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https://thefrontierpost.com/pide-macropoilcy-lab-suggests-reconsidering-current-stance-of-mp/

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### **Independent News Pakistan**

https://inp.net.pk/news-detail/pakistan/pide-macropolicy-lab-policy-statement



## Think tank suggests cutting interest rate by up to 100bps

By Mehtab Haider

tute of Development Eco- period of such a high policy nomics (PIDE) has suggested rate comes with significant unchanged at 22 percent.

of monetary policy and percent in inflation. reduction in the discount and considering these indi-nomic investment decisions cators, the MPC is likely to maintain the policy rate at

However, it's important ISLAMABAD: Pakistan Insti- to note that an extended reducing the discount rate by costs. One of these costs is 50 to 100 basis points (bps) associated with disinflation, amid the possibility of the commonly referred to as the Monetary Policy Committee sacrifice ratio. Haque and (MPC) of State Bank of Paki- Jalil (April 2020) have calcustan (SBP) to keep the rate lated that, on average, this ratio is 0.662 for the Paki-In its Macro Policy Lab stani economy. This implies report, the think tank of the that, on average, a sacrifice Planning Commission — of 0.662 percent of real GDP PIDE — suggests reconsid- growth is needed for a pereration of the current stance manent reduction of one

When interest rates stay rate between 50 to 100bps. high for a long time, it causes After examining the recent a financial stress resulting monetary policy statements in deferment of many eco-

Continued on page 9

### Think tank

service this debt obligation.

fast, the real interest rates (the year-on-year basis is reported at September for the interbank rates ones that are considered for infla- 2.13%, signaling a positive trend Inflation: Additionally, an is currently facing

play a crucial role in guiding the components, incorporating meas-nomic landscape.

tion-based targets) can become for the economy. External secthe economy might go into a stability of foreign exchange (FX)

conduct of monetary policy span urements such as M2 growth, across different sectors, provid- interbank and open market Continued from page 12 ing a comprehensive view of the exchange rates, currency in circueconomic landscape. In the real lation, and the Net Foreign Assets or even running of the current sector, the quarterly indicators (NFA) and Net Domestic Assets serve as crucial benchmarks for (NDA). Moving on to money and Firstly, the country ends up assessing the performance of credit situation in the economy, owing more money for domestic key sectors such as agriculture, the average money growth in debt obligations, so the govern- industry, and services. For the October and November stands at ment has to collect extra taxes to first quarter of the current fiscal approximately 13.5%, surpassing year, Pakistan Bureau of Statis- the previous two-month average. Secondly, price increase may tics (PBS) revealed growth rates. The exchange rate has expericome from the supply side mak- of 2.48%, 5.00%, and 0.82% for enced fluctuations, ranging from ing the economic situation even agriculture, industry, and ser- 280 to 285 in October and Novemtougher. Third, when interest vices sectors, respectively. The ber, in contrast to the range of 200 rates are high and prices are rising overall first-quarter growth on a to 300 observed in August and

