MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)
HELD ON MONDAY, MARCH 18, 2024 AT 10:00 AM

P R E S E N T

Mr. Jameel Ahmad	Chairperson & Governor SBP
Dr. Inayat Hussain	Deputy Governor
Mr. Saleem Ullah	Deputy Governor
Mr. Muhammad Ali Malik	Executive Director
Mr. Fawad Anwar	Director SBP Board
Mr. Muhammad Ali Latif	Director SBP Board
Mr. Najaf Yawar Khan	Director SBP Board
Dr. Naved Hamid	External Member
Dr. Hanid Mukhtar	External Member
Dr. S.M. Turab Hussain	External Member
Mr. Fayyaz-ur-Rehman	Corporate Secretary

Review of Current Economic Conditions and Outlook for FY24

1. The staff apprised the Committee of recent developments in the key macroeconomic indicators since the MPC meeting held on January 29, 2024. Assessments and analysis of evolving trends were also shared with the Committee, including key assumptions used in the baseline projections.

2. Discussing the developments in the real sector, the staff stated that the Large-Scale Manufacturing (LSM), after showing better than expected performance in November and December 2023, showed slightly lower growth in January 2024. Other high-frequency activity indicators, like the Petroleum Oil and Lubricants (POL) and domestic cement sales, also exhibited some moderation since the last MPC meeting. Broadly, similar trend was also reflected in consumer and business sentiments. Discussing the agriculture sector, the staff apprised that improvement in the agriculture sector remains the key driver for economic recovery in FY24. The staff added that prospects for Rabi crops also appears favourable, amidst higher area under cultivation, better input conditions, and supportive output prices. It is also noted that satellite images also showed relatively denser vegetation of wheat crop in the current fiscal year than last year. The Committee was apprised that according to the latest data from Pakistan Cotton Ginners Association, cotton arrivals to ginning factories stood at 8.39 million bales by the end of February 2024. Though these arrivals have remained higher than arrivals in the same period last year, there is a high probability that they will remain considerably lower than the revised estimates of 11.5 million bales by the Federal Committee for Agriculture.

3. Discussing the outlook for FY24, the staff apprised that the industrial activity is expected to gain some momentum in H2-FY24 owing to better agricultural growth, increased capacity utilization, improved employment conditions, and favourable base effect. These developments are expected to have positive spill overs for the recovery in services sector, where underlying trend in leading indicators also support this analysis. Taking into account both upside and downside risks, real GDP growth in FY24 is expected to remain in the range of 2.0 to 3.0 percent, while output gap is estimated to remain slightly negative under the baseline assumptions.

4. Discussing global developments, it was apprised that both headline and core inflation continued to decline in the Emerging Market Economies (EMEs). In the Advanced Economies (AEs), the headline inflation continued to moderate as opposed to core inflation, which showed a slight uptick in the recent months. Cumulatively, the inflation in AEs remained above the average annual inflation target of 2.0 percent. This along with the uncertainty regarding the future inflation is compelling the central banks of these countries to delay the easing of policy rates and to continue with their prevailing restrictive monetary policy stances. Further, EMEs have also adopted a cautious approach to hold interest rates, despite achieving their respective inflation targets.

Discussing global commodity prices, the staff apprised the Committee that since the last MPC meeting, the prices of global commodities showed an upward trend. In particular, oil prices were elevated due to various supply-side shocks such as the Red Sea crisis and constrained supply by non-OPEC countries. Furthermore, the staff informed that the IMF, in its interim January 2024 World Economic Outlook, has revised the global GDP projections slightly upwards mainly due to the fiscal and monetary impulse provided by China while revising the trade activity forecasts downward owing to trade restrictions. The recent trends in trade volumes of AEs continued to reflect moderation, while in the case of EMEs the trade volumes have started to pick up.

5. Discussing the latest developments related to Pakistan's Balance of Payments (BoP), it was apprised that the external sector continued to show improvement. The Current Account Deficit (CAD) was USD269 million in January 2024. Cumulatively, CAD narrowed by 71 percent (y/y) during Jul-Jan 2024, driven by both an increase in exports and a decline in imports. The imports witnessed a significant y/y contraction of 11.8 percent in Jul-Feb FY24 (PBS data) due to improved domestic agriculture output, weak LSM activity and supportive global commodity prices. Additionally, exports witnessed a growth of 9 percent during Jul-Feb FY24 (PBS data), primarily owing to increase in both the volume and unit price of High-Value Added (HVA) textiles. Financial inflows from various sources remained constrained since the last MPC meeting. The continued debt servicing explains slight reduction in SBP's foreign exchange reserves to USD 7.9 billion as of March 8, 2024, since the last MPC meeting.

6. Presenting the outlook of various components of the Current Account Balance (CAB), it was apprised that the export projections for FY24 was revised upwards owing to expected favourable rice and HVA textiles export volumes. Import projections for FY24 were also revised upward marginally due to the cumulative impact of a modest increase in imports on account of an increase in the global commodity prices and ongoing recovery in the domestic demand. The staff apprised that workers' remittances are gradually improving and expected to improve further due to supportive policy and regulatory measures taken to facilitate inflows via formal channels, and a higher than average number of workers going abroad during FY24. However, tighter immigration policies by major host countries pose downside risks to this assessment. Taking into account these developments, the CAD is projected to remain closer to the lower bound of 0.5 to 1.5 percent of GDP forecast range for FY24.

