

Sajjad Hussain

sajjadhussain@alfalahclsa.com
+92-21-35645067

12 June 2023

**Pakistan
Economy**

Policy rate maintained at 21%

MPC views inflation to have peaked in May'23

Decelerating inflation, easing current account pressures and a slightly contractionary budget FY24 led monetary policy committee (MPC) of SBP to keep policy rate unchanged at 21% in today's meeting. Governor SBP has negated the ongoing media rumours in regards to Pakistan planning to enter into restructuring of its external debt. SBP expects positive real rates on a forward-looking basis, which leads us to believe that the monetary tightening cycle has largely ended.

Decision: The monetary policy committee (MPC) of SBP has decided to keep policy rate unchanged at 21% in today's monetary policy meeting. The increase is in line with broader market expectation; according to survey conducted by CFA Society Pakistan, 77% participants anticipated a status quo, whereas only 9% of analysts polled a hike in interest rates.

Economic activity moderating: FY23P GDP growth of mere 0.29% and LSM decline of 8.1% in 9MFY23, clearly indicate that elevated interest rates have succeeded in moderating demand. However, FY24 will have a head start in terms of agri-growth, barring another unfavourable turn in weather conditions.

Current account easing; BOP still a concern: In line with GDP growth deceleration, imports also remained constrained, easing off pressures on current account. Furthermore, international commodity prices have eased significantly, providing further relief to the external balances. This indicates that the case for further increasing rates have weakened significantly. However, minimal FX reserve cover and short-term nature of Pakistan's external debt remains the key risk.

Inflation plateauing: PKR has achieved some stability and high base effect will kick in from July'23, we believe the inflation has plateaued. 11MFY23 inflation averaged at 29.2%, whereas the latest May'23 inflation reading clocked in at 38%. Though some price pressures remain an overhang risk, such as gas and power cost adjustments, we believe the lagged impact of PKR depreciation has largely been absorbed in the inflation readings. With the budget also having no major inflationary measures, we believe the monetary tightening cycle has largely ended. This also corroborates with SBP's expectation of positive real rates, at current policy rate, on a forward-looking basis.

IMF or not? Governor SBP has negated the ongoing media rumours in regards to Pakistan planning to enter into re-structuring of its external debt. This indicates that the policy direction remains anchored towards attaining the IMF program before the 30th June'2023 deadline.

RDA flow (USDbn)		Jun'23 External Repayments (USDbn)	
RDA balance (a+b+c)	6.1	Total due	3.6
a) Consumed locally	3.6	Repaid	0.4
b) Repatriated	1.4	Rollover expected	2.3
c) Repatriable	1.1	Repayment left	0.9

Source: SBP, Alfalah CLSA Research

Source: SBP, Alfalah CLSA Research

Analyst certification

The research analyst(s) involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report. Furthermore, it is stated that the research analyst or any of its close relatives do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company. Additionally, the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months.

Important disclosures/disclaimers

THIS REPORT IS NOT A RESEARCH REPORT IN ACCORDANCE WITH THE DEFINITION GIVEN IN RESEARCH ANALYST REGULATIONS, 2015.

The information and opinions contained herein have been compiled or arrived at based upon information obtained from publicly available sources as well as other non-public sources, believed to be reliable and in good faith. Such information has not been independently verified by ASPL, and no guaranty, representation or warranty, expressed or implied is made as to the accuracy, completeness, reasonableness or correctness of such sources used to compile the information contained in this report, or the opinion/views contained in this commentary, which views and opinions have been based on such sources.

All information as given in this report may or may not prove to be correct, and is subject to change without notice due to market forces and/or other factors not in the knowledge of or beyond the control of ASPL or the analysts employed by it which have compiled this publication, and neither ASPL nor any of its analysts, traders, employees, executives, directors, sponsors, officers or advisors accept any responsibility for updating this report and therefore, it should not be assumed that the information contained herein is necessarily complete, accurate, reliable or up-to-date at any given time. ASPL and its analysts, traders, employees, executives, directors, sponsors, officers or advisors shall also not be liable in any way and under any circumstances whatsoever for any loss, penalty, expense, charge or claim that may be suffered/incurred by any person as a result of receiving, using, or relying on this publication.

The information contained in this report is not intended to provide the basis of any investment or other evaluation. The users of this commentary is solely responsible for making his/her own independent investigation, appraisal, usability, suitability or purposefulness of the information contained in this report. In particular, the publication takes no account of the investment objectives, financial situation and particular needs of investors who should seek further professional advice or rely upon their own judgment and acumen before making any investment.

ASPL expressly disclaim any and all responsibility, liability or obligation to provide recipients/potential investors/users of this communication with any additional information which may be demanded by them. No part of this publication may be reproduced, transmitted, transcribed, stored in a retrieval system, or translated into any language, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior written permission from ASPL.

Research Dissemination Policy

Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD) endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Company Specific Disclosures

Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD) or any of its officers and directors does not have a significant financial interest (above 1% of the value of the securities) of the subject company. However, BAFL and IFC, being associates of Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD), may trade or have significant financial interest, under normal course of business, in the subject company from time to time. Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD) may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis in which they are based before the material is disseminated to their customers. Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD), their respective directors, officers, representatives, employees and/or related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise. Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD). may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD) may have recently underwritten/or in the process of underwriting the securities of an issuer mentioned herein. Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD) may also have provided/providing advisory services to the issuer mentioned herein.

Rating System

Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD) uses a 3-tier rating system i.e Buy, Hold and Sell, based on the level of expected return. Time horizon is usually the annual financial reporting period of the company. A Buy rating is assigned to any company when its intrinsic value (using different valuation models) exceeds the prevailing price by 10%. A Sell rating is issued whenever capital return is less than -10% and for return in between the 2 ranges, Hold rating is meted out. Ratings are updated on a daily basis and can therefore change accordingly. They can change because of a move in the stock's price, a change in the analyst's estimate of the stock's fair value, a change in the analyst's assessment of a company's business risk, or a combination of any of these factors.

© Copyright 2023, Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD). All rights reserved. This report or any portion hereof may not be reproduced, distributed, published or sent to a third party without prior consent of Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD).