MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)
HELD AT KARACHI ON MONDAY, DECEMBER 16, 2024 AT 10:00 AM

P R E S E N T

Mr. Jameel Ahmad	Chairperson & Governor SBP
Mr. Saleem Ullah	Deputy Governor
Dr. Inayat Hussain	Executive Director
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	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 FY25

1. The staff apprised the Committee of recent developments in the key macroeconomic indicators since the last MPC meeting held on November 4, 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 continued to show improvement since the last MPC meeting. The staff apprised the Committee that Large-Scale Manufacturing (LSM) in September 2024 was supported by growth in food, automobiles, pharmaceuticals, and tobacco. Discussing the agriculture sector, it was apprised that growth projections remained unchanged compared to the last MPC meeting. However, downside risks seem to have subsided as indicated by better than anticipated cotton arrivals in the recent fortnight and promising area under cultivation of wheat as per initial estimates and satellite imagery.

3. The staff also presented nowcast of economic growth estimated through machine learning models based on high-frequency satellite indicators. The nowcast of these models supported the assessment of traditional macroeconomic models, and analysis of high frequency data that the real GDP is expected to show moderate growth in Q1 and Q2 FY25. Overall, the real GDP growth projection for FY25 remained unchanged and the output gap is expected to close by the end of FY25.

4. Discussing the global developments and trends, it was apprised that international prices for various commodities have eased since the last MPC meeting. International oil prices remained range bound albeit at lower levels since the last MPC meeting, due to both contained international demand and enhanced supply, and a decline in international metal prices. It was apprised that after increasing significantly, the prices of palm oil have stabilized since the last MPC meeting. Overall, agricultural prices have eased since the last MPC meeting. Furthermore, inflationary pressures remained contained 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. However, the policy rates in some jurisdictions still remain elevated due to persistent core inflation.

5. Discussing the latest developments related to the Balance of Payments (BoP), it was apprised that the current account balance remained in surplus for the third consecutive month in October 2024. Cumulatively, the current account recorded a surplus of USD 0.2 billion during the first four months of FY25. The trade balance has improved consistently during the ongoing fiscal year due to contained imports on account of favourable international commodity prices, and increasing exports of High Value-Added (HVA) textiles and rice. Detailed analysis showed that volumes of non-oil and crude oil imports grew in line with increased domestic economic activity.

The favourable international commodity prices, particularly oil, kept the import bill in check. Discussing workers' remittances, the staff apprised that the narrowing gap between interbank and open market exchange rates, high number of workers going abroad and enabling policies, supported the strong workers' remittances inflows. However, capital and financial account inflows remained weak, with realized inflows of USD 976 million during Jul-Oct FY25.

6. Discussing the external sector outlook, it was apprised that export projections have been revised upward on account of better than expected volumes of HVA textiles and rice. Moreover, imports are expected to remain contained during FY25 due to easing international commodity prices. The outlook for workers' remittances for FY25 was also revised upwards due to strong momentum in recent months and narrowing gap between interbank and open market exchange rates. The Committee also discussed some upside and downside risks to the external sector outlook for FY25. Considering the sustained uptrend in workers' remittances and exports, along with favourable international commodity prices, the current account deficit is expected to remain near the lower bound of the projected 0 – 1 percent of GDP range in FY25.

7. Discussing fiscal developments, the staff apprised the Committee that the revised data for fiscal operations Q1-FY25 showed slight improvement in the fiscal and primary balances; posting a surplus of 1.5 percent and 2.6 percent of GDP, respectively. It was highlighted that during Jul-Nov FY25, growth in FBR tax collection was recorded at 23.3 percent, which was lower than 29.6 percent recorded in the same period last year, as well as the targeted growth of 33 percent. It was assessed that a substantial increase in tax collection was required during Dec-Jun FY25 to achieve the annual tax collection target. The Committee noted that the considerable decline in market yields since June 2024 is expected to lower the interest expense on domestic debt from the budgeted amount and keep the overall fiscal balance in check for FY25. However, meeting the primary surplus target for the fiscal year would be challenging.

8. Explaining monetary sector developments, it was apprised that Broad Money (M2) growth decelerated to 13.9 percent (y/y) as of November 29, 2024 from 15.2 percent (y/y) as of October 25, 2024. This deceleration was mainly due to a significant decline in contribution from net budgetary borrowing, which lowered the growth of Net Domestic Assets (NDA). On the other hand, commercial banks' credit disbursement to non-government sector, including both the private sector and non-bank financial institutions (NBFIs), picked up sharply since the last MPC meeting. This may be attributed to decline in interest rates, lower net budgetary borrowing from commercial banks, and banks' efforts to comply with the Advances to Deposits Ratio (ADR) threshold by end December 2024. The Committee was apprised that growth contribution of Net Foreign Assets (NFA) in M2 has remained positive and increased since the last MPC meeting.

