

ECONOMIC NEWS:

SBP MONETARY POLICY STATEMENT:

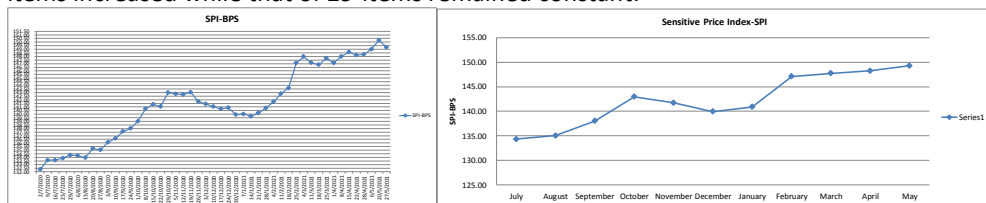
- At its meeting on 28th May 2021, the MPC decided to maintain the policy rate at 7.0%. Since its last meeting in March, the MPC was encouraged by the further upward revision in the FY21 growth forecast to 3.94%. The MPC noted that this confirms the strength of the broad-based economic rebound underway since the start of the fiscal year, on the back of targeted fiscal measures and aggressive monetary stimulus. This positive momentum is expected to persist, translating into higher growth next year.
- In reaching its decision, the MPC considered key trends and prospects in the real, external and fiscal sectors, and the resulting outlook for monetary conditions and inflation.
- Real Sector:** The latest National Income Accounts data confirm that the economy has rebounded strongly from last year's severe Covid-shock, led by services and industry. The industrial sector is estimated to have grown 3.60% during FY21, driven by construction and LSMI, especially the food, cement, textile and automobile sectors. The strong rebound is also reflected in exceptionally strong growth recorded in multiple high-frequency indicators across all 3-quarters of the year, including sales of fast-moving consumer goods and POL products. The agriculture sector is estimated to have grown 2.80%, with the production of 3-important crops—wheat, rice and maize—rising to record highs and that of sugar cane to its 2nd-highest ever level.
- The MPC noted that the current economic recovery has been supported by proactive and well-calibrated policies of the Government and SBP since the Covid-shock. Given high public debt, targeted fiscal support was mainly delivered through a reallocation of spending that focused on the most vulnerable, including through the Ehsaas program.
- External Sector:** The MPC noted that, unlike several previous growth upturns in Pakistan, the current economic recovery has been achieved without compromising external stability. At \$0.8bn, the current account has remained in surplus through the 10MFY21 for the 1st time in 17years. In recent months, imports have picked-up with the economic recovery, rising international commodity prices, as well as one-off shipments of wheat and sugar to quell temporary domestic shortages.
- However, this is being largely offset by record remittances, which rose to all-time highs in April on both a monthly (\$2.8bn) and cumulative basis (\$24.2bn). In addition, exports have grown by almost 14.0% (y/y) so far this year, mainly due to high-value added textiles and favorable prices. In March, Pakistan successfully completed the combined 2nd & 5th reviews of the IMF program and returned to international capital markets by raising \$2.5bn through an oversubscribed Eurobond, issued at yields below the initial price guidance. Together, these positive external developments kept the PKR broadly stable since the last MPC meeting around its pre-Covid level, and saw SBP's foreign exchange reserves rise to almost \$16bn, a 4-year high. Looking ahead, the CAD is expected to remain bounded, modulated by the flexible exchange rate regime, and external financing needs should be comfortably met, further bolstering FX buffers.
- Fiscal Sector:** As envisaged in this year's budget, fiscal consolidation has progressed well through the 3QFY21. At 3.50% of GDP, the fiscal deficit is 0.60% points lower than last year, despite higher interest payments and Covid-related expenses. Led by a rebound in sales tax and direct taxes, FBR tax collection (net of refunds) has increased by 14.0%.
- Monetary and Inflation Outlook:** The MPC noted that financial conditions remain appropriately accommodative. Since the last meeting, market yields have declined in line with the forward guidance provided by the MPC and PSC has witnessed a notable uptick, consistent with previous growth upturns. Cumulatively through April, the flow of PSC has grown by 43.0% (y/y), led by fixed investment and consumer loans, primarily due to the low interest rate environment and SBP's refinancing schemes, especially TERF and LTF.
- Since the last MPC, headline inflation has risen further, mainly driven by supply shocks to food and energy, including the lingering impact of February's electricity tariff hikes. On a sequential basis, upward momentum in certain food prices—notably fresh fruits, vegetables, dairy, poultry, and edible oil—was exacerbated by the advent of Ramzan, more than offsetting the recent decline in wheat prices. While core inflation has picked up in urban areas, price pressures are concentrated among a relatively confined set of items and spare capacity still exists in the economy. Inflation expectations also remain reasonably anchored and wage growth is still muted. As previously forecast, the headline y/y inflation rate is likely to remain elevated in the coming months due to the recent electricity tariff hike, pushing the average for FY21 close to the upper end of the announced range of 7.0%-9.0%. As supply shocks dissipate thereafter, inflation is expected to gradually fall toward the 5.0%-7.0% target range over the medium-term.