sessment of the inflation outvery low or even negative. This tor progress: While examining look involves monitoring headline makes people less interested in the external sector; MPC focuses inflation, global oil prices, and saving money, and it also makes on the current account balance, gas tariffs, while also taking into it harder for businesses to invest. which encompasses both exports account inflation expectations Finally, there's a bigger risk that and remittances, as well as the and overall confidence in the economy. Addressing the inflarecession, meaning there's less reserves. The MPC meeting held tion outlook, a positive shift in money circulating, but prices are on October 30 highlighted a signif- the consumer confidence index still high - this tricky situation is icant improvement in Pakistan's (from 26.2 in September to 32.78 called stagflation which Pakistan current account balance. The in October) and a decrease in current account deficit (CAD) wit-inflation expectations (from 78.08 Since June 26, 2023, Mone-nessed a 58% year-on-year reduc-in September to 73:30 in October) tary Policy Committee (MPC) of tion to \$047 million for the period indicate growing optimism among the State Bank of Pakistan (SBP) Jul-Sep FY24 after which for the consumers in Pakistan regarding has chosen to keep the policy rate month of September it was almost the economic outlook and anticisteady at 22%. In the last meeting zero (balanced Current A/c), How-pated lower inflation levels. Such of MPC's decision of keeping pol- ever, the data from October 2023 low inflation expectations provide icy rate at 22% was influenced by reveals a further reduction in the the central bank with some flexthe increase in headline inflation current account deficit to just \$74 ibility. If inflation expectations in September 2023, the volatility million, marking a noteworthy remain well-anchored and below in global oil prices and the sched- 91% decrease compared to the the central bank's target, it may uled increase in gas tariffs start- same month in the previous year. have room to relax monetary poliing November 2023. The MPC is Nevertheless, it's important to cies to further stimulate economic scheduled to convene on Decem- note a 61% increase in the deficit activity. Additionally, the volatility ber 12, 2023, to discuss and decide compared to the preceding month, in global oil prices, ranging from about the policy rate; whether attributed to debt servicing pay- \$68 per barrel to \$91 per barrel the SBP should continue with ment Although the reserves have during the current fiscal year, the same policy rate or change it been building but by November plays a crucial role in influencing based on various economic indi- 2023, the SBP reserves declined domestic prices in oil importing cators of Pakistan presented at by \$217 million, reaching \$7.180 countries. The recent dip in oil the meeting. Sector wise analysis billion. Money supply dynamics: prices to around \$70 per barrel and Progress: The indicators that Money and credit aspects are vital adds to the complexity of the eco-



## PIDE MacroPoilcy Lab suggests reconsidering the current stance of MP

MT REPORT

PESHAWAR: Monetary Policy: Background: Since June 26, 2023, the Monetary Policy Committee (MPC) of the State Bank of Pakistan (SBP) has chosen to keep the policy rate steady at 22%.

The last meeting of MPC's decision to keep the policy rate at 22% was influenced by the increase in inflation in September 2023, the volatiliiffs starting November 2023.

same policy rate or change it economy. based on various economic indicators of Pakistan pre- While examining the exter- deficit compared to the pre- from 280 to 285 in October sented at the meeting.

tors, providing a comprehen- MPC meeting held on reaching \$7.180 billion. sive view of the economic October 30 highlighted a siglandscape. In the real sector, nificant improvement in Money and credit aspects are the quarterly indicators serve Pakistan's current account vital components, incorpoas crucial benchmarks for balance. The current account rating measurements such assessing the performance of deficit (CAD) witnessed a 58% as M2 growth, interbank and key sectors such as agricul- year-on-year reduction to open market exchange rates, ture, industry, and services. \$947 million for the period currency in circulation, and For the first quarter of the Jul-Sep FY24 after which for the Net Foreign Assets (NFA) ty in global oil prices and the current fiscal year, Pakistan the month of September it and Net Domestic Assets scheduled increase in gas tar- Bureau of Statistics (PBS) was almost zero (balanced (NDA), revealed growth rates of Current A/c). However, the A press release issued 2.48%, 5.06%, and 0.82% for data from October 2023 and credit situation in the here on Monday stated that agriculture, industry, and reveals a further reduction in economy, the MPC is scheduled to con- services sectors, respectively. the current account deficit to money growth in October vene on December 12, 2023, to The overall first-quarter just \$74 million, marking a and November stands at discuss and decide about the growth on a year-on-year noteworthy 91% decrease approximately 13.5%, surpolicy rate; whether the SBP basis is reported at 2.13%, sig-compared to the same month passing the previous twoshould continue with the naling a positive trend for the in the previous year, month

nal sector; MPC focuses on ceding month, attributed to and November.

