

## MPC decided to keep interest rates unchanged

- The Monetary Policy Committee (MPC) of the SBP has decided to keep the policy rate unchanged at 15%
- The decision came in-line with capital market expectations where since the previous MPC meeting held on Aug. 22, 2022, the secondary market yields of 3M, 6M, and 1Y government papers have come down by 16bps, 19bps, and 29bps. Whereas, secondary market yields on 3Y, 5Y, and 10Y bonds have increased by 1bp, 9bps, and 24bps.
- The next meeting of the MPC is scheduled on November 25, 2022.
- The MPC highlighted continued deceleration in economic activity as well as the decline in headline inflation and the current account deficit, since the last MPC meeting, as the key factors for the status quo decision.
- The MPC was of the view that the existing monetary policy stance strikes an appropriate balance between managing inflation and maintaining growth in the wake of the floods.
- While maintaining the FY22 expected inflation range of 18-20% for now, the MPC highlighted that inflation could be higher and more persistent due to the supply shock to food prices, and it is important to ensure that this additional impetus does not spillover into broader prices in the economy.
- By persistent, we believe that the MPC would roll-forward its 5-7% expected inflation range for FY24 also in the forthcoming statements during the year.
- On the other hand, growth prospects have weakened, which should reduce demand-side pressures and suppress underlying inflation.
- The MPC highlighted that most demand indicators were lower in Jul and August on YoY basis including cement, autos, POL products, with 12.6% lower electricity generation in Aug'22.
- The MPC highlighted that the drop in LSM was mainly driven by domestically-oriented sectors while export-oriented sectors were resilient.
- Looking ahead on the growth side, the recent floods are likely to adversely affect the output of cotton and rice as well as the livestock sector this year.
- The MPC has reduced its real GDP growth estimate for FY22 to 2%, which is largely in-line with market expectations.
- The MPC maintained its estimated of external account being over-funded while any shortfalls would be overcome by the additional flows committed after the floods which are estimated at around USD4.5bn.
- The MPC also highlighted that around USD2bn inflows from ADB and AIIB are expected before the end of Oct'22.
- The MPC maintains its CAD estimates of 3% of GDP with a reduction in imports due to lower commodities prices and volumetric decline, while exports may also suffer with global slowdown as a result of inflationary pressures leading to monetary tightening by the leading central banks including major export destinations of Pakistan.
- The MPC attributes the recent appreciation of PKR in the interbank and open markets, to improved market sentiments, improved outlook of the current account and administrative measures taken by the SBP and the government.
- The MPC maintained that the future decision of the committee would remain data-dependent.

# Annexure

## Disclaimer

**Analyst Certification:** All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

### **Disclaimer**

This information and opinion contained in this report have been compiled by our research department from sources believed by it to be reliable and in good faith, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. All opinions and estimates contained in the document constitute the department's judgment as of the date of this document and are subject to change without notice and are provided in good faith but without legal responsibility.

This report is not, and should not be construed as, an offer to sell or a solicitation of an offer to buy any securities. Next Capital Limited (the company) or persons connected with it may from time to time have an investment banking or other relationship, including but not limited to, the participation or investment in commercial banking transactions (including loans) with some or all of the issuers mentioned therein, either for their own account or the account of their customers. Persons connected with the company may provide or have provided corporate finance and other services to the issuer of the securities mentioned herein, including the issuance of options on securities mentioned herein or any related investment and may make a purchase and/or sale, or offer to make a purchase and/or sale of the securities or any related investment from time to time in the open market or otherwise, in each case either as principal or agent.

This report may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue relevance on these forward looking statements. NCEL expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

Exchange rate fluctuations may affect the return to investors. Neither the company or any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained therein.

Next Capital Limited, its respective affiliate companies, associates, directors and/or employees may have investments in securities or derivatives of securities of companies mentioned in this report, and may make investment decisions that are inconsistent with the views expressed in this report.