

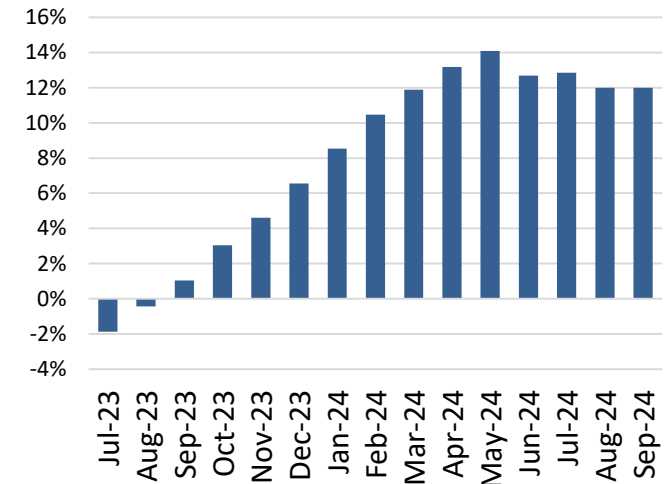
Monetary Policy

150 bps cut anticipated despite room for more

- Inflation to continue downward trend.** Although inflation has fallen to single digit, the downward trend is expected to persist, with average inflation estimated to remain below 8% Y/Y in FY25. Falling oil prices, stable currency, and weak local demand will likely keep inflation within single digits throughout FY25. This brings 12 months forward RiR to a wide ~12% in Sep-24.
- Flat FY25 C/A balance expected.** Sticky remittances at USD 2.9 BN (past 6M avg), normalization in the primary balance, contained imports amid eroded purchasing power, softer oil and other commodity prices will likely keep the C/A balance flat in FY25. However, hefty external payments amid absence of support from friendly countries and delays in IMF program remain a cause of concern.
- Weakness in growth persists.** Muted contributions from the agriculture sector and tepid high-frequency data raise concerns about achieving targeted growth, especially with no apparent stimulus. Fiscal spending will remain constrained, and private credit growth will be limited by government crowding out. Therefore, appropriate monetary policy appears to be the only tool supporting the current sluggish economic activity.
- CiC has fallen to 8 years low.** Currency in circulation (CiC) as % of M2, a marker for cash/informal economy, has fallen to 8 years low suggesting slow down in cash/informal economy. CiC increased only 5% Y/Y, whereas 16% Y/Y rise in M2 was contributed mainly from bank deposits (up 20% Y/Y).
- Cautious approach likely with 150 bps cut.** While the dovish economic data supports larger cut, the delays in IMF and external accounts may remain concerning factors for MPC. Therefore, we expect MPC to keep a cautious approach and cut 150-200 bps on 12th Sep, 24.