External Sector Progress: to note a 61% increase in the enced fluctuations, ranging

Sector wise analysis and the current account balance, debt servicing payment, Progress: The indicators that which encompasses both Although the reserves have play a crucial role in guiding exports and remittances, as been building, by November the conduct of monetary pol-well as the stability of foreign 2023, the SBP reserves icy span across different sec- exchange (FX) reserves. The declined by \$217 million,

Money Supply Dynamics:

Moving on to the money Nevertheless, it's important exchange rate has experi-



### PIDE Macro Poilcy Lab suggests reconsidering the current stance of MP

### MEHTAB PIRZADA

ISLAMABAD: Monetary Policy Committee (MPC) of the State Bank of Pakistan (SBP) has chosen to keep the policy rate steady at 22%. In the last meeting of MPC's decision of keeping policy rate at 22% was influenced by the increase in headline inflation in September 2023, the volatility in global oil prices and the scheduled increase in gas tariffs starting November 2023. The MPC is scheduled to convene on December 12, 2023, to discuss and decide about the policy rate; whether the SBP should continue with the same policy rate or change it based on various economic indicators of Pakistan presented at the meeting. Sector wise analysis and Progress: The indicators that play a crucial role in guiding the conduct of monetary policy span across different sectors, providing a comprehensive view of the economic landscape. In the real sector, the quarterly indicators serve as crucial benchmarks for assessing the performance of key sectors such as agriculture, industry, and services. For the first quarter of the current fiscal year, Pakistan Bureau of Statistics (PBS) revealed growth rates of 2.48%, 5.06%, and 0.82% for agriculture, industry, and services sectors, respectively. The overall first-quarter growth on a year-on-year basis is reported at 2.13%, signaling a positive trend for the economy.

External Sector Progress: While examining the external sector; MPC focuses on the current account balance, which encompasses both exports and remittances, as well as the stability of foreign exchange (FX) reserves. The MPC meeting held on October 30 highlighted a significant improvement in Pakistan's current account balance. The current account deficit (CAD) witnessed a 58% year-on-year reduction to \$947 million for the period Jul-Sep FY24 after which for the month of September it was almost zero (balanced Current A/c). However, the data from October 2023 reveals a further reduction in the current account deficit to just \$74 million, marking a noteworthy 91% decrease compared to the same month in the previous year. Nevertheless, it's important to note a 61% increase in the deficit compared to the preceding month, attributed to debt servicing payment. Although the reserves have been building but by November 2023. the SBP reserves declined by \$217 million, reaching \$7.180 billion.

Money Supply Dynamics: Money and credit aspects are vital components, incorporating measurements such as

### The Frontier Post

December 12, 2023

## PIDE MacroPoilcy Lab suggests reconsidering current stance of MP

### F.P. Report

26, 2023, the Monetary Policy Committee (MPC) of the State Bank of Pakistan (SBP) has chosen to keep the policy rate steady at 22%.

The last meeting of MPC's decision to keep the policy rate at 22% was in headline inflation in September 2023, volatility in global oil prices and the scheduled ing November 2023.

A press release issued here on Monday stated that the MPC is scheduled to convene on December 12, 2023, to discuss and decide about the policy rate; whether the SBP should continue with the same policy rate or change it based on various economic indicators of Pakistan presented at the meeting.

Sector wise analysis and account balance, which been PESHAWAR: Since June that play a crucial role in and remittances, as well as reserves declined by \$217 guiding the conduct of the stability of foreign million, reaching \$7.180 monetary policy span exchange (FX) reserves, billion, across different sectors, The MPC meeting held on Money Supply quarterly indicators serve balance. as crucial benchmarks for account deficit (CAD) witassessing the performance nessed a 58% year-on-year influenced by the increase of key sectors such as agri- reduction to \$947 million culture, industry, and serv- for the period Jul-Sep FY24 Net Foreign Assets (NFA) ices. For the first quarter of after which for the month the current fiscal year, of September it was almost Bureau Pakistan increase in gas tariffs start- Statistics (PBS) revealed A/c). However, the data The overall first-quarter noteworthy 91% decrease month average. growth on a year-on-year compared to the same signaling a positive trend for the economy.

> External Progress: While examining the external sector, MPC to debt servicing payment, and September for the focuses on the current Although the reserves have interbank rates.

