headline inflation decline to 20.7% in Mar-24 with further expectation of easing in Apr-24. In addition to tight monetary and fiscal policies, the decline in international commodity prices, improved food supplies, and the high base effect have also contributed to the situation. However, volatility in global oil prices along with bottoming of other commodities, inflationary impact of resolution of circular debt and revenue driven fiscal consolidation pose significant risks to the downward inflation trajectory. We highlight that the evolving geopolitical situation, coupled with the cautious stance of leading central banks, have also played a crucial role in SBP's decision for keeping the interest rate unchanged.

Further Buildup in FX reserves key to sustainable economic growth

MPC emphasized that further buildup in reserves is crucial in building resilience to external shocks and support sustainable growth. To highlight, considerable positive CA in Apr-24 due to higher remittances narrows 9MFY24 CAD to USD 0.5bn. Exports continue to improve, driven by an increase in rice output, while imports have decreased considerably given the higher agricultural output and restricted economic activity. This has enabled the SBP to maintain reserves at USD 8.0 billion despite weak inflows and the repayment of a Eurobond.

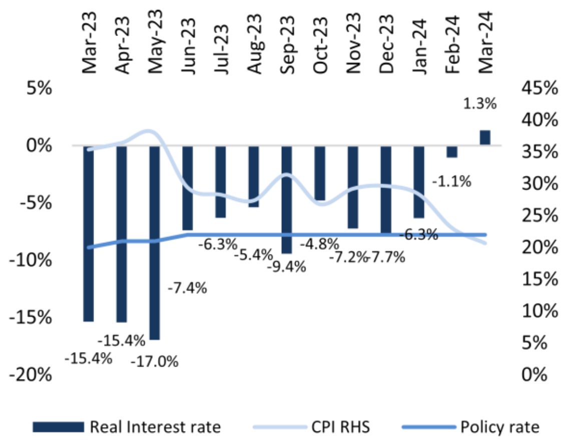
Money supply to support inflation outlook

Money supply growth is expected to decelerate in the coming months, while compositional changes in broad money (M2) will have positive implications for inflation. To recall, M2 growth accelerated to 17.2% YoY in Mar-24 on the back of increase in net foreign assets and enhanced budgetary borrowing. However, credit to the private sector continues to show a broad-based deceleration.

Outlook

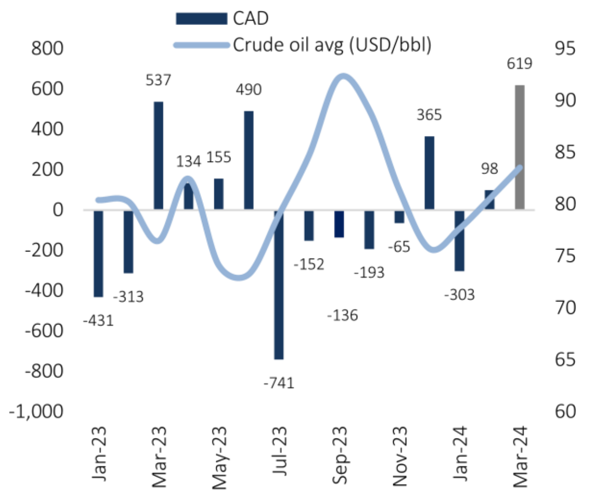
SBP is likely to wait for the outcomes of the IMF talks regarding the fresh program and the impact of budgetary outcomes before considering monetary easing. This approach would also help the central bank in further bolstering FX reserves and currency stability, which are necessary for sustainable economic growth and achieving its long-term inflation target, in our view.

Real interest rate turns positive after a period of 3 years



Source: PBS, Akseer Research

Higher oil prices may erode gains of current account (USD mn)



Source: SBP, World Bank, Akseer Research

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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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