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## Pakistan Economy

## Status quo prevails

### Near-term inflation has shifted due to hike in gas tariff

SBP announced monetary policy today, maintaining the policy rate at 22%, in line with the general market consensus. The decision stems from sticky core inflation at 21.5% in Nov'23 and gas price hike elevating short term inflation outlook. We opine that SBP can begin monetary easing early next year. We also believe that market may remain neutral to positive in response to this development.

**Decision:** The monetary policy committee (MPC) of SBP has decided to keep the policy rate unchanged at 22% in today's monetary policy meeting. The decision aligns with market expectations.

**Near-term inflation curve has shifted:** Recent gas tariff hike has shifted near term inflation outlook of SBP (W/o gas price hike, inflation for Nov-23 would have been lower by ~300ppts, clocking-in at 26%). However, decline in global oil prices and improved availability of agricultural produce, may have some offsetting impact. Moreover, SBP maintains that the forward-looking real interest rate is positive and inflation is expected to remain on a downward path. SBP also highlighted core inflation, which remained sticky at 21.5% during Nov-23, (peaked at 22.7% in May 2023). The medium-term inflation target remains in the range of 5-7%.

Moreover, MPC continues to expect that headline inflation will decline significantly in the second half of FY24, barring further sizable increase in power and gas tariffs. We flag that another gas price hike is in the offing in Jan-2024.

**External payments to remain on track:** SBP expects that IMF tranche and other inflows shall realize after IMF board meeting on 11<sup>th</sup> Jan-2024; providing support to foreign exchange reserves. Governor reiterated that total financing requirement stands at USD24.6 bn (USD20.7/3.9bn of principal/interest) for FY24. Out of this, principal repayments of more than USD4.0bn have already been made, which leaves ~USD4n repayments for the remainder year if rollovers are excluded.

**Market expected to remain neutral to positive:** We opine that some knee-jerk selling might prevail in response to status of interest rates. However, we see the decision as being positive reflecting SBP's caution and independence in setting the monetary policy stance.

**Rate outlook:** We maintain our view that monetary tightening has ended and a rate cut is in the offing early next year (Mar'2024). We do expect the easing cycle to continue in the remainder CY24, with rates bottoming at 16% by Dec-2024.

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