7. Discussing fiscal developments, the staff apprised the Committee that during H1-FY24, the primary surplus improved to 1.7 percent of GDP from 1.1 percent in the same period last year, while the overall fiscal deficit deteriorated to 2.3 percent of GDP from 2.0 percent in H1-FY23.The staff explained that improvement in primary surplus was mainly attributed to increased non-tax revenues and relatively contained non-interest expenditures. However, the increase in interest payments due to high debt levels, and increasing reliance on relatively costly domestic financing led to an expansion in the overall deficit. It was highlighted that achieving the targeted fiscal consolidation remains critical for price stability.

8. Discussing developments in monetary aggregates, it was apprised that the broad money (M2) growth decelerated from 17.8 percent at end December 2023 to 16.1 percent by the end of February 2024. The staff explained that this moderation came from lower growth in the net domestic assets of the banking system, owing to a broad-based contraction in the private sector credit and lower growth in budgetary borrowing. Also, the growth in Currency in Circulation was showing a declining trend, while bank deposits continued to grow strongly. It was observed that the Reserve Money (RM) y/y growth showed a more pronounced deceleration to 8.2 percent as of end February 2024 from 14.7 percent as of end December 2023. The committee was apprised that growth contribution of Net Foreign Assets (NFA) in RM has increased. Discussing the outlook for growth in monetary aggregates, the Committee was apprised that M2 growth is expected to remain within the range of 13-15 percent in FY24, unchanged from the last MPC meeting.

9. Discussing the trends and developments in inflation, the staff apprised the Committee that as projected, the headline inflation witnessed a broad-based and considerable decline from 28.3 percent y/y in January 2024 to 23.1 percent in February 2024. It was also apprised that core

inflation, which had been sticky at above 20 percent, has also decelerated to 18.1 percent in February. The staff explained that this broad-based improvement in inflation mainly a result of the combined impact of contractionary monetary policy, fiscal consolidation, better food supplies, moderating global commodity prices over last year, and favourable base effect. The staff also informed that the frequent adjustments in administered energy prices are keeping the inflation and inflation-expectations at elevated levels.

10. Discussing the inflation outlook, the staff highlighted that inflation is expected to continue its downward trajectory due to continuation of tight monetary policy, fiscal consolidation, lower domestic and global commodity prices and favourable base effect. The staff also apprised the Committee about the potential risks associated with further adjustments in the administered energy prices, trade restrictions and tax rate-driven increases for revenue collection may pose risk to the medium-term inflation outlook.

Financial Market and Reserve Management

11. Apprising the Committee on the monetary policy implementation, the staff stated that the overnight repo rate averaged 21.48 percent since the last MPC meeting against the target of 22.0 percent.

12. SBP's liquidity support increased to PKR 9.8 trillion (on average) during the review period (up to March 15, 2024) compared to PKR 9.4 trillion in the last monetary policy review period (up to January 29, 2024). The secondary market yields also witnessed a noticeable change since the last MPC meeting. During the review period, the short-term yields of securities (3 and 6-month maturities) initially increased followed the no change in the policy rate, and then eased in subsequent auctions.

13. In Market Based Treasury Bills (MTB) primary auctions, market participation was largely concentrated in 3 and 12-month securities. Cut-off yields of 3-month recorded significant changes in the primary auctions, while the cut-off rates for 12 month MTBs remained broadly unchanged. In the recent fixed-rate Pakistan Investment Bond (PIB) primary auctions, yields of both medium tenors (3 and 5 years) and longer tenors (10 years) declined marginally.

14. The staff informed the Committee that the Pakistan Eurobond yields and Credit Default Swap (CDS) spreads have dropped significantly in recent months; however, they were still at an elevated level.

15. In the FX market, PKR remained broadly stable with a slight appreciation against the USD since the last MPC meeting. It was also apprised that during the period under review, the USD index depreciated marginally against other major currencies

Model-Based Assessment

16. The staff apprised the Committee about inflation projection for FY24 and FY25 conditional on the policy rate path. The inflation forecasts slightly surpassed its earlier projected path discussed in the last monetary policy review in January 2024.

17. The Committee also discussed the medium-term inflation projections conditional on the corresponding policy interest rate path suggested by the model to bring inflation within the range of 5 to 7 percent by September 2025. In this context, the Committee discussed the appropriateness of the current policy stance.

18. While discussing the risks to the baseline projections for FY24 and FY25, the staff presented inflation projections under alternative assumptions of global oil prices and exchange rates.

Result of SBP Surveys for Monetary Policy

19. The staff apprised the Committee that in the recent wave of surveys conducted in March 2024, business confidence continues to stay positive, although it declined marginally, while consumer confidence improved slightly since the last monetary policy review in January 2024. Largely, led by an increase in energy prices, inflation expectations of both businesses and consumers inched-up in March 2024. Further, capacity utilization of firms decreased compared to the outcome in January 2024.

20. The staff then apprised the MPC about the results of the survey of Other Forecasters. It was noted that the majority of the forecasters expected no change in the policy rate in the current MPC meeting, while their inflation and growth forecast distributions for FY24 were peaking around the SBP projections.

Monetary Policy Deliberations and Decision Vote

21. The MPC decided to keep the policy rate unchanged by a majority of eight votes out of ten, while two Members voted to decrease the policy rate by 100bps.

DECISIONS:

- *The policy rate remains unchanged at 22 percent.*
- *The Monetary Policy Statement – March 2024 is approved.*