MINUTES OF THE MONETARY POLICY COMMITTEE (MPC) MEETING
HELD ON MARCH 8, 2022

P R E S E N T

Dr. Reza Baqir	Chairman & Governor SBP
Dr. Inayat Hussain	Deputy Governor (Banking & FMRM)
Dr. Murtaza Syed	Deputy Governor (Policy)
Mr. Arshad Mehmood Bhatti	Executive Director (BPRG)
Mr. Ali Jameel	Director SBP Board
Dr. Tariq Hassan	Director SBP Board
Dr. Hanid Mukhtar	External Member
Dr. Naved Hamid	External Member
Mr. Mohammad Mansoor Ali	Corporate Secretary/Director OCS

Review of Current Economic Conditions and Outlook for FY22

1. The Committee was apprised about developments in key macroeconomic indicators since the last Monetary Policy decision on January 24, 2022, along with an assessment of evolving trends.

2. Giving an overview of the real sector, the staff apprised the MPC that high frequency indicators suggest that economic activity continue to moderate since the last MPC meeting. Automobiles sales and electricity generation have declined month-on-month while POL and domestic cement sales have decelerated since last October. Meanwhile, some growth is witnessed in the import of machinery, consumer financing and tax collections.

3. Regarding aggregate supply, it was informed that conditions remained broadly encouraging. Large Scale Manufacturing (LSM) grew by 7.4 percent in H1-FY22 as compared to 1.5 percent increase during H1-FY21. The rebasing of national accounts by Pakistan Bureau of Statistics (PBS) along with an extended coverage of LSM through the addition of new products and businesses were also discussed. Eleven notable additions have been included in the LSM index, including wearing apparels (towels & garments), mineral water, furniture and sports goods such as footballs.

4. In agriculture, cotton production is likely to be around 8 million bales, significantly below the earlier estimate of 9.4 million bales. Agriculture input conditions for Rabi crop depict a mixed picture, where agricultural credit disbursement and tractor sales are doing satisfactorily while fertilizer usage and water availability are lower as compared to the preceding year.

5. Based on these developments, projection of real GDP growth in FY22 is maintained at 4.5 percent (on new base). The growth range since the last MPC meeting has also been kept unchanged at 4 - 5 percent.

6. Discussing recent developments in monetary aggregates, it was apprised that broad money (M2) growth has decelerated, largely owing to a contraction in the Net Foreign Assets (NFA) of the banking system. The contraction in NFA of the banking system was due to widening in the current account deficit as well as debt repayments. On the liability side, Currency in Circulation (CiC) decelerated slightly, owing to seasonal withdrawals of bank deposits (primarily demand deposits).

7. Further, the staff apprised that recent Private Sector Credit (PSC) trends were in line with seasonal patterns. PSC saw a net retirement in January 2022. On an overall basis, the expansion during FY22, so far, remains at historic high in nominal terms. The PSC increased by Rs. 849.2 billion during Jul 01- Feb 18 FY22, and is expected to increase more than Rs. 1 trillion by end of the current fiscal year. However, credit growth moderated slightly in nominal terms in January 2022,

and remains negative in real terms. This slowdown is largely driven by working capital loans as major businesses like textile, cement, chemicals and steel repaid their loans in January 2022.

8. Apprising the Committee on credit growth, the staff noted that fixed investment and housing loans continue to expand on the back of SBP's Temporary Economic Refinance Facility (TERF) and GoP's Mera Pakistan Mera Ghar (MPMG) Scheme.

9. Elaborating on developments in consumer finance, the staff apprised that housing loans continue to grow on the back of SBP initiatives while growth in auto and personal loans moderated, in line with recent tightening efforts.

10. Regarding credit growth projections, the staff informed that credit growth is projected at 15.4 percent in FY22, largely in line with the projection range of 15 – 17 percent for FY22. However, for FY23, credit growth is expected to moderate and fall in the range of 10–12 percent, partly owing to the absence of SBP's TERF in FY23, which was a major catalyst in credit growth during FY21 and FY22.

