15 December 2021

Economy
Monetary Policy

REN # REP-004 REN # REP-400R

Pakistan Research

Nov-21 MPS: 3rd Policy Rate hike; up by 100bps to 9.75%

- **In line with our and market consensus expectations the SBP hiked the policy rate by another 100bps to 9.75% in its Dec-21 Monetary Policy Statement (MPS) in order to address the rising risks related to unabated surge in the current account deficit and spiraling inflation. This also led to cumulative hikes of 275bps in the Policy rate since the beginning of monetary tightening in Sep-21.**
- **The central bank also revised upwards its targets for headline inflation to 9-11% for FY22 vs 7-9% earlier, while the current account deficit is now expected to settle at 4% of GDP in FY22 compared to earlier expectation of 2-3% of GDP.**
- **We believe the new set targets are more realistic and in line with the actual FYTD numbers, given the 5MFY22 CPI averaged above 9% and the CAD stood at 4.7% of the GDP in the same time period.**
- **The central bank also stated that the goal of positive real interest rates on a forward-looking basis has been achieved after yesterday's hike and hinted at no change in the policy rate in the near term.**

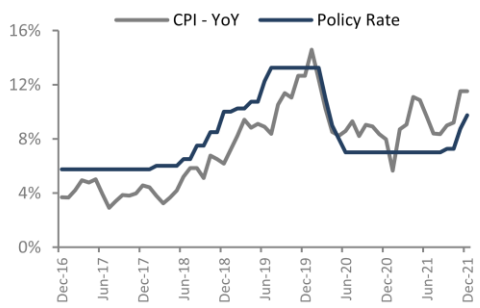
Cumulative rise of 275bps, policy rate now stands at 9.75%
The SBP, further tightening the monetary regime, increased the policy rate by 100bps to 9.75%, in line with the market expectations. The continuous surge in the inflationary pressures and no respite to the current account deficit have been the main reasons for the third consecutive increase in the interest rate.

Inflationary target revised upward to 9-11%
Since the last MPC meeting, inflation continued its upward momentum by crossing 11% during Nov-21. Going forward, considering expected upward adjustments in the energy tariffs and prices, the central bank has increased its inflation projection to 9-11% vs earlier target range of 7-9% for FY22. However, the MPC expects inflation to decline to a medium-term target of 5-7% in FY23 due to softening global commodity prices.

Current Account Deficit (CAD) to settle at 4% (USD 14bn) of GDP
With a strong economic rebound, the country's current account deficit also skyrocketed to USD 5.1bn during 4MFY22 as against a surplus of USD 1.3bn in the same period last year. The MPC expects trade deficit numbers to remain elevated in the near term with some downtrend expected in 2HFY22 on the back of recent weakness in the commodities' prices in addition to controlled demand due to monetary tightening policies being adopted by major global central banks. The SBP now expects the current account deficit to settle at 4% of GDP or USD 14bn as compared to the previous forecast of 2-3% of GDP.

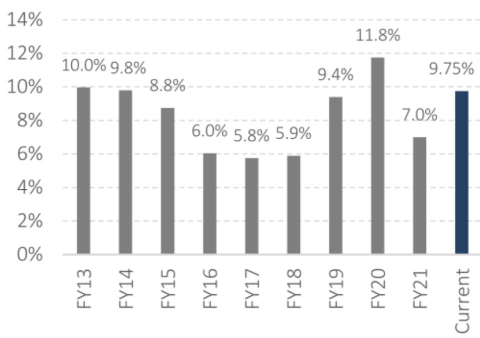
MPS to remain broadly unchanged in near term
The MPC stated that the 'end goal of achieving mildly positive real interest rates has largely been achieved on a forward-looking basis' which indicates the SBP will likely keep interest rate unchanged in the upcoming MPS on 24th Jan-22 and will closely follow how cumulative hikes of 275bps impact on the fiscal consolidation and demand slowdown.

Chart–1: Policy Rate vs CPI inflation



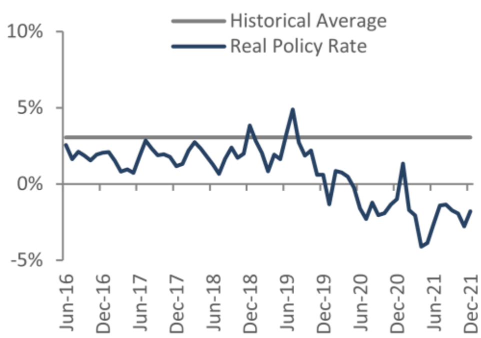
Source: PBS, SBP, Akseer Research

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

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