MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)
<u>HELD ON MONDAY, NOVEMBER 4, 2024 AT 10:00 AM</u>

<u>P R E S E N T</u>

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. Najaf Yawar Khan	Director SBP Board
Mr. Muhammad Ali Latif	Director SBP Board
Dr. Naved Hamid[2]	External Member
Dr. S. M. Turab Hussain	External Member
Mr. Fayyaz ur Rehman	Corporate Secretary

Review of Current Economic Conditions and Outlook for FY25

1. The staff apprised the Committee of recent developments in the key macroeconomic indicators since the last MPC meeting held on September 12, 2024. The assessments and analysis of evolving trends were also shared with the Committee, including key assumptions used in the baseline projections.

2. High-frequency economic activity indicators showed further improvement since the last MPC meeting. The staff apprised the Committee that Large-Scale Manufacturing (LSM) grew by 4.7 percent on a m/m basis in the month of August 2024. The LSM growth was primarily supported by growth in heavy weighted subsectors including textile, food, pharmaceuticals, Petroleum, Oil & Lubricants (POL), and automobile. However, it was noted that growth in construction related sectors remains suppressed. The staff apprised that based on the Federal Committee on Agriculture's (FCA's) first estimates of major Kharif crops turned out better than staff's earlier expectations. Above target output of sugarcane and rice, more than offset the impact of shortfall in production of maize and cotton.

3. On the outlook for FY25, industrial growth was expected to improve compared to FY24 due to reduction in policy rate, lower international oil prices, increased activity in heavy weighted sectors and better capacity utilization. The services sector is also expected to perform better than anticipated, due to knock-on effects emanating from commodity-producing sectors. Consequently, forecast of real GDP growth for FY25 was revised upwards, albeit still projected to remain in the range of 2.5 to 3.5 percent.

4. Discussing the global developments and trends, it was apprised that since the last MPC meeting, international prices for various commodities have increased. It was apprised that agricultural prices increased due to upward pressure on both palm oil and sugar prices, mainly due to supply side issues, while increase in metal prices was primarily due to increase in iron prices amidst expected increase in demand from China. Oil prices continued to remain volatile, showing a marginal uptick. Furthermore, it was observed that inflationary pressures continued to ease in both Emerging Market & Developing Economies (EMDEs) and Advanced Economies (AEs). Hence, more central banks of AEs and EMDEs continued to ease their respective policy rates, albeit cautiously. The staff briefed about the recent changes in global GDP growth and inflation outlook by IMF for 2024 and 2025 in its recent World Economic Outlook (October) report. Specifically, both global growth and inflation projections were revised slightly downward. Discussing global trade, it was apprised that projections for trade volumes for EMDEs were revised upward, as opposed to a downward revision in the same for AEs.

5. Discussing the latest developments related to Balance of Payments (BoP), it was apprised that the Current Account balance remained in surplus for the second consecutive month in September 2024. Cumulatively, Current Account Deficit (CAD) remained contained to USD 98 million during Q1-FY25. It was stated that sizeable increase in imports was offset by robust workers' remittances and higher goods and services exports. During Jul-Oct FY25, the export of goods grew by 13.5 percent (y/y). Detailed data available for Jul-Sep FY25 exhibited that the growth in exports was driven primarily by rice and High Value-Added (HVA) textile volumes. Conversely, import of goods increased by 5.2 percent (y/y) during Jul-Oct FY25. Import data showed that volumes of both oil and non-oil imports grew in line with increased domestic economic activity. It was noted that the impact of increase in volumes of oil imports was partially offset by a decrease in international oil prices. Moreover, the net financial inflows recorded a slight uptick in September 2024.

6. Discussing the external sector outlook, it was apprised that export projections have been revised upward for FY25 compared to the last MPC projection due to an anticipated increase in sugar exports and an upward revision in the rice exports. Nonetheless, rice export earnings are expected to decline from last year due to softening of international rice prices. Moreover, imports are expected to increase in FY25 due to upward revision in domestic demand and expected increase in cotton import volumes. The outlook for workers' remittances for FY25 was also revised upwards supported by increased momentum in the recent months, favourable policy measures and stable kerb premium. Considering these developments, the CAD as a percentage of GDP is expected to remain in the range of 0 to 1.0 percent of GDP for FY25.

7. Discussing fiscal developments, the staff informed the Committee that fiscal and primary balances showed significant improvement during Q1FY25, posting a surplus of 1.4 percent and 2.4 percent of GDP, respectively. These surpluses are, primarily, attributed to sizeable increase in non-tax revenues on account of transfer of record high SBP profits. It was apprised that during Jul-Oct FY25, growth in FBR tax collection was recorded at 25.2 percent, lower than the 27.9 percent in the same period last year, as well as the targeted growth of 32.2 percent. The staff stressed that to achieve the revenue targets for the current fiscal year, the tax collection in the coming months of FY25 must be significantly higher. However, a considerable decline in market yields since the start of the year will result in lower interest expense than budgeted, which is expected to keep the overall fiscal balance in check.