> Progress: The indicators encompasses both exports November 2023, the SBP scape. In the real sector, the Pakistan's current account ponents, growth rates of 2.48%, from October 2023 reveals ices sectors, respectively. just \$74 million, marking a

providing a comprehensive October 30 highlighted a Dynamics: Money and view of the economic land- significant improvement in credit aspects are vital comincorporating The current measurements such as M2 growth, interbank and open market exchange rates, currency in circulation, and the and Net Domestic Assets (NDA). Moving on to the of zero (balanced Current money and credit situation in the economy, the average money growth in October 5.06%, and 0.82% for agri- a further reduction in the and November stands at culture, industry, and serv- current account deficit to approximately 13.5%, surpassing the previous two-

The exchange rate has basis is reported at 2.13%, month in the previous year, experienced fluctuations, Nevertheless, it's important ranging from 280 to 285 in to note a 61% increase in October and November, in Sector the deficit compared to the contrast to the range of 290 preceding month, attributed to 300 observed in August

### DAILY TIMES

December 12, 2023

## PIDE MacroPoilcy Lab suggests reconsidering the current stance of MP

TIMES REPORT

Monetary Background: Since different sectors, pro- ed June 26, 2023, the viding a comprehen- improvement Committee (MPC) of the State Bank of Pakistan (SBP) has chosen to keep the policy rate steady at

The last meeting keep the policy rate at agriculture, industry, which for the month of MPC's decision to the increase in head- first quarter of the almost zero (balanced 22% was influenced by September 2023, the Pakistan Bureau of However, the data volatility in global oil Statistics prices and the sched-revealed growth rates reveals a further uled increase in gas of 2.48%, 5.06%, and reduction in the curtariffs November 2023.

here the MPC is scheduled on-year about the policy rate: my. whether the SBP should continue with Progress: indicators of Pakistan account meeting.

sis and Progress: The as the stability of for-billion,

Policy sive view of the eco- Pakistan's the real sector, the current inflation in current fiscal year, Current industry, and services just basis

External the same policy rate examining the exter- vicing Sector wise analy- remittances, as well lion, reaching \$7.180

indicators that play a eign exchange (FX) crucial role in guiding reserves. The MPC PESHAWAR: the conduct of mone- meeting held on Policy: tary policy span across October 30 highlighta significant nomic landscape. In account balance. The quarterly indicators deficit (CAD) witserve as crucial bench- nessed a 58% year-onmarks for assessing year reduction to \$947 the performance of million for the period key sectors such as Jul-Sep FY24 after and services. For the of September it was (PBS) from October 2023 starting 0.82% for agriculture, rent account deficit to \$74 million, A press release sectors, respectively, marking a noteworon The overall first-quar- thy 91% decrease com-Monday stated that ter growth on a year- pared to the same is month in the previous on reported at 2.13%, sig- year. Nevertheless, December 12, 2023, to naling a positive it's important to note discuss and decide trend for the econo- a 61% increase in the deficit compared to Sector the preceding month, While attributed to debt seror change it based on nal sector; MPC focus- Although the reserves economic es on the current have been building, balance, by November 2023, presented at the which encompasses the SBP reserves both exports and declined by \$217 mil-



### PIDE underscores need for reducing policy rate by 50-100bps

ABDUL RANHEED AZAD ing MPC's decision of keep right exchange (FX) inserves. ISLAMABAD: The ing policy rate at 22 per cent. The MPC meeting field on Development Economics (PIDE) has suggested lower in September 2023, the Phiston's carried account habitation.

of such a high policy rate comes with significant costs.

The PIDE said that one of these costs is associated with distribution, commonly referred to as the "Socrifice (PBS) revealed growth rates and Jalil (Agril 2020) which and Jalil (Agril 2020) which and another common, and activation to average, this rates is 0.662. All per cost, 5.06 per cost, and Jalil (Agril 2020) which and actifice of 0.662 percent of a your-on-year basis is reported at 2.13 per cent, signoling a for a perturation reduction of one percent in inflation, making rates, and credit situation in the cosmonly, the acting of the carrent fixed provided and credit situation in the cosmonly the cosmonly the acting of the carrent fixed provided and credit situation in the cosmonly, the accurage transport of the provided p