11 September 2024

12M Fwd RiR stays elevated at 12% in Sep-24



Source: PBS, Optimus Research

Maaz Azam

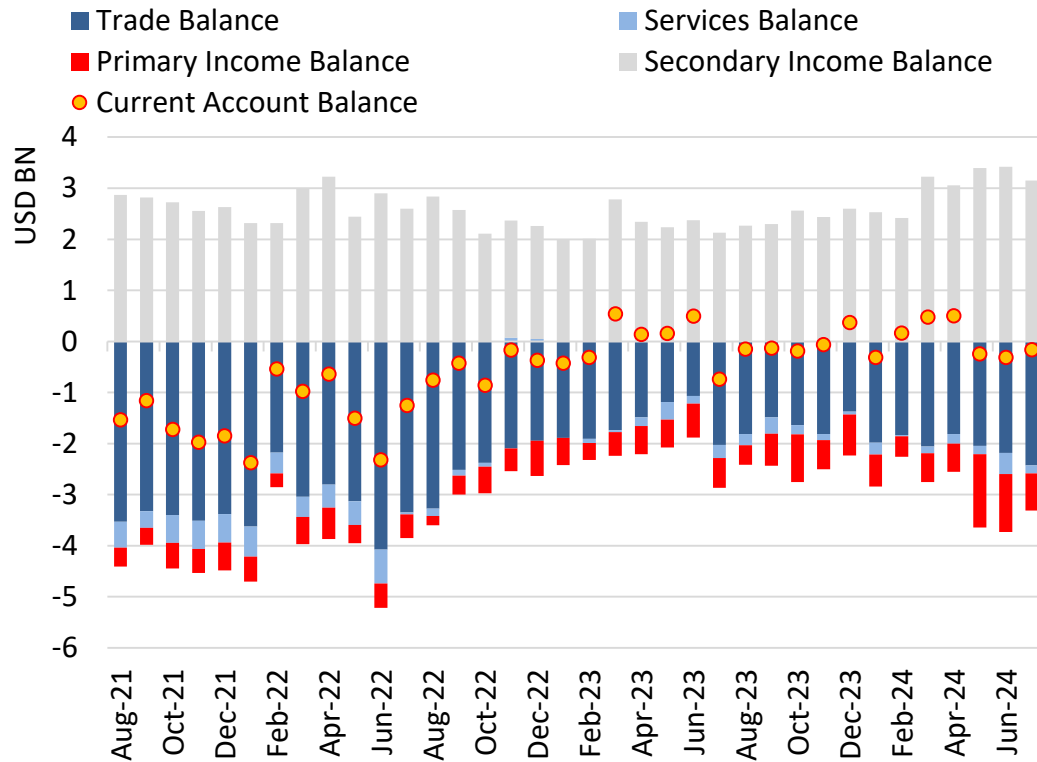
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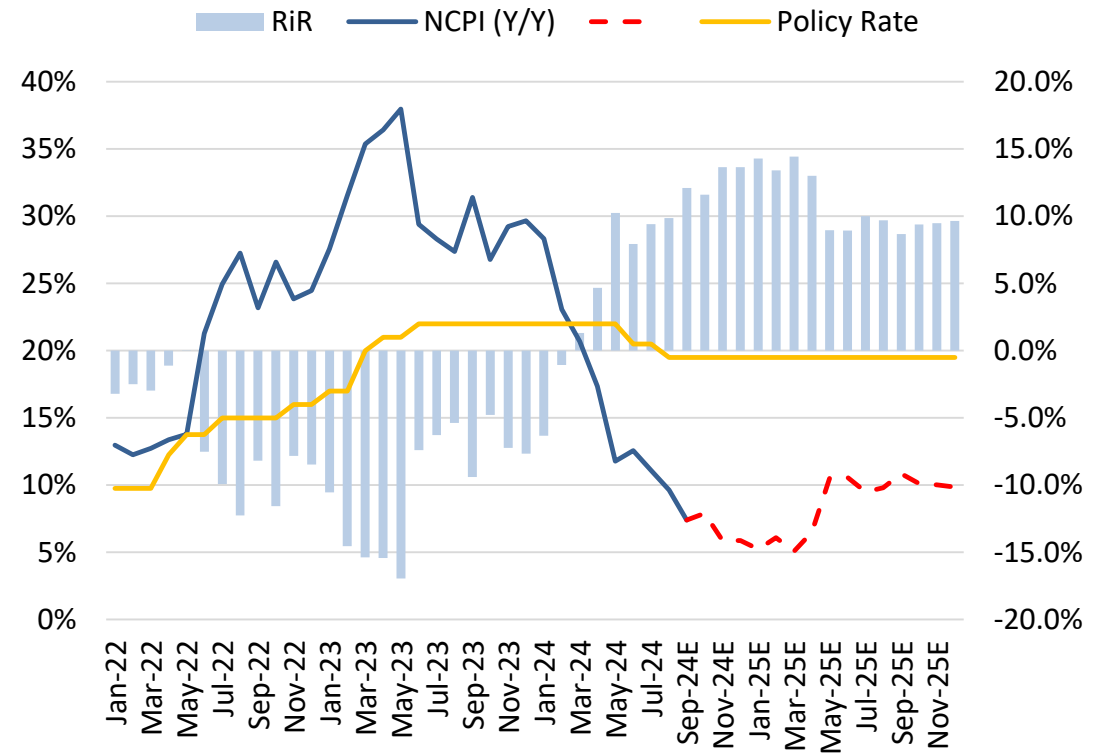