8. Discussing developments in the monetary sector, it was apprised that Broad Money (M2) growth increased slightly to 15.2 percent (y/y) as of October 25, 2024, with noticeable change in the composition of Net Domestic Assets (NDA). Specifically, net budgetary borrowing from commercial banks declined significantly that led to a decrease in outstanding stock of OMOs. The Private Sector Credit (PSC), after showing seasonal retirement during Q1-FY25, picked up sharply. Besides the decline in interest rates and lower net budgetary borrowing, banks' tendency to comply with the minimum threshold of Advances to Deposits Ratio (ADR) to avoid additional taxes, also explained the increase in PSC. The Committee was apprised that growth contribution of the Net Foreign Assets (NFA) in M2 remained positive.

9. On the liability side, interest sensitive deposits continued to be the primary contributor to M2 growth despite showing signs of some moderation. On the other hand, the contribution of Currency in Circulation (CiC) picked up slightly. The Committee was apprised that growth in Reserve Money (RM), which was recorded at 6.2 percent as of October 25, 2024, showed a reversal from the declining trend. Regarding the outlook for monetary aggregates for FY25, the Committee was apprised that M2 growth is expected to remain contained.

10. Discussing the inflation trends and developments, the staff apprised the Committee that headline inflation (y/y) declined to 6.9 percent in September 2024 and 7.2 percent in October 2024, down from 9.6 percent in August 2024. This decrease was primarily attributed to contained demand, benign global oil prices, favourable base effect and improved supply of key food items. Moreover, it was apprised that underlying inflationary pressures continued to ease. Core inflation decelerated to 10.4 percent in September 2024 and 9.8 percent in October 2024, from 11.9 percent

in August 2024, primarily reflecting the ease in core goods inflation, while core services inflation, though declining, remained somewhat sticky. Furthermore, recent surveys indicate that inflation expectations of both consumers and businesses eased compared to the last survey iteration.

11. Discussing the inflation outlook, it was apprised that the inflation projections for FY25 were revised downwards due to change in assumption of budgetary measures, delay in implementation of adjustments in administered energy prices and favorable global commodity prices. However, the Committee was informed that the near-term inflation outlook is subject to certain risks, including escalation in geopolitical conflicts, recurrence of food inflation pressures, uncertainty related to the adjustments in administered energy prices and any additional fiscal contingency measures. Taking into account these developments and risks, the average inflation for FY25 is expected to be significantly lower than its previous forecast range of 11.5 to 13.5 percent.

Financial Market and Reserve Management

12. Apprising the Committee on monetary policy implementation, the staff stated that the overnight repo rate averaged 17.18 percent during the review period, compared to the target of 17.5 percent. The SBP's average liquidity support declined considerably to PKR 10.12 trillion during the review period as compared to PKR 11.79 trillion in the last review period. It was also mentioned that the SBP's liquidity stock as on November 1, 2024, stood at PKR 9.2 trillion.

13. It was apprised that a downward shift in the yield curve was observed across all tenors of government securities reflecting the impact of expected decline in the policy rate. In the primary auctions of Market Treasury Bills (MTBs), market participation shifted towards 6- and 12-month tenors, reflecting expectations of declining interest rates. Furthermore, three buyback auctions for Government securities were also conducted since the last MPC meeting.

14. In the recent fixed-rate Pakistan Investment Bond (PIB) primary auction, yields in all tenors showed a decline, as market participants factored in a decline in interest rates, while participation volumes in fixed rate PIBs recorded a noticeable increase. However, the acceptance of bids by the government was higher for floating-rate PIBs as compared to fixed-rate PIBs. Another development was the introduction of 2-year zero coupon bonds.

15. The staff informed the Committee that Pakistan Eurobond yields and Credit Default Swap (CDS) spreads have remained almost unchanged since the last MPC meeting. Since January 2024, both CDS spreads and Eurobond yields have significantly improved, although they remain elevated.

16. In the FX market, the PKR remained broadly stable against the USD since the last MPC meeting. However, the USD Index strengthened by 2.2 percent against other major currencies during the review period.

Model-Based Assessment

17. The staff apprised the Committee about the macroeconomic developments including exchange rate stability, lower than anticipated inflation outturns in recent months, easing global oil prices and delayed adjustments in the administered energy prices, which led to a downward revision in the inflation projections over the medium-term. The staff presented the model-driven policy rate path that stabilized projected inflation within the target range of 5-7 percent in the medium term. The staff also presented alternative scenarios based on different assumptions of global oil prices and exchange rate.

18. Keeping in view the above development, the MPC discussed the monetary policy stance to bring the inflation down within the target range under various scenarios.

Result of SBP Surveys for Monetary Policy

19. The staff apprised the Committee that in October 2024, both the Consumer Confidence and the Business Confidence indices improved significantly. The Consumer Inflation Expectations Index and the Business Inflation Expectations Index also improved.

20. The staff apprised about the results of the survey of professional forecasters. It was noted that forecasters revised their GDP growth forecasts upwards for FY25 and beyond. Similarly, inflation forecasts were also revised downwards, with inflation moderating in FY25.

Monetary Policy Deliberations and Decision Vote

21. The MPC decided to decrease the policy rate by 250 bps with a majority of six votes out of nine, while two Members voted to decrease the policy rate by 200 bps and one member voted to decrease the policy rate by 300 bps.

DECISIONS:

- *The policy rate is reduced by 250 bps to 15 percent.*
- *The Monetary Policy Statement – November 2024 is approved.*