MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)
HELD AT KARACHI ON MONDAY, JANUARY 27, 2025 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 global and domestic economic developments since the last MPC meeting held on December 16, 2024. The assessments and analysis of evolving trends in major macroeconomic indicators were also shared with the Committee, including key assumptions used in their baseline projections.

2. Starting with discussion on the global developments and trends, it was apprised that international commodity prices have showed a mixed trend since the last MPC meeting. Oil prices increased mainly due to the new US sanctions on the Russian energy sector, reduced US oil inventories and colder weather conditions. Moreover, metal prices remained contained while agriculture prices declined. The staff also discussed the trends in inflation in both the Emerging Market & Developing Economies (EMDEs) and Advanced Economies (AEs). It was apprised that inflation remained closer to the lower bounds of the target range in EMDEs, while it stabilized close to the target in AEs. In response, central banks of both EMDEs and AEs continued to reduce policy rates, albeit in a cautious manner due to elevated global economic uncertainty.

3. Discussing the domestic developments, it was apprised that most of the high-frequency economic activity indicators continued to show improvement since the last MPC meeting. This is evident in the significant rise of automobile, Petroleum. Oil & Lubricants (POL), and fertilizer sales as well as increased import volumes, electricity generation, and credit disbursement to the private sector. The provisional data of real GDP for Q1- FY25, however, showed a modest growth of 0.9 percent as compared to 2.3 percent growth in the same period last year. This slowdown was anticipated and primarily explained by the deceleration in agriculture sector growth to 1.2 percent in Q1-FY25, from 8.1 percent in the same period last year. It was further elaborated that the latest information regarding the sowing area of wheat crop and satellite images indicate relatively modest output. Meanwhile, the industrial sector witnessed a lower contraction in Q1-FY25 than the last year. Growth in Large-Scale Manufacturing (LSM) remained constrained in Jul-Nov FY25 mainly due to sharp contraction in some low-weighted sectors, particularly furniture. On the other hand, key industrial sectors such as textiles, food and automobiles showed improvement.

4. The staff presented nowcast for Q2-FY25 of economic growth estimated through machine learning (ML) models based on high-frequency satellite indicators. The nowcast from ML models broadly supported the assessment of traditional macroeconomic models, and suggested moderate increase in real GDP growth in Q2-FY25 relative to previous quarter. In particular, higher NO2 emissions and increasing night-time light intensities during Q2 indicates improved industrial and services related activities in key cities. On agriculture, the satellite images so far showed a relatively weaker vegetation position of wheat crop during the ongoing season compared to last year.

5. Overall, based on available information and underlying assumptions, the real GDP growth projection for FY25 remained unchanged and is projected to remain between 2.5 to 3.5 percent. Moreover, the output gap was estimated to close by the end of FY25 in the baseline outlook. The staff also apprised about certain downside risks to the growth projection such as contained wheat crop output and volatile international oil prices.

6. Discussing the latest developments related to the Balance of Payments (BoP) position, it was apprised that despite a significant increase in imports, the current account balance posted a sizeable surplus of USD 0.6 billion in December 2024 supported by robust workers' remittances and exports. Cumulatively, the current account recorded a surplus of USD 1.2 billion during Jul-Dec FY25 against a deficit of USD 1.4 billion during Jul-Dec FY24. Led mainly by higher volumes of non-energy products, import growth accelerated in December 2024. This drove cumulative imports growth during Jul-Dec FY25 to 9.3 percent as opposed to a reduction of 14.8 percent in the same period last year. It was noted that the increase in imports was due to improvement in economic activity, while the favourable commodity prices so far this year contained the import bill. The increase in imports had a knock-on effect on the services account's deficit due to transportation charges. At the same time, exports of goods increased by 7.2 percent during Jul-Dec FY25 compared to a growth of 6.5 percent in the same period last year. This increase was mainly attributed to increase in both volumes and prices of High Value–Added (HVA) textiles. Discussing workers' remittances, it was apprised that the positive trend in remittances continued as anticipated in the last MPC meeting. In addition, the gap between interbank and open market exchange rates was negligible during the month of December 2024, while the number of workers going abroad continued to inch up. This, along with other supportive measures, continued to support growth in workers' remittances. However, capital and financial account inflows remained weak with net realized inflows of around USD 0.5 billion during Jul-Dec FY25.

7. Discussing the external sector outlook, it was apprised that export projections had been revised upwards on account of better than expected volumes of HVA textiles. However, imports were also expected to increase during FY25 due to increase in economic activity. Nevertheless, benign international commodity prices were expected to somewhat mute the impact of increase in import volumes. The Committee also discussed some upside and downside risks to the external sector outlook for FY25. Considering the robust uptrend in workers' remittances and exports, along with favourable international commodity prices, the outlook for current account balance has improved considerably and is now expected to remain between a surplus and a deficit of 0.5 percent of GDP in FY25.

8. Discussing fiscal developments, the staff apprised the Committee that the tax collection by Federal Board of Revenue (FBR) fell short of its target during H1-FY25. During this period, FBR tax revenue grew by 25.8 percent against the targeted growth of 34.5 percent. In order to achieve annual budgeted target for FY25, a sharp acceleration in tax revenue growth would be required during H2-FY25. The Committee was informed that fiscal operations data was not released till then. However, estimates of fiscal indicators from the financing side were presented showing an improved fiscal position during H1FY25 compared to corresponding period last year. It was reiterated that it would be challenging for the government to meet the primary balance target.

