MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)
HELD ON MONDAY, JUNE 10, 2024 AT 09.00 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. Haroon 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 last MPC meeting held on April 29, 2024. The 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, according to PBS, the provisional growth estimate for FY24 at 2.4 percent is broadly close to staff's earlier projection. While discussing the developments based on high-frequency activity indicators, the staff apprised the Committee that the Large-Scale Manufacturing (LSM) showed a slightly negative growth and declined by 0.1 percent in Jul-Mar FY24 as compared to a contraction of 7 percent during the same period last year. Other high-frequency activity indicators, like the sales of Automobile, Petroleum Oil and Lubricants (POL) and domestic cement, showed a mixed trend since the last MPC meeting as auto sales increased significantly, whereas POL and cement sales declined. Discussing the agriculture sector, the staff emphasized that agriculture sector remains the primary contributor to this year's growth.

3. On the initial outlook for FY25, the staff apprised that agriculture sector output is anticipated to moderate next year due to a high base effect. It was also stated that, while input conditions for Kharif crops broadly remain promising; however, early satellite images show slightly less dense vegetation compared to last year. For industry and services, a moderate growth is expected as underlying improvement in capacity utilization, improved consumer and business sentiments, and expected decrease in inflation will be supportive. The staff's preliminary assessment shows real GDP growth to remain moderate next year.

4. Discussing global developments and trends in international commodity prices, it was apprised that oil prices have reduced since the last MPC meeting due to de-escalation of conflict in the Middle East. However, prices of non-oil commodities continued to rise. The prices of metals in the international market have increased in addition to the bottoming out of agricultural prices. Furthermore, the staff informed that the IMF has revised the GDP projections slightly upwards for China in May 2024 compared to the World Economic Outlook April 2024. This could put further upward pressure on the commodity prices. It was also apprised that both headline and core inflation continued to decline in the Emerging Market Economies (EMEs) and Advanced Economies (AEs). Despite this decline, the inflation in AEs remained above the average inflation target. Furthermore, various central banks of AEs started to ease their policy rate since the last MPC meeting. Moreover, many central banks of EMEs are continuing to ease their restrictive monetary stances after achieving their respective inflation targets.

5. Discussing the latest developments related to Balance of Payments (BoP), it was apprised that the external sector continued to show better than expected improvement. The current account posted a surplus for the third consecutive month in April 2024. Cumulatively, the Current Account Deficit (CAD) narrowed by 95 percent (y/y) during Jul-Apr 2024 to USD 202 million, primarily owing to an increase in workers' remittances and reduction in trade balance. In the same period, export of goods grew by 10.6 percent (y/y), supported by food and High Value Added (HVA) textile volumes. The import of goods witnessed a y/y contraction of 5.3 percent in Jul-Apr FY24 due to improved domestic agriculture output, subdued demand from the industry, and lower global commodity prices. Discussing workers' remittances, it was apprised that substantial inflows were recorded in May 2024 due to Eid-related surge and other supportive policy measures. Workers' remittances reached an all-time high of USD 3.2 billion in May 2024. However, financial inflows remained sporadic during the current fiscal year. Nevertheless, the net financial account inflows were recorded at USD 3.9 billion during Jul-Apr FY24 as opposed to net outflows during the same period last year.

6. Presenting the outlook of various components of the Current Account Balance (CAB), it was apprised that the export projections for FY24 were revised upwards owing to the overall strong showing during the preceding months while import projections remained largely unchanged. The workers' remittances for FY24 have been revised upward due to recent Eid-related momentum along with supportive policy measures and reduced kerb premium. However, a reduction in the number of workers going abroad during the past couple of months could pose a risk to remittances inflows, going forward. Considering these developments, the CAD is projected to remain closer to the lower bound range of 0.5 to 1.5 percent of GDP for FY24.

7. Discussing fiscal developments, the staff apprised the Committee that during Jul-Mar FY24, the primary surplus improved to 1.5 percent of GDP while overall deficit remained almost at the last year level. The staff explained that improvement in primary surplus was mainly attributed to better revenue collection and contained non-interest expenditures. However, considering the limited progress on addressing the structural weaknesses to broaden the tax base, FY25 budgetary measures are anticipated to be largely rate-based. The staff highlighted the importance of broadening the tax base to achieve fiscal sustainability on durable basis, keep inflation on downward trajectory and external accounts at manageable level.