ECONOMIC DATA RELEASED DURING THE LAST 24-HOURS

Date	Event	Impact	Actual	Forecast	Previous
28/5/2021	SBP Monetary Policy Decision	HIGH	7.00%	7.00%	7.00%

ECONOMIC-DATA:

- Sensitive Price Index-SPI:** On Friday, PBS released the data of Weekly inflation for the combined group in the period ended on 27th May 21 slightly fell by 0.63% from 150.23bps to 149.29bps on the back of a decline in prices of essential food items.
- The week-on-week decline in inflation was noticed after increase for 4-consecutive weeks.
- During the week, Out of 51-monitored items, the average prices of 10-items decreased, 12-items increased while that of 29-items remained constant.



Tomorrow, PBS is set to release the figure of CPI for the month of May 2021. According to our expectation, CPI will be increased by 11.50% on YoY basis. On MoM basis, CPI will be rose by 0.69%. According to our expectation, the average CPI will be recorded at 8.89%.

ECONOMIC DATA RELEASED DURING THE LAST 24-HOURS

Date	Event	Impact	Actual	Forecast	Previous
28/5/2021	SPI for 27 May 21	LOW	149.29bps	150.08bps	150.23bps

FOREIGN EXCHANGE-FX- DATA

31-5-21	OPEN	HIGH	LOW	CLOSE	Last Day Close-LDC
TOM-Rs	154.43	154.45	154.22	154.41	154.43
USD/PKR SWAP YIELDS-%					
PERIOD	SWAP	Change in Premiums	Swap Implied PKR Yield		
1-Week	0.1765	0.0255	5.97%		
2-Week	0.3505	0.0454	5.80%		
1-Month	0.8441	0.0944	5.79%		
2-Month	1.6615	0.1094	6.41%		
3-Month	2.5121	0.1432	6.39%		
4-Month	3.3428	0.1310	6.30%		
5-Month	4.1477	0.1270	6.46%		
6-Month	5.0062	0.1485	6.53%		
9-Month	7.8684	0.0757	7.09%		
1-Year	10.5706	0.1398	7.13%		
FOREIGN EXCHANGE-FX ECONOMIC INDICATORS					
Items	Period	Unit	Figure		
Gross Domestic Product-GDP					
GDP	10MFY-20/21	USD bn	246.728		
Foreign Exchange-FX-Reserves					
FX-Reserves-WoW	21-May-21	USD bn	23.015		
FE-25 Import Financing	April, 2021	USD mn	485		
SBP Forward/Swap Position	31-Mar-21	USD bn	(4.285)		
Net International Reserves-NIR (EST)	21-May-21	USD bn	(4.521)		
Kerb USD/PKR	28-May-21	Bid/Ask	154.50/155.50		
Real Effective Exchange Rate-REER	March, 2021	Rs	100.50		
FX-Economic Data					
Foreign Direct Investment-FDI	10MFY-20/21	USD bn	1.55		
Home Remittance	10MFY-20/21	USD bn	24.246		
CAB-S/(D)	10MFY-20/21	USD mn	773.000		
CAB-S/(D) % of GDP	10MFY-20/21	%	0.30		
Trade Balance-S/(D)	10MFY-20/21	USD bn	(22.736)		
GOVT. Circular Debt & External Liabilities					
Government Domestic Debt & Liabilities	As at 31-3-2021	Rs trn	15.88		
External Debt	As at 31-3-2021	USD bn	90.284		
Central Debt	9MFY-20/21	Rs trn	25.55		
Date	Data	Unit	3-M	6-M	12-M
28-May-21	US-LIBOR	%	0.13138	0.17100	0.24813