9. On the liability side, deposits continued to be the primary contributor to M2 growth, though with some compositional change as current deposits increased while saving deposits declined since the November 2024 meeting. On the other hand, the contribution of Currency in Circulation (CiC) in M2 growth increased slightly since the last MPC meeting. The Committee was apprised that growth in Reserve Money (RM), entirely contributed by NFA, increased to 8.7 percent as of November 29, 2024 from 6.2 percent as of October 25, 2024.

10. Discussing the inflation trends and developments, the staff apprised the Committee that headline inflation (y/y) declined to 4.9 percent in November 2024 from 7.2 percent in October 2024. This decrease was primarily attributed to favourable base effect, benign global commodity prices, and moderation in food and energy prices. While food inflation remained low amid sufficient domestic stocks, energy inflation declined sharply due to the favourable base effect from gas prices. However, it was apprised that core inflation was proving stickier, as it declined only marginally from 9.8 percent in October 2024 to 9.7 percent in November 2024.

11. Discussing the inflation outlook, it was apprised that the inflation projections for FY25 remained unchanged, while the average inflation over the next 12 months is expected to inch up slightly. Moreover, headline inflation is likely to moderate further in the near term due to the aforementioned factors. The Committee was also informed that the inflation outlook is susceptible

to multiple risks, including additional measures to meet the revenue shortfall, increase in food inflation and higher global commodity prices. Taking into account these developments and risks, the average inflation for FY25 is expected to be substantially below the Committee's earlier forecast range of 11.5 – 13.5 percent.

Financial Market and Reserve Management

12. With regards to monetary policy implementation, the staff stated that the overnight repo rate averaged 14.97 percent during the review period, compared to the target of 15.0 percent. The SBP's average liquidity support slightly increased to PKR 10.09 trillion during the review period as compared to PKR 10.06 trillion in the last review period.

13. It was apprised that a downward shift in the short term yield curve was observed since the last MPC meeting, reflecting the impact of expected decline in the policy rate, while, for tenors above 3 years, the yield curve remained almost unchanged. In the primary auctions of Market Treasury Bills (MTBs), market participation shifted towards 12-month tenors, reflecting expectations of declining interest rates.

14. In the recent Pakistan Investment Bond (PIB) primary auction, participation volumes and acceptance in both fixed and floating rate PIBs recorded a noticeable increase. However, the acceptance of bids by the government was higher for floating-rate PIBs. In addition, the outstanding stock of government securities inched up, after recording a decline in the last review period, with the composition shifting further towards securities with tenors of greater than 1-year maturity.

15. The staff informed the Committee that Pakistan Eurobond yields remained almost unchanged at an elevated level since the last MPC meeting.

16. In the FX market, the PKR slightly depreciated by 0.12 percent against the USD since the last MPC meeting. However, the USD Index strengthened by 3.0 percent against other major currencies during the review period.

Model-Based Assessment

17. The staff apprised the Committee about the medium-term inflation projections conditional on the policy rate path in a general equilibrium framework. The model took into account the impact of recent economic developments, including expected adjustments in administered energy prices. The staff also presented alternate scenarios based on different assumptions of global oil prices and exchange rate.

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

Result of SBP Surveys for Monetary Policy

19. The staff apprised the Committee on the perceptions of the consumers and businesses during November 2024. The diffusion indices, that represent the ratio of positive and negative responses, declined from their levels noted in October 2024 for consumers' confidence and inflation expectations. However, the confidence and perception of inflation expectations of businesses improved. Such improvement was also visible in the incremental recovery of the Purchasing Managers' Index (PMI).

20. The staff also apprised about the results of the survey of professional forecasters conducted during December 2024. It was noted that forecasters have revised down their inflation forecast for all three years in context (FY25-FY27) with major moderation in FY25. At the same time, they have slightly revised down their GDP growth forecast for FY25 and over the medium term.

Monetary Policy Deliberations and Decision Vote

21. The MPC decided to decrease the policy rate by 200 bps with a majority of six votes out of ten, while 4 Members voted to decrease the policy rate by 150 bps.

DECISIONS:

- *The policy rate is reduced by 200 bps to 13 percent.*
- *The Monetary Policy Statement – December 2024 is approved.*