11. Discussing fiscal developments, it was apprised that the fiscal deficit was contained at 2.1 percent of GDP in H1-FY22, unchanged as compared to the same period last year, mainly due to a substantial growth in FBR taxes. FBR collected Rs. 3,799 billion in the first eight months of FY22, registering 30.3 percent y/y growth, mainly driven by import related taxes. However, fiscal and primary balances deteriorated in Q2-FY22 mainly due to an increase in current expenditures. However, non-tax revenue declined by 14.6 percent in H1-FY22, primarily owing to lower proceeds from Petroleum Development Levy (PDL). Further, with an increase in subsidies and grants, the non-interest current expenditures grew by 26.2 percent in H1-FY22 compared to 4.7 percent in the same period last year. The fiscal deficit for FY22 is projected to remain unchanged since the last MPC meeting and to fall within the range of 5 to 6 percent of GDP. The impact of recent budgetary measures (relief package) is assumed to be broadly neutral, as the revenue loss from PDL and increase in current spending on account of subsidies are expected to be matched by a cut in the PSDP budget. For FY23, a preliminary assessment shows the fiscal deficit around the same level as in FY22. However, this projection is subject to change following the announcements of the federal budget for FY23. Fluctuations in international oil prices and changes in policy rate are among the risks to the FY23 projections.

12. Discussing trends and developments with regards to Balance of Payments (BoP), the staff apprised that the Russia-Ukraine conflict is increasing uncertainty, which in turn is fueling volatility in global financial markets. Although commodity prices were on the rise since December 2021, they observed an exponential increase since the start of Russia-Ukraine conflict. All major commodity prices have increased between 8 to 53 percent. This, in turn, will affect the Current Account Deficit (CAD) and Balance of Payments. The CAD increased to USD 2.6 billion in January 2022 from USD 1.9 billion in December 2021 and only USD 219 million a year before. However, excluding the impact of oil and strategic imports, CAD would have fallen to around USD 200 million in January 2022.

13. The trend in exports during Jul-Jan FY22 have been broadly in line with the earlier projections for FY22. The continued strong performance of textiles and information technology helped exports of goods and services to grow in January 2022. Both favorable prices and higher volumes of HVA textiles are driving export growth and the overall trend is similar to the export pattern of some peer countries. However, some risks to the export outlook include: *(i) domestic energy shortages; and, (ii) Russia-Ukraine conflict, which may keep global energy supplies disrupted while generating higher uncertainty.*

14. Apprising the Committee regarding trends in imports, the staff explained that the major rise in imports during Jul-Jan FY22 was due to an increase in international commodity prices. The rise is particularly evident in imports of petroleum products, and agriculture and chemicals

(vaccines, fertilizers etc.). Accordingly, a decomposition of price and volume impacts for the time period Jul-Jan FY22 showed that 74 percent of the increase in imports came from higher prices, while only 24 percent came from volumes. In January 2022, all the impact on overall imports came from higher prices.

15. The staff apprised that on an overall basis, workers' remittances continued to remain strong during the year so far, despite witnessing a seasonal moderation to USD 2.1 billion in January 2022 from around USD 2.5 billion during December 2021. The data on registered workers moving abroad depicts that pre-Covid levels has been reached. As a result, the outlook of worker remittances for the remaining months of FY22 remained positive. Nonetheless, a greater than anticipated increase in global oil prices amid the Russia-Ukraine war has significantly worsened the external sector outlook for the remaining months of FY22. With the upward revision in global oil prices, imports are now projected to grow by 30.5 percent as compared to an earlier projection of 25 percent.

16. The staff then apprised the Committee regarding the projections for the external sector. It was noted that on account of capacity enhancement in textile sector through TERF, exports for FY23 is expected to increase above USD 30 billion, while the projection for exports in FY22 remains unchanged at USD 28.8 billion since the last meeting in January 2022. Referring to imports, it was informed that the projection has been revised from USD 67.3 billion to USD 70.2 billion mainly due to the impact of Russia-Ukraine crisis. While for FY23, imports are expected to reduce to USD 66.7 billion because of: *i) reduction in import of COVID vaccines, ii) completion of TERF by the end of FY22, and iii) anticipated downward revision in international oil prices.*

