MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)
HELD AT KARACHI ON MONDAY, JANUARY 29, 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
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 December 12, 2023. Assessments and analysis of evolving trends were also shared with the Committee, including key assumptions used in the baseline projections.

2. Discussing developments in the real sector, the staff stated that the latest data on high-frequency indicators continued to reflect a moderate recovery on a year-on-year (y/y) basis. It was apprised that Large-Scale Manufacturing (LSM) witnessed a slight decline in the first five months of FY24, with a moderate increase recorded during November 2023. In December 2023, both domestic sales and exports of cement increased significantly. Additionally, there was considerable improvement in capacity utilization as reported by manufacturing firms in the latest surveys. Discussing the agriculture sector, the staff apprised that generally, input conditions for Rabi crops remained favourable; however, lesser rainfall in December 2023 and January 2024 posed some risks for the crop outlook. The Committee was apprised that cotton arrivals stood at 8.3 million bales as of January 15, 2024, lower than the historical average of 9.1 million bales recorded during this period. Though cotton arrivals remained better than last year, the current trend suggests cotton production is likely to be lower than earlier official estimates.

3. Discussing the outlook for FY24, the staff apprised the Committee that based on recent incoming data and estimates for LSM and agriculture, the growth outlook remained unchanged since the last MPC meeting. The staff further apprised that the industrial activity is expected to gain some momentum in H2-FY24, which is reflected in results from recent business sentiments surveys. Specifically, 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, the staff informed the Committee that the global economic activity, as gauged by the Purchasing Managers' Indices (PMIs), suggested a mixed trend. The services-related PMI witnessed an uptick, while the manufacturing sector PMI recorded some decline. Generally, global trade of goods remained subdued due to low demand and the post-pandemic shift of household expenditure from goods to services. Growing insecurity in the Red Sea had doubled the container prices posing challenges to international trade. Furthermore, it was apprised that both headline and core inflation continued to decline in Emerging Market Economies (EMEs) and Advanced Economies (AEs). Inflation had reached the lower target range of many EMEs, resulting in the easing of policy rates in a few EMEs since the last MPC meeting. On the other

hand, inflation in AEs was still above the average annual inflation target of 2.0 percent, thereby compelling the central banks of these countries to continue with their prevailing policy stances.

5. Discussing the latest developments related to Pakistan's Balance of Payments (BoP), it was apprised that the external sector showed better than expected improvement since the last MPC meeting. The Current Account posted a sizable surplus of USD 397 million in December 2023 with contraction in the trade deficit, and an uptick in workers' remittances. Cumulatively, the Current Account Deficit (CAD) narrowed by 77.1 percent (y/y) in H1-FY24. The improvement in the trade deficit was primarily driven by a sharp y/y contraction of 15.8 percent in imports during Jul-Dec FY24 (PBS data) primarily owing to lower international commodity prices, better domestic agriculture output, and a decline in oil import volumes. Additionally, exports witnessed a growth of 5.2 percent during Jul-Dec FY24 (PBS data), mainly led by rice exports (both in value and in volume terms) while the increase in High-Value Added (HVA) textile volumes also supported this growth. It was noted that the financial account inflows during December 2023 coupled with the receipt of the IMF Standby Arrangement (SBA) tranche, improved the SBP's FX reserves to USD 8.3 billion as of January 19, 2024.

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 expected strong rice and HVA textiles export volumes. Whereas, import projections for FY24 were slightly revised downwards due to the anticipated easing of international oil prices. The staff apprised that workers' remittances are expected to improve gradually due to policy and regulatory measures taken to facilitate inflows from formal channels and a higher than average number of workers going abroad in recent months. Taking into account these developments, the CAD is projected to remain within the earlier projected range of 0.5-1.5 percent of GDP during FY24.

7. Discussing fiscal developments, the staff apprised the Committee that during FY24, the fiscal indicators have improved compared to the same period last year. The overall fiscal deficit declined to 0.8 percent of GDP during Jul-Oct FY24 compared to 1.5 percent of GDP in the same period last year. Similarly, the primary surplus increased to 1.4 percent of GDP during Jul-Oct FY24 compared to 0.2 percent of GDP in the same period last year. This improvement was mainly led by a significant increase in both tax and non-tax revenues. The Federal Board of Revenue (FBR) recorded a 30.3 percent (y/y) increase in its revenues during Jul-Dec FY24 compared to 17.4 (y/y) percent in the same period last year. The non-tax revenues remained robust due to a higher Petroleum Development Levy (PDL) and a sizable transfer of profit by SBP. The staff highlighted the importance of continuing the ongoing fiscal consolidation to achieve overall economic and price stability.

