# Pakistan Economy

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# SBP keeps policy rates intact at 22%

## Slowdown in pace of inflation decline amid energy price adjustments

**SBP announced monetary policy yesterday, maintaining the tight monetary stance at 22%. This decision was in line with analyst expectations. Notably, SBP emphasized on elevated levels of inflation figures in the past months due to higher administered energy prices. However, the inflation still remains on a downward path. We believe that monetary easing may start from March-2024.**

**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 is line with broader market expectations.

**Inflation remained on the higher side:** Note that inflation remained elevated due to higher energy prices. SBP stated that the real interest rates remained significantly positive on 12-month forward looking basis, as inflation is expected to remain on a downward path.

Incorporating all the recent developments, MPC expects inflation to hover around 23-25% in FY24. SBP also maintained the medium-term inflation target of 5-7%, however, the estimates were moved forward by one quarter to September 2025 due to recent and expected adjustment in administered energy prices. We flag that another gas price hike is in the offing soon.

**GDP growth estimates remain unchanged:** GDP is expected to grow in the range of 2-3%, as communicated earlier by SBP; this shall be led by improvement in agricultural growth. Along with that, survey results show a consistent increase in capacity utilization in the manufacturing sector, which is an encouraging sign for the economy.

Along with growth estimates, MPC also kept current account deficit projection unchanged for FY24, ranging from 0.5 to 1.5% of GDP.

**SBP remains confident on the forex reserves position:** SBP remained confident that foreign exchange reserves by June-24 shall stand higher than IMF projection of USD9.1bn. The reserves position would be supported by higher inflows as well as improved current account position.

Regarding gross financing requirement, the Governor stated that out of total USD24.5bn, bulk has been repaid or rolled over. Now the remaining amount is USD10bn, out of which USD5bn is to be rolled over, while USD5bn is on account of repayments. SBP also highlighted that gross financing needs shall come down further in FY25. Moreover, even if new IMF program is opted for, Pakistan is in a much better negotiating position right now.

**Outlook:** We opine that SBP may begin monetary easing from the next monetary policy scheduled in Match 2024.

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