8. Discussing developments related to the monetary sector, it was apprised that, as per the earlier expectations, Broad Money (M2) growth decelerated to 15.2 percent as of May 24, 2024 (y/y) from 17.1 percent as of March 31, 2024. The staff explained that this was primarily attributed to the deceleration in the growth of the Net Domestic Assets (NDA) of the banking system. In addition, Net Foreign Assets (NFA) contribution in M2 growth though declined slightly yet remained positive. Further, it was apprised that the growth in Currency in Circulation (CiC) decelerated and the uptick observed before the Eid has mostly reversed. It was highlighted that money is flowing into the banking system, primarily, through a strong growth in savings deposits. The Committee was apprised that growth in reserve money also decelerated sharply from 10.0 percent as of end-March 2024 to 4.3 percent as of May 24, 2024. The growth in credit to private sector remained muted during FY24; however, loans to private businesses recorded a higher demand compared to the last year due to working capital credit demand. 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 for both FY24 and FY25, though, a slight change in the composition of monetary aggregates is expected in FY25.

9. Discussing the trends and developments related to inflation, the staff apprised the Committee that headline inflation decelerated to 11.8 percent y/y in May 2024 from 17.3 percent in April 2024 primarily due to sizeable decline in prices of wheat, wheat flour and some other major food items, along with downward adjustment in administered energy prices. The core inflation also decelerated to 14.2 percent in May 2024 from 15.6 percent in April 2024. Moreover, the latest surveys indicate a notable improvement in inflation expectations of both consumers and businesses. The staff explained that this broad-based improvement in inflation reflects the

combined impact of contractionary monetary and fiscal policies, improved food supplies and favourable base effect.

10. Discussing the inflation outlook, the Committee was apprised that the near-term inflation outlook is subject to risks emanating from expected budgetary measures of FY25 and future adjustments in electricity and gas tariffs. Further, the staff apprised the Committee that inflation is expected to rise in near-term particularly in July 2024 before trending down gradually during FY25. While discussing the expected rebound in wheat prices, it was highlighted by the staff that wheat price reductions have historically proved to be temporary.

Financial Market and Reserve Management

11. Apprising the Committee on the monetary policy implementation, the staff stated that the overnight repo rate averaged 21.72 percent since the last MPC meeting against the target of 22.0 percent.

12. SBP's liquidity support increased to almost PKR 11.0 trillion in the current review period since the last MPC meeting compared to PKR 10.5 trillion in the previous MPC review period. The short-term secondary market yield of 3-month tenor has declined while the medium to long-term secondary market yields remained largely unchanged during the period under review.

13. In Market-based Treasury Bills (MTB) primary auctions, market participation was largely concentrated in 3-month and 12-month securities while cut-off yields of both tenors had declined. In the recent fixed-rate Pakistan Investment Bonds (PIB) primary auctions, yields of both medium tenors (3 and 5 years) and longer tenors (10 years) did not witness any noticeable change amid lower market participation and acceptance by the Government.

14. The staff informed the Committee that the Pakistan Eurobond yields and Credit Default Swap (CDS) spreads have significantly improved in recent months; however, they remain at elevated levels.

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

Model-Based Assessment

16. The staff apprised the Committee about inflation projections for FY25 conditional on the policy rate path in a general equilibrium setting. In doing so, the model took into account the impacts of both lower than expected recent outcome of inflation and various anticipated budgetary measures for projecting inflation into FY25 and beyond.

17. While discussing the risks to the baseline projections, the staff also presented scenario analysis for inflation projections under alternative assumptions of exchange rates. Although there were diversions on quarterly basis, the overall projected inflation level for FY25 remained close to its earlier forecast presented in the last MPC meeting of April 2024.

18. Keeping in view the above developments, the MPC discussed the appropriateness of the latest monetary policy stance to bring inflation within the range of 5 to 7 percent by September 2025.

Result of SBP Surveys for Monetary Policy

19. The staff apprised the Committee that both confidence indices, i.e. the Consumer Confidence Index and Business Confidence Index have improved in May 2024 reflecting an improvement of sentiments for the near-term. While discussing inflation expectations, it was apprised that both businesses and consumers expect an ease in inflation in the near-term. Moreover, capacity utilization of firms has improved as compared to the outcome in April 2024.

20. The staff then apprised the MPC about the results of the survey of professional forecasters. It was noted that they are now expecting relatively lower inflation in FY25 as compared to the last iteration, while indicating increased prospects of a cut in the current MPC meeting.

Monetary Policy Deliberations and Decision Vote

21. The MPC decided to decrease the policy rate by 150bps with a majority of six votes out of ten, two Members voted to decrease the policy rate by 100bps while two Members voted to keep the policy rate unchanged.

DECISIONS:

- *The policy rate is reduced by 150bps to 20.5 percent.*
- *The Monetary Policy Statement – June 2024 is approved.*