MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)
<u>HELD ON MONDAY, APRIL 29, 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. 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 last MPC meeting held on March 18, 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 the Large-Scale Manufacturing (LSM) showed slightly lower growth and declined by 0.5 percent in Jul-Feb FY24 as compared to a contraction of 4 percent during the same period last year. Other high-frequency activity indicators, like Petroleum Oil and Lubricants (POL) and domestic cement sales, also exhibited some moderation since the last MPC meeting. It was also apprised that subdued demand has led to lower than anticipated growth in the services sector during the first half of FY24. Discussing the agriculture sector, the staff apprised that strong rebound in the agriculture sector remains the key driver for economic recovery in FY24, which further improved by an upward revision in the production of important crops like rice and maize along with bumper output estimated for wheat.

3. Discussing the outlook for FY24, the staff apprised that owing to relatively improved capacity utilization and business sentiments, as well as low base effect from last year, it is expected that value-addition from manufacturing and services sectors would recover in the coming months. Considering both upside and downside risks, real GDP growth in FY24 is expected to remain in the range of 2.0 to 3.0 percent.

4. Discussing global developments, it was 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 their average annual inflation target of 2.0 percent. However, uncertainty regarding the sustainability of this decline has led the central banks of these countries to remain cautionary by delaying the easing of policy rates and continuing with their restrictive monetary policy stances. Further, it was apprised that owing to a sluggish decline in inflation in the United States (US) and European Union (EU) regions, market expectations are indicating delayed and relatively smaller rate cuts by the US Fed and European Central Bank (ECB). On the other hand, some of the EMEs are easing their restrictive monetary stances after achieving their respective inflation targets. Discussing the global commodity prices, the staff apprised the Committee that since the last MPC meeting, the prices of global commodities appeared to have bottomed out. Oil prices are at elevated levels since the last MPC meeting due to escalation in the Middle East crisis, in the backdrop of the Iran-Israel conflict. Furthermore, the staff informed that

the IMF, in its April 2024 World Economic Outlook, has revised the global GDP projections slightly upwards compared to the January 2024 interim report. However, the outlook for global trade was further revised downwards due to rising conflicts and geopolitical tensions.

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 sizable surplus of USD 619 million in March 2024 after recording a surplus of approximately USD 100 million in February 2024. Cumulatively, the Current Account Deficit (CAD) narrowed by 87.5 percent (y/y) during Jul-Mar 2024, largely attributable to an increase in workers' remittances and moderating trade deficit. The imports witnessed a y/y contraction of 8.0 percent in Jul-Mar FY24 due to improved domestic agriculture output, subdued demand, and lower global commodity prices. Additionally, exports continued to grow and cumulatively recorded 9.3 percent growth (y/y) during Jul-Mar FY24, mainly supported by rice and High-Value Added (HVA) textiles.

6. Discussing workers' remittances, it was apprised that substantial inflows were recorded in March 2024 due to Eid-related surge and other supportive policy measures. Financial inflows remained weak but a significant reduction in CAD allowed SBP to meet its debt repayments including Eurobond worth USD 1 billion. SBP's FX reserves were recorded at USD 8.1 billion as of April 12, 2024.

7. Presenting the outlook of various components of the Current Account Balance (CAB), it was noted that HVA textile volumes are plateauing, however, it was apprised that the export projections for FY24 were revised upwards owing to overall strong momentum observed during March 2024. Import projections for FY24 were also revised upward marginally as compared to earlier assessments. The staff apprised that workers' remittances for FY24 are expected to improve on account of the number of workers going abroad and other supportive policy measures. Taking into account these developments, the CAD is projected to remain closer to the lower bound of range 0.5 to 1.5 percent of GDP for FY24.

8. Discussing fiscal developments, the staff apprised the Committee that during Jul-Jan FY24, the primary surplus improved to 1.8 percent of GDP from 1.1 percent in the same period last year, while the overall fiscal deficit increased to 2.6 percent of GDP from 2.3 percent in Jul-Jan FY23. The staff explained that improvement in primary surplus was mainly attributed to better tax and non-tax revenues collection owing to taxation measures and ongoing economic recovery. It was noted that non-interest expenditures remained contained during FY24 so far. However, the increase in interest payments due to high debt levels, and increasing reliance on relatively costly domestic financing led to widening of the overall deficit. It was highlighted that achieving the targeted fiscal consolidation remains critical for attaining price stability and debt sustainability that, in turn, promotes sustainable economic growth.

