

# Pakistan Economy

## SBP unlikely to cut rates before new IMF program. April CPI expected at 17.9%.

Thursday, April 25, 2024

Headline inflation is expected to decline from 20.7% in March to 17.9% in April 2024. As measured against the Discount Rate, the Real Interest Rate Differential (RIR) is now ~5%. While large by recent standards, we believe the SBP is unlikely to cut rates before clarity emerges on the IMF program and the FY24-25 Budget.

Inflation is expected to decline as food prices have somewhat eased, most notably wheat prices. At the same time, clothing and footwear category is expected to record a 4% MoM increase, thereby diluting the impact of lower food prices.

This strengthens our conviction that inflation continues to sporadically bleed into other CPI categories, as should be expected and it is quite difficult to model these secondary impacts fully. It also remains to be seen whether a second inflationary wave rears its head after the disinflationary numbers expected in the coming months.

In making its decision, the SBP is also likely to consider the potential impact of the next budget, geopolitical considerations, oil prices and global central bank policy, particularly the US Fed. US Core CPI declined to 0.24% M/M in October 2023 and has since registered 0.35% - 0.4% readings during Jan-March 2024 leading to a reversal in expectations of interest rate cuts.

In our opinion, the SBP should exercise similar caution before signalling monetary easing to the markets, especially as the current policy is conducive to managing the External Account and bolstering reserves.

**Therefore we hold the view, that despite the 5% RIR, the SBP is unlikely to cut rates in favour of gathering more data in the coming months.**

CPI Y/Y	Weight	Mar'24	Apr'24(E)
<b>General (M/M)</b>	<b>100.00%</b>	<b>20.70%</b>	<b>17.90%</b>
Food and non-alcoholic Beverages	30.40%	17.20%	9.90%
Alcoholic Beverages, Tobacco	0.90%	3.50%	3.30%
Clothing and footwear	8.00%	15.60%	18.50%
Housing, water, Elec., Gas and Utilities	27.00%	35.10%	36.60%
Furnishing and household equipment	4.10%	20.50%	18.50%
Health	2.30%	19.70%	19.40%
Transport	6.10%	11.40%	11.80%
Communication	2.40%	14.80%	15.80%
Recreation and culture	1.70%	24.90%	12.10%
Education	4.90%	13.00%	11.10%
Restaurants and hotels	7.40%	19.00%	19.40%
Misc. goods and services	4.80%	22.00%	18.30%

SPI: Top 5 Items Increase	Mar'24	Apr'24	MoM
Chicken	429	516	20%
Ladies Sandals	799	899	13%
Potatoes	70	78	11%
Gents Sandals	2,299	2,499	9%
Shirting	425	452	6%
SPI: Top 5 Items Decrease	Mar'24	Apr'24	MoM
Eggs	277	257	-7%
Bananas	187	164	-13%
Wheat	2761	2329	-16%
Onions	252	199	-21%
Tomatoes	167	117	-30%

Source: PBS, BMA Research

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### Old rating system

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