SBP signals comfort on CPI and external account

- In yesterday's Monetary Policy meeting, the State Bank of Pakistan (SBP) decided to keep the Policy Rate unchanged at 22%, with the last hike announced in Jun-2023.
- In the post monetary policy briefing, the SBP team reiterated that SBP's inflation estimates suggest Pakistan is in the positive zone of real interest rates on a forward-looking basis, where prevailing global oil prices in estimating the CPI projection have been factored in between the price range of US$90 – US$95 per bbl.
- With recent decline in secondary market yields and higher participation in longer tenor T-Bill auction, market participants have signaled comfort on some macroeconomic indicators and have started to price in interest rates peaking at current levels, with an earlier initiation of monetary easing cycle.

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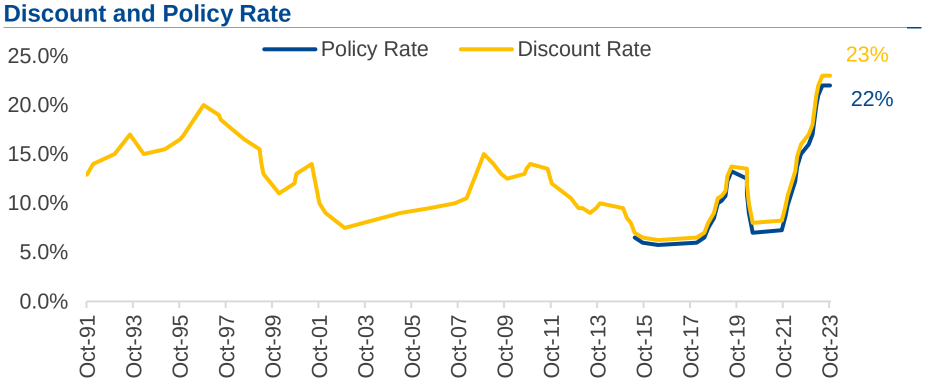
Declining CPI trend with some key risks in sight

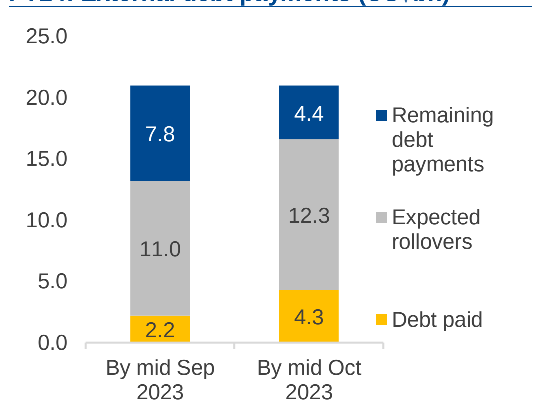
In yesterday's Monetary Policy meeting, the State Bank of Pakistan (SBP) decided to keep the Policy Rate unchanged at 22%. To recall, Pakistan has been in a monetary policy tightening cycle since 4QCY21, where the Policy Rate has been increased from 7% to 22%. The State Bank of Pakistan has maintained current rates since Jun-2023. The decision came in-line with markets expectations. In the post monetary policy briefing, the SBP team reiterated SBP's inflation estimates suggest Pakistan is still in the positive zone of real interest rates on a forward-looking basis, where prevailing global oil prices for CPI estimates have been factored in between the price range of US$90 – US$95 per bbl. Nonetheless, volatility in global oil prices is among the key risks to the central bank's CPI estimates.

Discount and Policy Rate



Source: SBP, JS Research

FY24: External debt payments (US$bn)



Source: SBP briefing, JS Research

Potential roll over quantum increased for FY24

In the briefing, SBP Governor also updated about scheduled debt payments for FY24, which stand at US$21bn. So far, US$4.3bn have been paid during 4MFY24 to date, leaving almost US$17bn outstanding. Out of these, US$12.3bn are expected to be rolled over (with most commitments received), which is slightly higher than the US$11bn amount apprised in the last briefing with the SBP team in Sep-2023. Remainder of US$4.4bn would be paid to respective lenders.

On the other hand, Current Account Deficit for FY24 is projected lesser than US$5bn estimating it in the range of 0.5% to 1.5% of GDP. With these projections and debt payment estimates, SBP expects to meet the foreign exchange reserve target of over US$10bn by Jun-2024, from US$7.5bn at present, with the help of fresh inflows from IMF and other lenders.

Markets remain optimistic on interest rates peaking

While interest rates are in the negative real interest rates territory on spot basis, forward looking CPI reflects interest rates have entered into the positive zone. With headline inflation expected to decline to 16% by Jun-2024, the average comes to 19% over the next 12 months.

This, with added potential relief from recent PKR appreciation against US$, has led to markets pricing in an easing of monetary policy sooner than expected earlier. The same was also reflected in the recent set of T-Bill auction where the 12M Bill witnessed an ~8x participation as compared to its target. The last time participation of this proportion was witnessed was in early 2020, right before the monetary easing cycle began. Beyond the auction, the same has also reflected in 12M PKRV receding to its 6-month low at 21.7% - down 300bp from its recent high.

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