17. Discussing trends and developments in inflation, it was apprised that national CPI inflation has moderated slightly to 12.2 percent on a y/y basis in February 2022 from 13.0 percent in January 2022. It was also noted that on m/m basis, national CPI inflation increased by 1.2 percent in February 2022 against an increase of 0.4 percent in January 2022. It was noted that tomatoes alone contributed about 0.5 percentage points to February m/m inflation. On the other hand, energy inflation (y/y) in February 2022 decreased to 20.2 and 21.9 percent in urban and rural areas. This moderation is attributed to the downward revision of electricity charges resulting from lower fuel cost adjustments. In addition, core inflation decelerated in urban areas to 7.8 percent, whereas, it increased to 9.2 percent in rural areas in February 2022. Cumulatively, the main drivers of inflation are energy and perishable food items.

18. Discussing the outlook, the MPC was apprised that the forecast range for average NCPI inflation for FY22 remained unchanged between 9-11 percent, with point forecast revised slightly downwards, owing to downward adjustments in administered prices and electricity charges as a result of the recent relief package.

Financial Markets and Reserve Management

19. Apprising the Committee on Monetary Policy implementation, the staff stated that the overnight interbank repo-rate remained at 9.90 percent on average, against the target policy rate of 9.75 percent. The liquidity injections through Open Market Operations (OMOs) increased significantly since the last MPC meeting, owing to higher Government borrowings due to a need to increase its cash buffers. The net average daily outstanding level of OMOs stood at approximately Rs. 2.8 trillion during January 24, 2022 to March 7, 2022, as compared to Rs. 2.0 trillion during the previous monetary policy review period.

20. Further, it was noted that secondary market yields have generally fallen across the yield curve since the last MPC meeting in January 24, 2022. It was highlighted that secondary market yields of longer tenors (above 1-year) have decreased. However, the market yield of 3-month Bills has increased by 49 bps. In primary auctions, the market was increasingly interested in PIBs.

Further, it was highlighted that Pakistan Eurobond yields surged significantly since the Russian-Ukraine conflict, which may affect Pakistan's access to international bond market in the near term.

21. Further, it was informed that, on an overall basis, the Pakistani rupee (PKR) remained stable and appreciated slightly by around 0.2 percent against the USD since the last MPC meeting.

Model-Based Assessment

22. The staff apprised the Committee about key assumptions used in the model-based assessment of inflation. It was explained that the point forecast of average inflation for FY22 and FY23 has been revised marginally downwards as compared to the last MPC in the baseline scenario. This forecast takes into account the impact of recently announced relief package by the Prime Minister.

23. The Committee also discussed the path of the policy rate suggested by the model to bring inflation within the medium-term range of 5-7 percent. The staff also presented scenario based analysis on alternative assumptions for growth and global oil prices for FY22.

Result of SBP Surveys for Monetary Policy

24. The staff apprised the Committee that the Consumer Confidence Survey was conducted in March 2022 and Business Confidence Survey in the second half of February 2022. It was highlighted that the confidence of consumers has slightly improved, while business confidence remained stable in the latest wave of the survey.

25. Purchasing Managers Index (PMI) and employment perceptions in manufacturing sector declined somewhat in the latest wave but remained above the threshold level.

26. It was also noted that inflation expectations of consumers slightly declined while that of businesses marginally increased during the latest wave of the respective surveys. It was noted that the PM's relief package favourably changed the 'Consumers' perceptions about economy and their inflation expectations. The staff then apprised about results of the "Survey of Other Forecasters" from institutions other than the SBP. It was noted that real GDP growth of 4.0-4.9 percent is expected in FY22 with the highest probability. Similarly, average inflation is thought to be most likely to remain in the range of 11.0-11.9 percent in FY22.

27. The staff then apprised about the results of the "Survey of Other Forecasters" from institutions other than the SBP. It was highlighted that most of the forecasters and experts expected no change in the SBP's policy rate in the current MPC meeting.

Monetary Policy Deliberations and Decision Vote

28. The MPC has decided to keep the policy rate unchanged with a majority vote of 7 out of 8, with one member voting to increase the policy rate by 25bps.

29. The Committee then scripted the Monetary Policy Statement.

DECISIONS:

- *The policy rate is kept unchanged.*
- *The Monetary Policy Statement – March 8, 2022 is approved.*