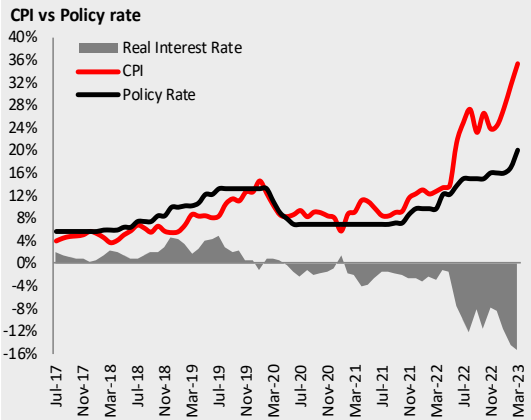
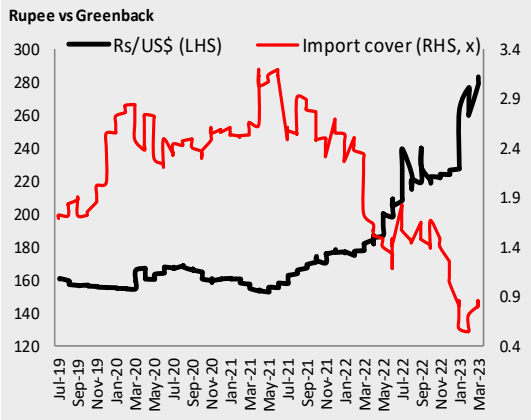


**PAKISTAN**



Source: PBS, SBP, Foundation Research, Apr 2023



Source: SBP, Foundation Research, Apr 2023

**Analyst**

**Zeeshan Azhar**                      zeeshan@fs.com.pk  
+92 213 5612290                      Ext 331

Foundation Securities (Pvt) Ltd  
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# Pakistan Economy

## MPS: 100bps hike in interest rate

### Policy rate increased to record 21.0%

The State Bank of Pakistan (SBP) today announced its monetary policy stance in which it decided to increase the policy rate by 100bps to 21.0%. The MPS noted that inflation is expected to remain high in the near term. However, there are early indications of inflation expectations plateauing, albeit at an elevated level. The MPS views today’s decision as an important step towards anchoring inflation expectations around the medium-term target, which is critical for achieving the objective of price stability. MPS further observed that Pakistan’s financial sector remains broadly resilient, while economic activity continues to moderate.

The MPS also noted three important developments having implications for the macroeconomic outlook: (1) CAD has narrowed considerably, more than previously anticipated, mainly on the back of sizable import containment. Nonetheless, the overall balance of payments position continues to remain under stress, with foreign exchange reserves still at low levels. (2) Significant progress has been made towards completion of the 9th review under the IMF’s EFF program. (3) Recent strains in the global banking system have led to further tightening of global liquidity and financial conditions. These have added to the difficulties of the emerging market economies like Pakistan to access international capital markets.

In this context, the MPS considers the current policy rate appropriate, and stresses that today’s decision, along with previous accumulated monetary tightening, will help achieve the medium-term inflation target over the next 8 quarters. However, the MPS noted that uncertainties attached with the global financial conditions as well as the domestic political situation, pose risks to this assessment.

### Inflation is persisting, especially core

MPS noted that as anticipated, NCPI inflation further rose to 35.4% in Mar’23, resulting in average inflation of 27.3% during 9MFY23. The MPS also noted that the surge in inflation was broad-based, though a large part of it was contributed by food and energy components. This reflects the pass-through of increases in taxes and duties, unwinding of untargeted energy subsidies and the recent exchange rate depreciation. Importantly, core inflation has risen to 18.6% in urban and 23.1% in rural baskets, indicating the second-round impacts of the above-mentioned adjustments. MPS also viewed the increase in core inflation as partly driven by the elevated inflation expectations, as indicated by recent sentiment surveys. To anchor these expectations, the MPS views its current monetary policy stance as appropriate to keep the real interest rate in positive territory on a forward-looking basis.

FSL sees avg. inflation of 28.5% in FY23 and interest rate of 21% at the end of FY23.