Chart 2: C/A expected to stay manageable in FY25



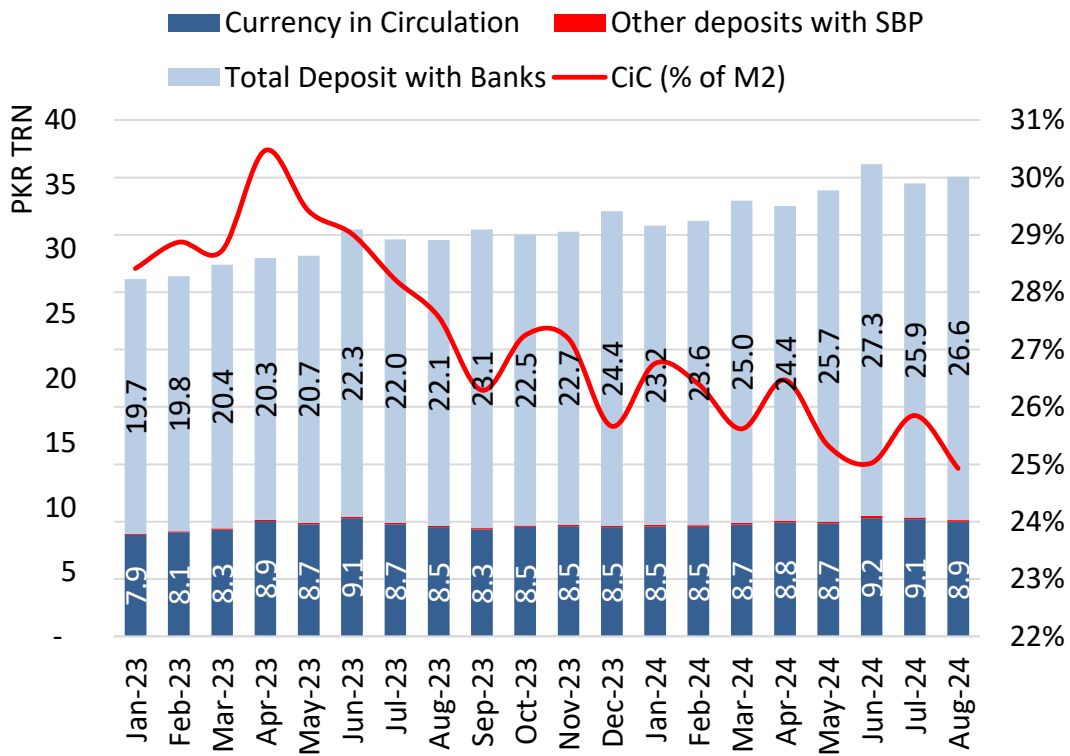
Source: SBP, Zakheera, Optimus Research

Chart 3: Inflation to continue downward trend



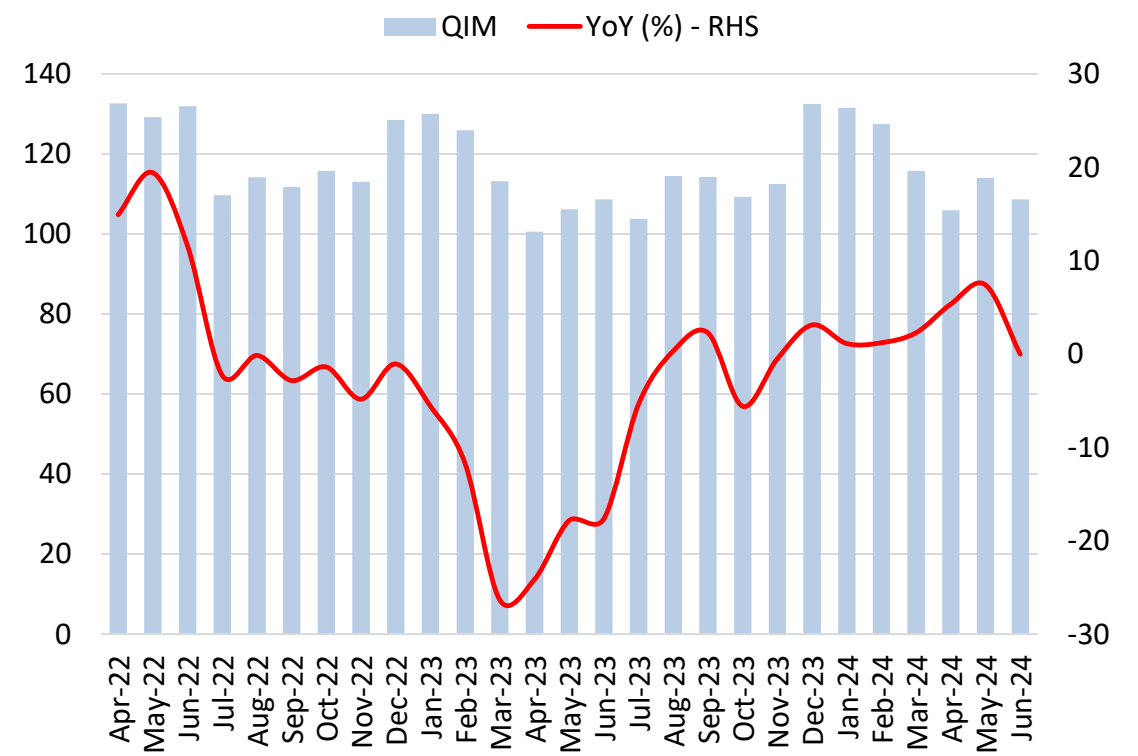
Source: SBP, PBS, Zakheera, Optimus Research

