19 November 2021

REN # REP-004 REN # REP-400R

Economy

Monetary Policy

Pakistan Research

Nov-21 MPS: Policy Rate jacked up to 8.75%, up 150bps

- **The SBP raised policy rate by an unanticipated 150bps to 8.75% in its Nov-21 monetary policy statement (MPS) to cope up with the rising risks related to inflation, balance of payment and PKR depreciation.**
- **The SBP also increased the frequency of monetary policy meetings from six to eight times a year in order to closely follow the changing economic situation and take decision prudently. Next MPS is now scheduled on 14th December, 2021.**
- **The central bank cited noticeable surge in the domestic demand coupled with higher international commodity prices leading to a strong pickup in the import bill (mainly energy) and resultantly burgeoning current account deficit as reasons behind the big jump in the policy rate.**
- **Rising oil and commodity prices can lead to persistent inflationary pressures throughout FY22. In the preceding months, the committee was optimistic that inflation will conclude in the upper end of the targeted range of 7-9%.**

Policy Rate jacked up to 8.75%

The SBP, further tapering the economic stimulus, in its today's Monetary Policy meeting increased policy rate by staggering 150bps to 8.75% vs market expectation of 75-100bps. The pace of economic recovery has exceeded the central bank expectations while current account numbers for the months of Sept-Oct jumped to USD 2.8bn versus USD 2.3bn in Jul-Aug mainly due to energy and commodity prices.

Current Account Balance (CAB), a cause of concern

With a strong economic pickup, the country's current account deficit also skyrocketed to USD 5.1bn during the 4MFY22 as against a surplus of USD 1.3bn in the same period last year. Import bill touched USD 23.5bn, +66.3% YoY, whereas the exports grew at a lesser pace of 32.2% YoY to USD 7.3bn in 4MFY22. Remittances, though up 11.9% YoY to USD 10.6bn could not support the foreign currency quantum required to cover the deficit and led to PKR depreciation of 11% FY22 to date. The SBP, now expects the current account deficit to exceeds its previous forecast of 2-3% of GDP.

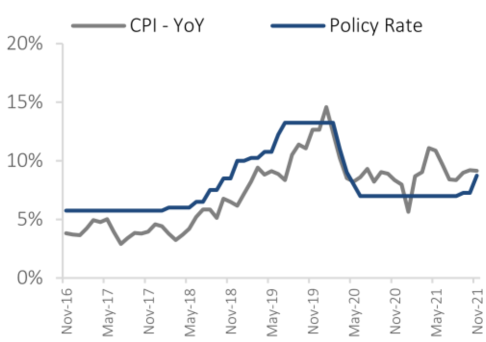
Inflationary pressures to persist

With persistent rise in the MoM CPI readings from 8.4% YoY in Aug-21 to crossing 9% YoY in Oct-21, inflationary pressures have increased considerably. Going forward, the central bank is expecting higher global commodity prices will continue to keep the CPI elevated and can grow beyond average inflation forecast of 7-9% in FY22.

MPS to be accommodative with strict tightening

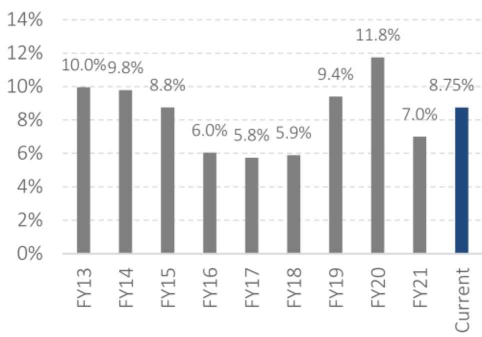
The stimulus led economic growth has gradually started to turn into higher-than-expected inflation and current account deficits, which calls of proactive decision from the central bank. The MPS's future guidance is now to achieve mildly positive real interest rates given the real interest rates are still negative (considering the CPI).

Chart–1: Policy Rate vs CPI inflation



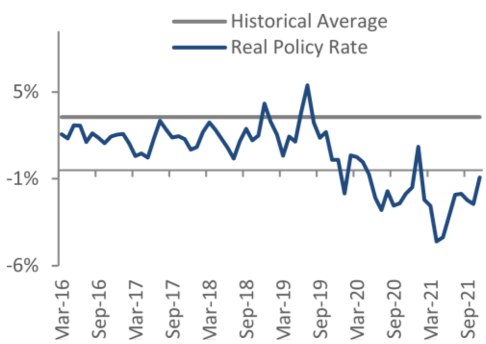
Source: PBS, SBP, Akseer Research

Chart–2: Policy rate



Source: SBP, Akseer Research

Chart–3: Real Interest Rate



Source: PBS,SBP, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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

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