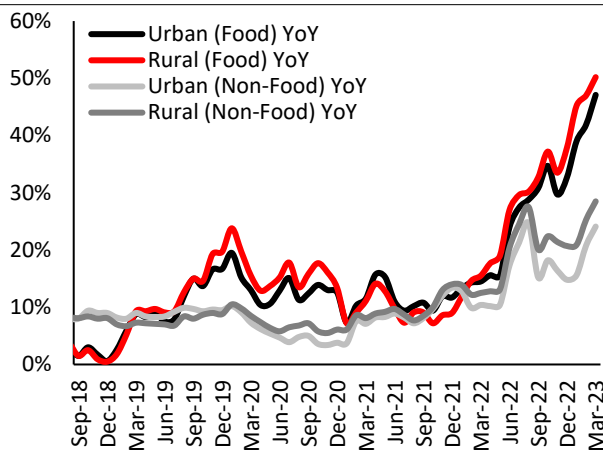
### Growth slowdown, BOP stress and fiscal concerns

High-frequency data continues to suggest broad-based slowdown in economic activity. Thus, the SBP assesses that growth will be lower than earlier predicted.

Despite the lower CAD of US\$3.9bn in 9MFY23 (down 68% YoY), higher loan repayments relative to disbursements are keeping the foreign exchange reserves under pressure. Thus, the MPS reemphasized that the early conclusion of the 9th review under the IMF program is critical to rebuild the FX reserve buffers.

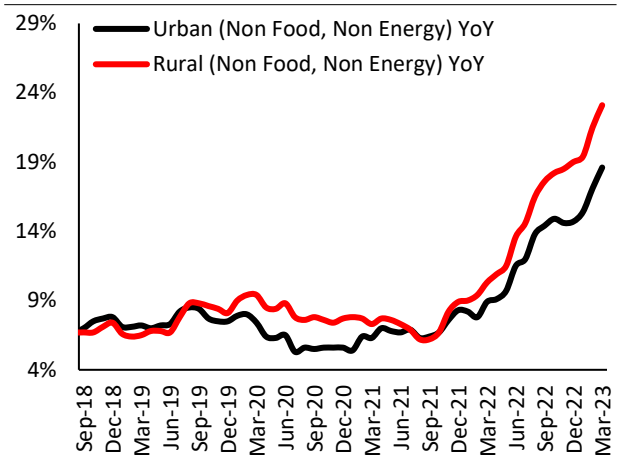
MPS noted that delivering the envisaged fiscal consolidation is important to complement the ongoing monetary tightening in order to achieve price stability.