Development Economics (PIDE) has suggested lowering down discount into by 50 and thouse any down discount into by 50 and thought of the basis points while and the scheduled increase in decide (CAD) witnessed a 58 keeping a strict watch on the exchange rate pressure and more typically statistics in the scheduled increase in decide (CAD) witnessed a 58 per cent year-on-year reduction to 5947 million for the month of decide about the policy rate; and whether the SIIP should continue with the same policy note issued here apolicy note issued here into exchange it based on viscous economic indicators of the past five months in a policy note issued here into exchange it based on viscous economic indicators of the past five months in a policy note issued here into exchange it based on viscous exchange it based on viscous exchange in the current second that increase in the current second in the scheduled increase in deficit (CAD) witnessed a 58 deficit (CAD) witnessed a 58 feet it (CAD) witnessed a 58 deficit (CAD) witnessed a 58 of the past free ments in a continue with the same policy. However, the data from policy note issued here rate or change it based on vor. October 2023 reveals a further Menday said that taking iran issue economic indicators of reduction in the current account sector-wise progress. Pukistan presented at the account deficit to just \$74 mil from external sector progress macroing. Incoming the conduct of the same mount is the provided and from conduction of the process of the proc (MPC) meeting secluded to different section, providing a increase in the deficit comheld on December 12 (today), as falely to will maintain the policy rate at 22 periodit, horwever, it is important to note that an extended period of such a high policy rate for such a high policy rate for such a high policy rate. See that an extended period of such a high policy rate for such a high policy rate for such a high policy rate. See that the providing the period of such a high policy rate for such a high policy rate for such a high policy rate. See that the providing the period of see that the providing a servicing to the providing a servicing to the providing to the providing a first service of the part of the part of the providing a servicing to the providing to the providing a servicing to the policy for the providing a servicing to the providing a servicing to the providing a servicing to the policy for the providing a servicing to the providing to the policy for the policy for the policy for the providing a servicing to the providing to the providing to the providing to the providing to the policy for the providing to the policy for the providing to the providi

one percent in inflation, my.

Talking about external security, the average money and credit situation in the economy, the average money are to District the progress, the PIDE said November stands at approximate stands at approximate stands at the while examining the many 13.5 per cert, surpassitut sixed stands as the current account half-palsitan (SIP) has chosen to ance, which excempasses has experienced fluctuations, the property of the State Bank of the current account half-palsitan (SIP) has chosen to account account half-palsitan (SIP) has chosen to account and credit situation in the economy, the average money and credit situation in the economy, the average money is an experience; and credit situation in the economy, the average money and credit situation in the economy, the average money and credit situation in the economy, the average money and credit situation in the economy, the average money and credit situation in the economy, the average money and credit situation in the economy, the average money and credit situation in the economy, the average money and credit situation in the economy, the average money and credit situation in the economy, the average money and credit situation in the economy, the average money and credit situation in the economy, the average money are accounted by a construction in the economy, the average money are accounted by a construction in the economy, the average money are accounted by a construction in the economy and credit situation in the economy, and credit situation in the economy, and credit situation in the economy and credit situation in the economy, and credit situation in the economy, and credit situation in the economy and credit situation that since June 26, 2023, the external sector, MPC focuses and the current account ball average. The exchange rate primary surplus of 417 billion are lessen to the current account ball average. The exchange rate primary surplus of 417 billion are lessen to the current account ball average. The exchange rate primary surplus of 417 billion are lessen to the current account ball average. The exchange rate primary surplus of 417 billion are lessen to the current account ball average. The exchange rate primary surplus of 417 billion are lessen to the current account ball average. The exchange rate primary surplus of 417 billion are lessen to the current account ball average. The exchange rate primary surplus of 417 billion are lessen to the current account ball average. The exchange rate primary surplus of 417 billion are lessen to the current account ball average. The exchange rate primary surplus of 417 billion are lessen to the current account ball average. The exchange rate primary surplus of 417 billion are less than a current account ball average. The exchange rate primary surplus of 417 billion are less than a current account ball average. The exchange rate primary surplus of 417 billion are less than a current account ball average. The exchange rate primary surplus of 417 billion are less than a current account ball average. The exchange rate primary surplus of 417 billion are less than a current account ball average. The exchange rate primary surplus of 417 billion are less than a current account ball average. The exchange rate primary surplus of 417 billion are less than a current account ball average. The exchange rate primary surplus of 417 billion are less than a current account ball average. The exchange rate primary surplus of 417 billion are less than a current account ball average. The exchange rate primary surplus of 417 billion are less than a current account ball average. The exchange rate primary surplus of 417 billion are less than a current account ball and a current account account account ac

contrast to the range of 290 to 300 observed in August and September for the interburk.