9. Discussing developments related to the monetary sector, it was apprised that Broad Money (M2) growth increased from 16.1 percent in end-February 2024 to 17.1 percent as of end-March 2024. The staff explained that this increase was primarily attributed to an expansion in Net Foreign Assets owing to improved FX reserves coupled with increase in net budgetary borrowing from commercial banks. Further, it was apprised that the growth in Currency in Circulation (CiC) further decreased since the last MPC meeting, while the growth of banks' deposits remained strong. It was highlighted that money flowing into the banking system through strong deposit growth is a healthy sign for credit creation and financial intermediation. The Committee was apprised that growth in Private Sector Credit (PSC) remained muted during FY24, so far, due to high interest rates and economic slowdown. However, growth in credit to private sector businesses remained almost at the level of 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, unchanged from the last MPC meeting.

10. Discussing the trends and developments related to inflation, the staff apprised the Committee that Ramadan induced seasonal surge led to 1.7 percent m/m increase in March 2024 inflation outturn. The increase is in line with the forecast made during the March MPC meeting.

Nonetheless, headline inflation (y/y) continued its downward trajectory and declined from 23.1 percent in February 2024 to 20.7 percent in March 2024. In the same period, core inflation also fell considerably to 15.7 percent from 18.1 percent in February 2024. The staff explained that this broad-based improvement in inflation reflects the combined impact of contractionary monetary and fiscal policy, better food supplies, moderating global food commodity prices and favourable base effect.

11. Discussing the inflation outlook, the staff highlighted that inflation is expected to continue its downward trajectory due to the continuation of tight monetary policy, fiscal consolidation, lower domestic and global food commodity prices and favourable base effect. The staff also apprised the Committee about the potential risks associated with bottoming out of global commodity prices, recent global oil price volatility, potential inflationary impact of the resolution of circular debt in the energy sector, and tax rate-driven fiscal consolidation.

Financial Market and Reserve Management

12. Apprising the Committee on the monetary policy implementation, the staff stated that the overnight repo rate averaged 21.92 percent since the last MPC meeting against the target of 22.0 percent.

13. SBP's liquidity support increased to PKR 10.5 trillion in the current review period since the last MPC meeting as compared to PKR 9.8 trillion in the previous MPC review period. The short-term secondary market yield of 3-month tenor has increased following the announcement of no change in the policy rate. However, during the period under review, medium to long-term secondary market yields remained largely unchanged.

14. In Market-based Treasury Bills (MTB) primary auctions, market participation was largely concentrated in 3- and 12-month securities. Cut-off yields of both tenors remained broadly unchanged. 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.

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

16. 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 appreciated against other major currencies.

Model-Based Assessment

17. The staff apprised the Committee about inflation projections for FY25 conditional on the policy rate path in a general equilibrium setting. Although there were some diversions on quarterly basis, the overall projected inflation level for FY25 remained in line with its earlier forecast presented in the last MPC meeting of March 2024.

18. The Committee also discussed the medium-term inflation projections i.e. their level beyond FY25. In this regard, the MPC discussed the appropriateness of the current monetary policy stance to credibly bring inflation within the range of 5 to 7 percent by September 2025.

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

Result of SBP Surveys for Monetary Policy

20. The staff apprised the Committee that in the recent wave of surveys conducted in April 2024, business confidence continued to remain positive, while consumer confidence declined further as compared to the March 2024 outcomes. While discussing inflation expectations, it was apprised that those of consumers have increased slightly in April 2024, while they have decreased for businesses. However, despite improvement in overall business sentiments, capacity utilization of firms slightly decreased compared to the outcome in March 2024.

21. The staff then apprised the MPC about the results of the survey of professional forecasters. It was noted that the majority of them 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

22. 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 – April 2024 is approved.*