Chart 4: CiC growth remained muted at 5% Y/Y



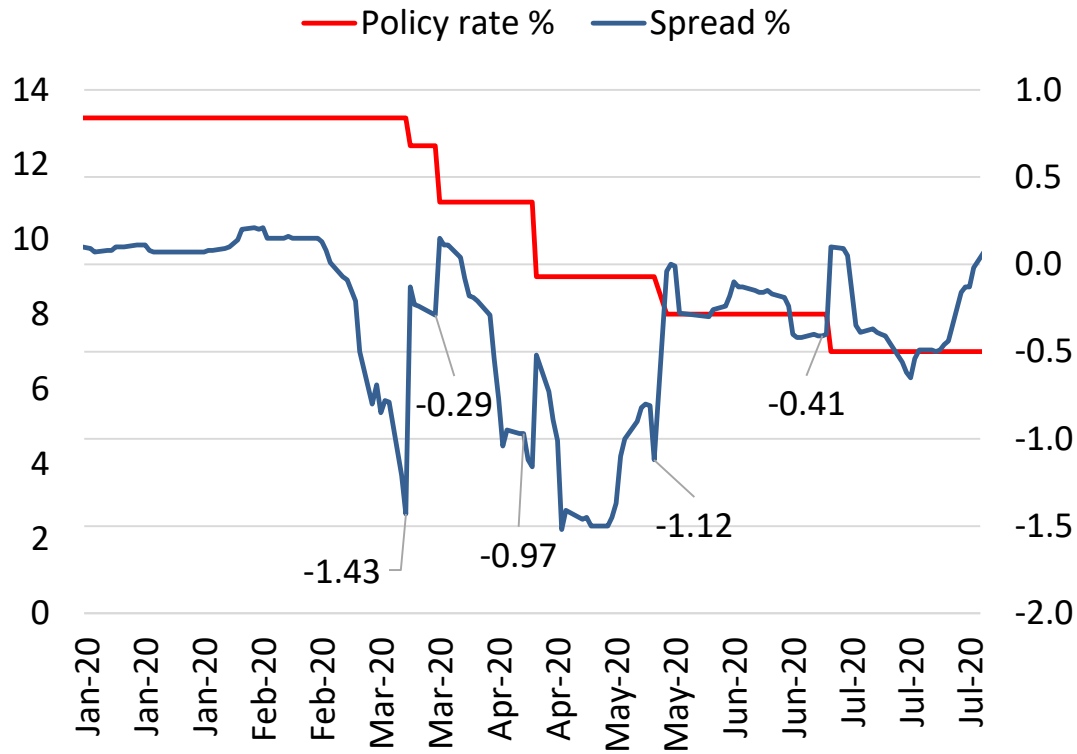
Source: SBP, Zakheera, Optimus Research

Chart 5: Sluggish LSM growth despite low base



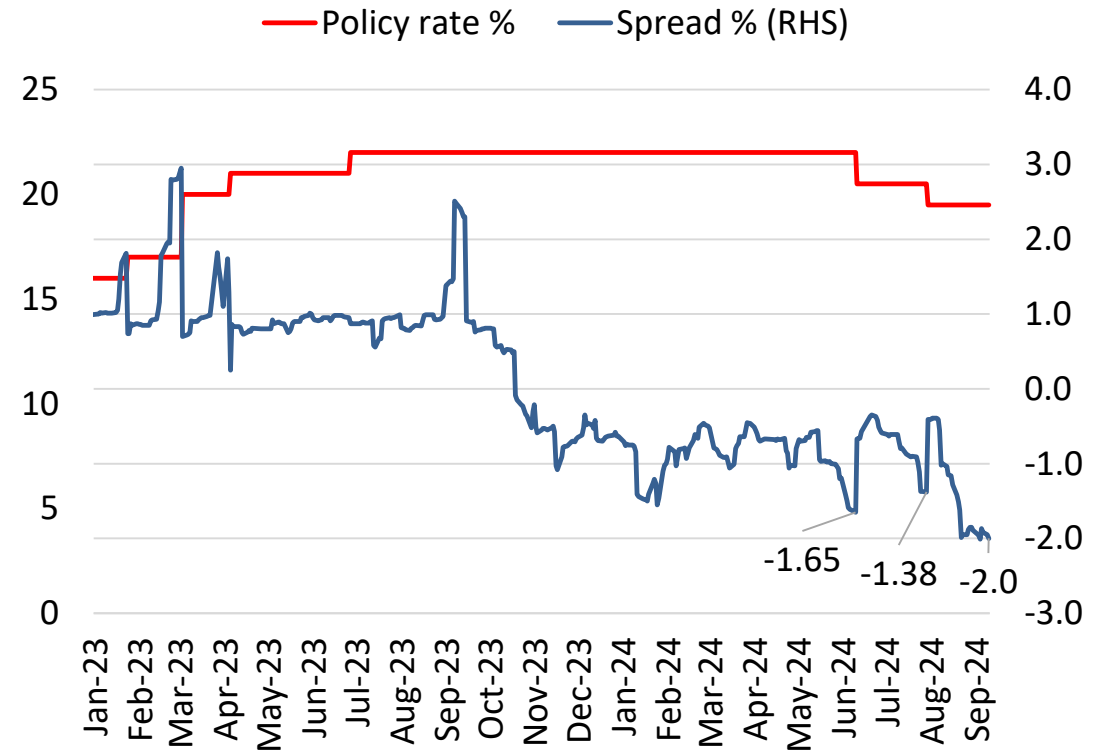
Source: PBS, Optimus Research

Chart 6: Sec. market spread before PR cut in the year 2020



Source: SBP, Zakheera, Optimus Research
 *Spread calculated with 6M PKRV

Chart 7: Market confident on at least 150 bps cut



Source: SBP, Zakheera, Optimus Research
 *Spread calculated with 6M PKRV

Analyst Certification

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