Economy – Monetary Policy Announcement

MPC Briefing Notes

State Bank of Pakistan held the Monetary Policy Committee (MPC) meeting yesterday, wherein the MPC kept the policy rate unchanged at 21%.

Key Highlights

- The MPC noted higher inflation in April and May of this outgoing year. With subdued domestic demand, a tight monetary stance, and ongoing external challenges, the MPC believes inflation peaked at 38 percent in May'23 and it expects a decline from June onwards, barring unforeseen developments.

- The Committee acknowledged several significant developments since the last meeting. It includes, the current account balance achieved consecutive surpluses in March and April 2023, alleviating some pressure on foreign exchange reserves, government presented the FY24 budget on June 9, outlining a slightly contractionary fiscal stance compared to revised estimates for FY23 along with global commodity prices and financial conditions have recently eased and are anticipated to continue doing so in the near term.

- The SBP anticipates to transfer around PKR1tr to the Government in the form of SBP profits during FY24.

- SBP Governor clarified that Pakistan is not currently considering any bilateral debt restructuring, dismissing earlier statements made by the finance minister. He firmly stated that there is no plan in place.

- As per the SBP, the total repayment of external financing amounted at USD3.6bn for Jun'23, of which USD0.4bn has already been settled. However, the remaining USD2.3bn is expected to be rolled over while an additional $0.9 billion needs to be financed.

- Regarding the current account deficit, the SBP projects USD3.5bn for FY23. This is attributed to import restrictions followed by policy measures taken by the government. The CAD for FY24 is expected to remain below USD4bn.

- Going-Forward, the MPC noted that today's decision has pushed the real interest rate in positive territory on a forward-looking basis, until and unless the unexpected future shocks happen. This will help anchor inflation expectations and steer inflation to the medium-term target of 5-7% by the end of FY25.

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