Moreover, the institute said Memover, the instrute said that an assessment of the inflation outlined involves receiving headline inflation, global oil prices, and gas tartifis, white also taking into account inflation expectations and overall confidence in the recomment. Addressing the economy. Addressing the inflation outlook, a positive shift in the consumer confidence index (from 26.2 in September to 32.78 in October) and a decrease in inflation expectations (from 78.08 in September to 73.30 optionium assong consumers in Pakistan regarding the eco-nomic outlook and articipated lower inflation levels. Such low inflation expectations provide the central bank with some flexibility. If inflation expectations remain wellanchored and below the central bank's target, it may have trail bank v orget, it ritery have noom to relax momentary poli-cies to further stimulate eco-nomic activity. Additionally, the volatility in global (sil-prices, ranging from 568 per hard to 591 per barrel during the current fiscal year, plays a crucial role in influencing dementic prices in oil import-ing countries. The recent dip is oil prices to around \$70 per barrel adds to the complexity of the oconomic landscape.

On the fiscal front, the government is pursuing fiscal

same period last year. Taxes have posted a bealthy growth surpossing the reverse target set for the first quarter and a 24.4 percent higher than the comparable period last year first quarter (Rs2.22 trillien ses Rs1.78 trillien). However, the higher policy rates have also led to an increase in debt servicing cost which stood at Rs1.38 trillion for the first quarter as compared to 0.95 trillion for the same period last year. With overall expenditures for the first qua-climbing to Ra3.65 trill this year vs. Rs2.84 trillion in the last year for the same peri-ud. Interest payment cost stood at 80 per cent of the total tax collection at the fedoral level, which pays off the

igh for a long time, it couse a financial stress resulting in deforment of many economic investment decisions or even running of the current busi-sesses. The country ends up the povernment has to collect extra taxes to service this debt obligation. Second, price increase may come from the supply side making the economic situation even tougher Third, when interest rates an high and prices are rising fast, the real interest rates (the ones that are considered for inflation-based targets) can become very low or even negative. This makes people less interested in saving money, and it also makes it harder for



### PIDE MacroPolicy Lab-Policy Statement

# Monetary Policy: Selected economic indicators to guide decision on interest rate

#### Spokesman Report

Background: Since June 26, 2023, Monetary Policy Committee (MPC) of the State Bank of Pakistan (SBP) has chosen to keep the policy rate steady at 22%. In the last meeting of MPC's decision of keeping policy rate at 22% was influenced by the increase in headline inflation in September 2023, the volatility in global oil prices and the scheduled increase in gas tariffs starting November 2023. The MPC is scheduled to convene on December 12, 2023, to discuss and decide about the policy rate; whether the SBP should continue with the same policy rate or change it based on various economic indicators of Pakistan presented at the meeting.

Sector wise analysis and Progress: The indicators that play a crucial role in guiding the conduct of monetary policy span across different sectors, providing a comprehensive view of the economic noteworthy 91% decrease compared taking into account inflation expectalandscape. In the real sector, the quar-to the same month in the previous year. tions and overall confidence in the econterly indicators serve as crucial bench- Nevertheless, it's important to note a omy. Addressing the inflation outlook, marks for assessing the performance of 61% increase in the deficit compared a positive shift in the consumer confikey sectors such as agriculture, industry, to the preceding month, attributed dence index (from 26.2 in September consolidation; a consolidated primaand services. For the first quarter of the to debt servicing payment, Although to 32.78 in October) and a decrease in

culture, industry, and services sectors, \$7,180 billion. ISLAMABAD: Monetary Policy: respectively. The overall first-quarter growth on a year-on-year basis is and credit aspects are vital components. reported at 2.13%, signaling a positive incorporating measurements such as trend for the economy.