MONEY MARKET-MM DATA

31-5-21	OPEN	HIGH	LOW	CLOSE	Last Day Close-LDC
MM-%	7.10	7.50	7.10	7.30	7.25
KIBOR AND PKRV RATE (%)					
Tenor	KIBOR-%	PKRV Rates-%			
1-M	6.99	7.21			
3-M	7.22	7.40			
6-M	7.47	7.60			
12-M	7.57	7.70			
Pakistan Investment Bonds-PIB's					
Period	7-May-21 Cut Off Yields-%	31-May-21 Bid-%	Ask-%		
2-Yrs	-	8.05	7.95		
3-Yrs	8.7000	8.78	8.75		
5-Yrs	9.2000	9.30	9.25		
10-Yrs-Fixed	9.8390	10.00	9.90		
Floating	8.0501	102	101.75		
15-yrs*	10.4000	10.27			
20-yrs*	10.5600	10.45			
Market Treasury Bills-MTB					
Tenor	20-May-21 Cut Off Yields-%	31-May-21 Bid-%	Ask-%		
3-M	7.3492	7.38	7.33		
6-M	7.6000	7.62	7.58		
12-M	7.6898	7.70	7.65		
Note: * The secondary yields for 15 & 20 years Bonds are not available, so instead of leaving it blank, we inputted PKRV Rates.					

MONEY MARKET-MM ECONOMIC INDICATORS

Items	Period	Unit	Figure	
Large Scale Manufacturing Industries-LSMI				
LSMI	7MFY-20/21	bps	149.88	
Consumer Price Index-CPI				
Sensitive Price Index-SPI-WoW	27-May-21	bps	149.29	
CPI (YoY)	April, 2021	%	11.10	
CPI- (MoM)	April, 2021	%	1.00	
CPI-Urban-YoY	April, 2021	%	11.00	
CPI-Rural-YoY	April, 2021	%	11.30	
PAK CPI-YoY minus US CPI-YoY	11.10%-2.60%	%	8.50	
M2 Growth				
M2 Growth-YoY	1 July 20 - 7-May 21	%	7.54	
Net Govt. Sector Borrowing	1 July 20 - 7-May 21	Rs bn	621.31	
GOVT. Borrowing for budgetary support from SBP	1 July 20 - 7-May 21	Rs bn	576.95	
Credit to Private Sector-YoY	1 July 20 - 7-May 21	Rs bn	420.72	
Govt. Foreign Commercial Banks Borrowing	10MFY-20/21	USD bn	3.25	
Policy Rate				
SBP Policy Rate	FY-20/21 YTD	%	7.00	
SBP O/N REPO & Reserve REPO Rate	Floor & Ceiling	%	6.00-8.00	
SBP Policy Rate minus USD FED Fund Rate	7.00%-0.25%	%	6.75	
1-Year KIBOR minus 1-Year LIBOR	7.57%-0.25%	%	7.32	
Ratings & Outlook				
Standard & Poor's-S&P	Rating & Outlook	Rank	B-	
Moody's	Rating & Outlook	Rank	B3-Stable	
Stock Exchange & Market Index				
MSCI-Emerging Market Index-EMI	31-May-21	Pts	1,352.66	
Pakistan Stock Exchange-PSX-100 Index	31-May-21	Pts	46,765.15	
Foreign Investor Portfolio Investment-FIPI	28-May-21	USD '000	3,336.709	
Special Convertible Rupee Account-A/c-SCRA				
SCRA-Cummulative	1 July 20 To-Date	USD mn	(430.50)	
SCRA-T-Bills & PIB's	1 July 20 To-Date	USD mn	(47.67)	
SCRA-T-Bills & PIB's	May-21	USD mn	(6.16)	