**Fig 1: Food and non-food CPI ↑**



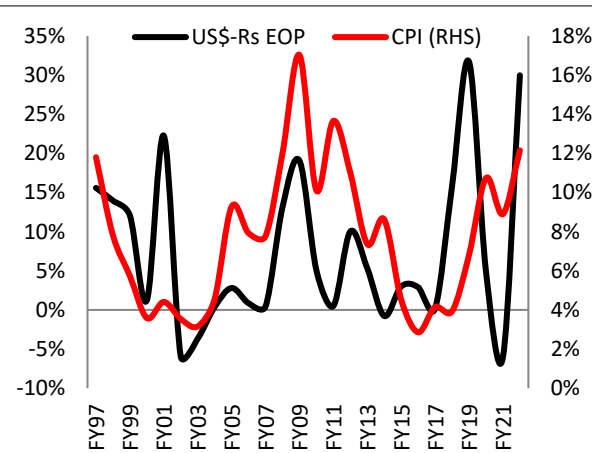
Source: PBS, FSL Research, Apr 2023

**Fig 2: Core inflation escalating sharply...**



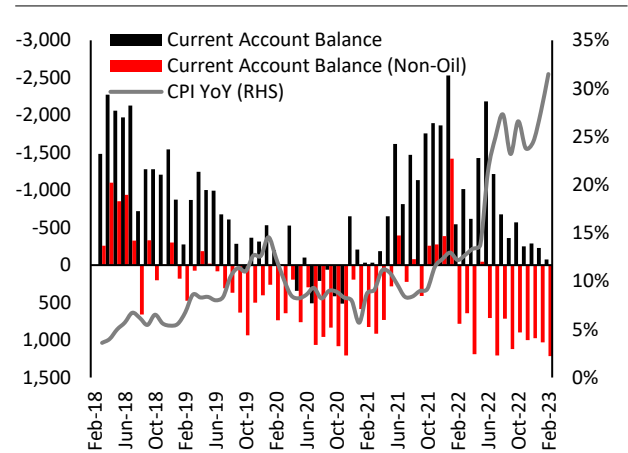
Source: PBS, FSL Research, Apr 2023

**Fig 3: Inflation and exchange rate move in tandem...**



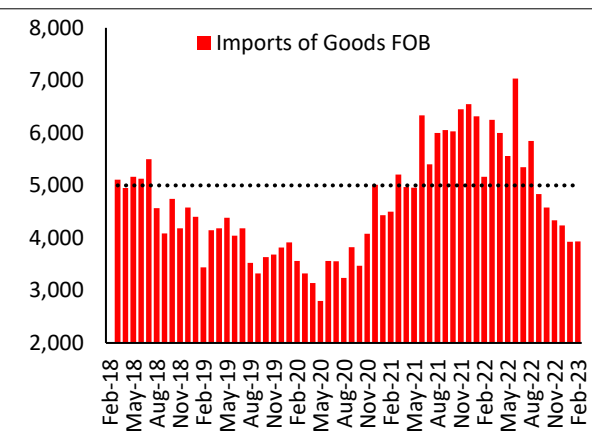
Source: PBS, FSL Research, Apr 2023

**Fig 4: Current account restricted amid import curbs**



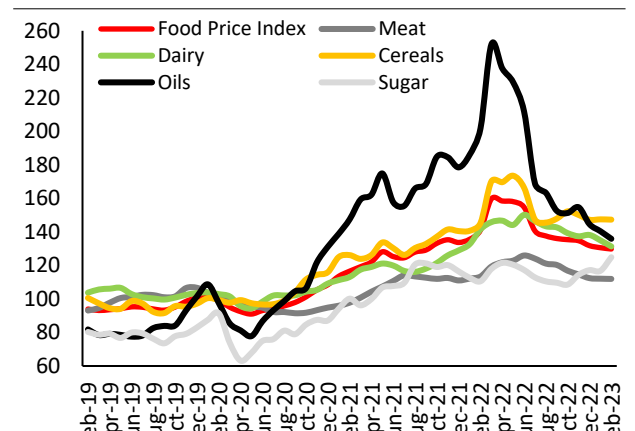
Source: SBP, PBS, FSL Research, Apr 2023

**Fig 5: Import compression underway (US\$ bn)**



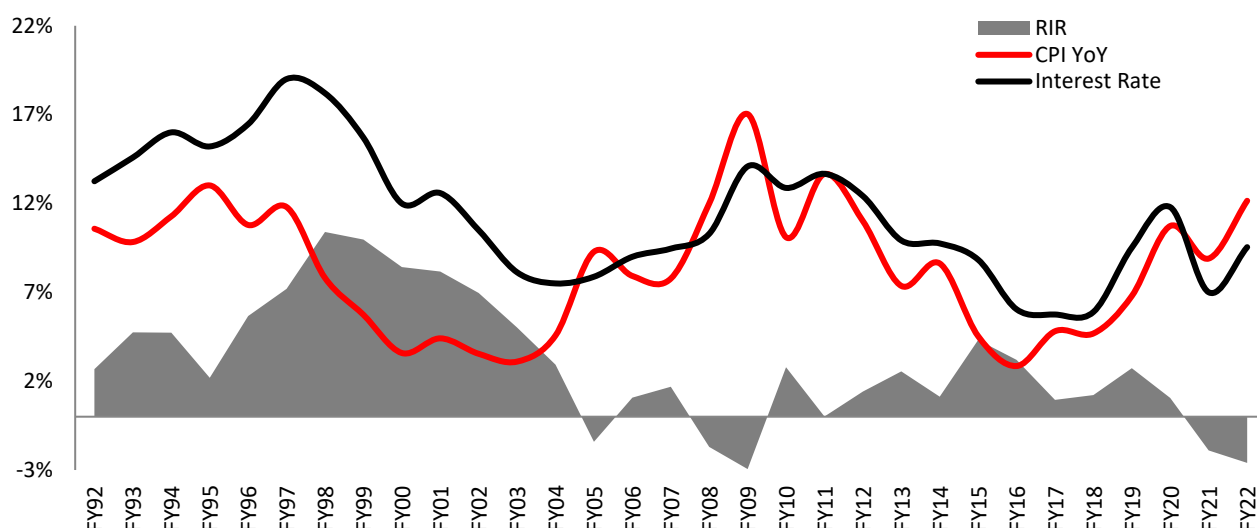
Source: SBP, FSL Research, Apr 2023

**Fig 6: Int'l food prices declining but still elevated**



Source: FAO, FSL Research, Apr 2023

Fig 7: Inflation and Interest Rates over the last 30 years



Source: PBS, SBP, Foundation Research, Apr 2023

### Abbreviations

CAD	Current Account Deficit
MoM	Month on Month
MPS	Monetary Policy Statement
RIR	Real Interest Rate
SBP	State Bank of Pakistan
YoY	Year on Year

### Important disclosures:

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### Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.