Monetary Policy Statement
November 26, 2016

After bottoming out in October 2015, CPI inflation has been following a rising trend, with sporadic seasonal diversions. This anticipated rise is explained by stability in commodity prices against earlier sharp decline, phasing out of second-round impact of oil prices, and some uptick in domestic demand. The year-on-year CPI inflation has increased from 1.6 percent in October 2015 to 4.2 percent in October 2016 and core inflation is inching upwards as well. These movements are also partially mirrored in the IBA-SBP survey of November 2016 that shows improvement in current and expected economic conditions along with a moderate rise in consumer confidence and inflation expectations for the next six months.

This manageable inflationary environment over the near-term bodes well for the current growth momentum. A healthy uptick in private sector credit for fixed investment will further support future growth. Consequently, improving aggregate supply is expected to better cater to rising domestic demand in FY17. However, international oil price movements may impact inflation.

The current macroeconomic stability and net retirement of government borrowings from scheduled banks resulted in relatively easy liquidity conditions in the money market. Some support also came from increase in bank deposits as the growth in currency in circulation receded back to its past levels after rising exceptionally high in FY16. Volatility in the interbank market continued to remain low and the overnight money market repo rate stayed close to the policy rate in the post September 2016 monetary policy period.

The global growth outlook for 2016 is mixed. While growth prospects for the US economy remain positive, uncertainties exist for international financial markets and global trade amid anticipated interest rate hike by the US-Fed.

Nonetheless, Pakistan’s continuous buildup of external buffers over the last three years has improved its resilience against external uncertainties. This is reflected in the current level of foreign exchange reserves which cover more than four months of projected import payments. In addition, the recent improvement in Pakistan’s sovereign rating along with official financial inflows is projected to sustain its foreign exchange reserves. However, unpredictability of non-trade flows will influence the current account in particular and the external sector in general during the rest of FY17.

Based on above macroeconomic considerations and after detailed deliberations, the Monetary Policy Committee has decided to maintain the policy rate at 5.75 percent.