examining the external sector; MPC (CAD) witnessed a 58% year-on-year October and November, in contrast to monetary policies to further stimulate month of September it was almost bank rates. zero (balanced Current A/c). However, the data from October 2023 reveals a ment of the inflation outlook involves further reduction in the current account monitoring headline inflation, globdeficit to just 874 million, marking a al oil prices, and gas tariffs, while also Statistics (PBS) revealed growth rates by November 2023, the SBP reserves September to 73.30 in October) indi- have been achieved as compared to 0.662 for the Pakistani economy. This

Money Supply Dynamics: Money M2 growth, interbank and open market External Sector Progress: While exchange rates, currency in circulation, and the Net Foreign Assets (NFA) and bank's target, it may have room to relax focuses on the current account balance. Net Domestic Assets (NDA). Moving which encompasses both exports and on to money and credit situation in the remittances, as well as the stability of economy, the average money growth foreign exchange (FX) reserves. The in October and November stands at MPC meeting held on October 30 approximately 13.5%, surpassing the highlighted a significant improve- previous two-month average. The ment in Pakistan's current account exchange rate has experienced flucbalance. The current account deficit tuations, ranging from 280 to 285 in reduction to \$947 million for the peri- the range of 290 to 300 observed in economic activity. Additionally, the od Jul-Sep FY24 after which for the August and September for the inter-

Inflation: Additionally, an assess-

of 2.48%, 5.06%, and 0.82% for agrideclined by 8.217 million, reaching cate growing optimism among consumoutlook and anticipated lower inflation levels. Such low inflation expectations provide the central bank with some flexibility. If inflation expectations remain well-anchored and below the central



volatility in global oil prices, ranging from \$68 per barrel to \$91 per barrel during the current fiscal year, plays a crucial role in influencing domestic prices in oil importing countries. The recent dip in oil prices to around \$70 per barrel adds to the complexity of the economic landscape.

Fiscal Consolidation: On the Fiscal front government is pursuing fiscal ry surplus of 417 billion rupees for the

ers in Pakistan regarding the economic last year. Taxes have posted a healthy 0.662 percent of real GDP growth is growth surpassing the revenue target set for the first quarter and a 24.4 percent higher than the comparable period last year first quarter (Rs. 2.22 long time, it causes a financial stress trillion vrs Rs. 1.78 trillion). Howev- resulting in deferment of many er, the higher policy rates have also led to increase in debt servicing cost running of the current businesses. which stood at Rs 1.38 trillion for the 1. First, the country ends up owing first quarter as compared to 0.95 trillion for the same period last year. With over all expenditures for the first quarter climbing to Rs. 3.65 trillion this year the same period. Interest payment cost stood at 80% of the total tax collection at the federal level, which pays off the interest/debt servicing expenditures.

Cost of High Policy Rate: After examining the recent monetary policy statements and considering these indicators, it is likely that the MPC will maintain the policy rate at 22%. However, it's important to note that an extended period of such a high policy rate comes costs is associated with disinflation, commonly referred to as the Sacrifice ratio, Haque and Jalil (April 2020) have current fiscal year, Pakistan Bureau of the reserves have been building but inflation expectations (from 78.08 in first quarter (July-September, 2023) calculated that, on average, this ratio is

135 Billion rupees for the same period implies that, on average, a sacrifice of needed for a permanent reduction of one percent in inflation.

When interest rates stay high for a economic investment decisions or even

- more money for domestic debt obligations, so the government has to collect extra taxes to service this debt obligation.
- vs. Rs. 2.84 trillion in the last year for 2. Second, price increase may come from the supply side making the economic situation even tougher. Third, when interest rates are high and prices are rising fast, the real interest rates (the ones that are considered for inflation-based targets) can become very low or even negative. This makes people less interested in saving money, and it also makes it harder for businesses to invest.
- with significant costs. One of these 3. Finally, there's a bigger risk that the economy might go into a recession, meaning there's less money circulating, but prices are still high - this tricky situation is called stagflation which Pakistan is currently facing.