9. Explaining the monetary sector developments, it was apprised that Broad Money (M2) growth decelerated to 11.3 percent (y/y) as of January 17, 2025 from 13.3 percent (y/y) since the last MPC meeting. This deceleration was mainly due to Net Domestic Assets (NDA). The government borrowing from the banking system remained contained. On the other hand, commercial banks' credit disbursement to non-government sector, including both the private sector and Non-Bank Financial Institutions (NBFIs), remained elevated. 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) requirement to avoid additional tax. The Committee was apprised that, as expected, the post December 2024 decline in credit turned out to be higher than the usual retirement in the month of January.

10. On the liability side, growth of banks' deposits decelerated while Currency in Circulation (CiC) increased slightly since the last MPC meeting. Resultantly, the currency to deposit ratio, though still below the historical levels, increased to 36.8 percent as of January 17, 2025 from 34.2 percent in the December 2024 MPC meeting. The Committee was apprised that growth in Reserve Money (RM) slightly increased, yet it remained contained and lower than historical trend. Discussing the monetary sector outlook, it was apprised that the M2 and RM outlook was kept unchanged for FY25.

11. Discussing the inflation trends and developments, the staff apprised the Committee that headline inflation (y/y) declined further to 4.1 percent in December 2024 from 4.9 percent in November 2024. This decrease was primarily attributed to favourable supply-side factors. The staff further elaborated that food inflation remained low amid sufficient domestic stocks of key food items, and energy prices declined mainly due to favourable adjustments in electricity tariffs. However, core inflation was proving stickier, as it declined only marginally to 9.1 percent in December 2024.

12. Discussing the inflation outlook, it was apprised that the inflation projections for FY25 were revised downward due to faster than anticipated decline in food and energy inflation in December 2024 and January 2025, relatively slower pick up in domestic demand and benign global commodity prices. The Committee was also informed that these factors are likely to keep the near term inflation volatile and it is expected to increase close to the upper bound of the target range by the end of FY25. The staff further apprised the Committee that the inflation outlook is susceptible to multiple risks, including volatile global commodity prices, protectionist policies in major economies, timing and magnitude of administered energy tariff adjustments, volatile perishable food prices, as well as any additional measures to meet the revenue target. Taking into account these developments and risks, the average inflation for FY25 was expected to be in the forecast range of 5.5 – 7.5 percent.

Financial Market and Reserve Management

13. With regards to monetary policy implementation, the staff stated that the overnight repo rate averaged 12.62 percent during the review period, compared to the target of 13.0 percent. The SBP's average liquidity support, mainly provided to conventional banks, increased significantly to PKR 11.1 trillion during the review period as compared to PKR 10.1 trillion in the last review period.

14. It was apprised that a downward shift in the short term yield curve was observed since the last MPC meeting, while the long term yields inched up. The market had already factored in the decline in the policy rate, which was decided in the December 2024 MPC meeting. Consequently, the shape of the yield curve was now upward sloping. In the primary auctions of Market Treasury Bills (MTBs), market participation was concentrated in 12-month tenors, though the amount accepted was lower than both the targets and the maturities during the review period.

15. In the recent Pakistan Investment Bond (PIB) primary auction, participation volumes and acceptance in fixed rate PIBs recorded a noticeable increase. In addition, the outstanding stock of government securities inched up, with the composition shifting further towards securities with tenors of greater than 1-year maturity.

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

17. In the FX market, the PKR slightly depreciated by 0.2 percent against the USD since the last MPC meeting. It was also apprised that the USD Index had also strengthened by 0.6 percent against other major currencies during the review period.

Model-Based Assessment

18. The staff apprised the Committee about inflation projections conditional on the policy rate path. The staff highlighted the economic factors including inflation inertia, exchange rate stability, and delayed adjustments of administered energy prices behind the decline in current inflation; and its possible impacts on inflation trajectory, going forward. The staff also presented alternate scenarios based on different assumptions of global oil prices and exchange rate and further easing of policy rate.

19. 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

20. The staff apprised the Committee on the perceptions of the consumers and businesses during January 2025. Consumer confidence showed improvement since the last MPC meeting while business confidence remained positive. The diffusion indices for both consumers' and businesses' inflation expectations, that represent the ratio of positive and negative responses, are on a downwards trajectory and are close to the minimum levels of their historic range. Such improvement was also visible in the Purchasing Managers' Index (PMI), which crossed the threshold of 50 percent while capacity utilization remained broadly unchanged.

21. The staff also apprised about the results of the survey of professional forecasters conducted during January 2025. It was noted that forecasters have revised down their inflation forecast for FY27. At the same time, they have revised down their GDP growth forecast for all three years in context (FY25-FY27). Further, it was apprised that majority of the forecasters expect inflation to remain within the target range for at least 3 months.

Monetary Policy Deliberations and Decision Vote

22. The MPC unanimously decided to decrease the policy rate by 100 bps.

DECISIONS:

- *The policy rate is reduced by 100 bps to 12 percent.*
- *The Monetary Policy Statement – January 2025 is approved.*