8. Discussing developments in monetary aggregates, it was apprised that broad money (M2) growth increased to 17.8 percent y/y as of end December 2023, significantly higher than 14.2 percent growth as of end-June 2023. However, this increase was assessed to be driven by temporary factors, including a seasonal uptick in private sector credit (PSC) during December 2023. The subsequent data releases indicated a reversal in this uptick. Discussing the cumulative developments during July-December FY24, the staff informed that the Net Foreign Assets (NFA) have increased since June 2023, backed by higher bilateral and multilateral external inflows in July and December 2023. On the other hand, the Net Domestic Assets (NDA) of the banking system decelerated on account of a more than expected decline in PSC growth. It was noted that there was relatively lower growth in fixed investment loans, primarily on account of a dip in the financing under SBP's schemes, while consumer loans witnessed net retirement. On the other hand, credit demand for working capital loans remained at last year's level. Discussing the outlook for growth in monetary aggregates, the Committee was apprised that M2 growth is expected to come down with the reversal in seasonal factors and base effect till end-June, FY24 and fall 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 the headline inflation clocked in at 29.7 percent y/y in December 2023 against 29.2 percent in November 2023. On m/m basis, inflation moderated to 0.8 percent in December 2023 from 2.7

percent in November 2023. The staff informed that the frequent and sizable upward adjustments in energy prices – such as the increases in gas tariffs in November and electricity tariffs in December – were impeding a sustained downward trend in inflation and the associated inflation expectations. On the other hand, food inflation was trending downwards. The core inflation decelerated for the third consecutive month and was recorded at 21.0 percent in December 2023 compared to 21.5 percent in November 2023. This indicated the impact of contained aggregate demand, lower global commodity prices, improved domestic supplies, and relatively stable PKR.

10. Discussing the inflation outlook, the staff highlighted that the large adjustments in energy prices have slowed down the pace of decline in inflation anticipated earlier. Nonetheless, inflation is expected to decline more sharply in H2-FY24, due to tight monetary policy stance duly supported by the ongoing fiscal consolidation, lower domestic and global commodity prices and favourable base effect. The staff also apprised the Committee that the baseline inflation projection was subject to upside risks associated with further adjustments in the administered energy prices.

Financial Market and Reserve Management

11. Apprising the Committee on the monetary policy implementation, the staff stated that the overnight repo rate averaged 21.67 percent since the last MPC meeting against the target of 22.0 percent.

12. SBP's liquidity support on average increased to PKR 9.317 trillion during the review period (up to January 26, 2024) compared to PKR 8.301 trillion in the last monetary policy review period (up to December 12, 2023). Secondary market yields also witnessed a noticeable change since the last MPC meeting. The Treasury Bills yields (3, 6 and 12-month maturities) declined and dipped below the floor of the Interest Rate Corridor (IRC) during the review period.

13. In the Treasury Bills primary auctions, market participation shifted to 12-month securities. In the fixed-rate Pakistan Investment Bond (PIB) primary auctions, yields of both medium tenors (3 and 5 years) and longer tenors (10 years) continued their downward trajectory owing to higher participation. In addition to fixed-rate PIBs, participation in floating-rate PIBs also witnessed the same trend.

14. The staff informed the Committee that the Pakistan Eurobond yields and Credit Default Swap (CDS) spreads have come down; however, they were still above the normal levels.

15. In the FX market, PKR appreciated by 1.5 percent against the USD since the last MPC meeting. It was also apprised, that during the period under review, the USD index depreciated by 0.4 percent against other major currencies.

Model-Based Assessment

16. The staff apprised the Committee on model-based assessments of inflation projection for FY24 conditional on the policy rate path. The inflation projection remained close to its earlier level discussed in the last monetary policy review in December 2023.

17. The Committee also discussed the medium-term inflation projections relative to the target and conditional on the corresponding policy interest rate path suggested by the model to bring inflation within the range of 5 to 7 percent in the medium term. 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 and policy rate paths 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 January 2024, business confidence has improved while consumer confidence slightly deteriorated since the last monetary policy review in December 2023. Largely, led by increase in energy prices, inflation expectations of both businesses and consumers increased compared to the last outcome in December 2023. Further, capacity utilization of firms was gradually improving.

20. The staff then apprised the MPC about the results of the 'Survey of Other Forecasters' from institutions other than SBP. It was noted that a majority of forecasters expected no change in the policy rate in the current MPC meeting, while their inflation and growth forecast distributions 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 nine, while one Member voted to decrease the policy rate by 100bps.

DECISIONS:

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