Day Break

Tuesday, December 17, 2024

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Monetary Policy History		
Date	**Stance**	**Policy Rate**
16-Dec-24	-200 bps	13.0%
04-Nov-24	-250 bps	15.0%
12-Sep-24	-200 bps	17.5%
29-Jul-24	-100 bps	19.5%
10-Jun-24	-150 bps	20.5%
29-Apr-24	Status Quo	22.0%
18-Mar-24	Status Quo	22.0%
29-Jan-24	Status Quo	22.0%
12-Dec-23	Status Quo	22.0%
30-Oct-23	Status Quo	22.0%
14-Sep-23	Status Quo	22.0%
31-Jul-23	Status Quo	22.0%
26-Jun-23	Status Quo	22.0%
12-Jun-23	+100 bps	21.0%

Source: SBP, IGI Research

Economy

SBP Cuts Interest Rate by 200bps to 13.0%

- In the latest Monetary Policy Announcement (link), the State Bank of Pakistan (SBP) decided to reduce policy rate by 200bps to 13.0%. Since Jun-24 SBP has cumulatively cut interest rates by 900bps. MPC noted that decline in headline inflation remained in line with expectations mainly due to decline in food inflation and phasing out of impact of gas price hike in Nov-23. However, core inflation remains sticky The Committee noted that inflation may remain volatile in near term before stabilizing in the target range. SBP maintained its GDP target for FY25 in the upper range of 2.5-3.5% and inflation for FY25 is likely to be significantly lower than 11.5-13.5%.
- The Committee noted that few key developments since last MPC meeting. Firstly current account surplus during Oct-24 helped SBP FX Reserves to increase around US$ 12bn despite weak financial inflows and debt repayments. Favorable oil prices further supported domestic inflation and import bill. Furthermore, credit to private sector improved substantially reflecting ease in financial condition and banks' efforts to meet ADR threshold to avoid additional taxation.
- In our view, SBP is likely to keep monetary policy data driven and reduce interest rates gradually keeping a balance between supporting economic activity and building pressure from external front.

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Exhibit: Monetary Policy Rate Decision	Current	Previous	Chg. (bps)
Target Policy Rate	**13.00%**	**15.00%**	**(200)**
Discount rate (Ceiling Rate)	14.00%	16.00%	(200)
Floor Rate	12.00%	14.00%	(200)

Source: SBP, IGI Research

Analyst

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Exhibit: National CPI Heat Map

	Nov-24	Oct-24	Sep-24	Aug-24	Jul-24	Jun-24	May-24	Apr-24	Mar-24	Feb-24	Jan-24	Dec-23
General	**4.9**	**7.2**	**6.9**	**9.6**	**11.1**	**12.6**	**11.8**	**17.3**	**20.7**	**23.1**	**28.3**	**29.7**
Food	-0.2	0.9	-0.6	2.5	1.6	1.0	-0.2	9.7	17.2	18.1	25.0	27.5
Transport	-2.8	-6.1	-7.3	3.2	12.2	10.4	10.4	12.5	11.2	15.0	26.2	28.6
Utility/Rent	7.9	19.2	20.9	22.2	25.3	35.3	33.0	35.7	36.6	36.1	38.6	37.7
Essentials	13.2	13.1	14.4	16.1	17.5	17.4	17.5	17.9	15.8	18.4	19.5	18.6
Disc.	8.7	8.8	9.1	9.7	11.6	12.0	12.6	17.1	19.2	26.5	32.4	34.9

Source: PBS, IGI Research

Key takeaways from analyst briefing

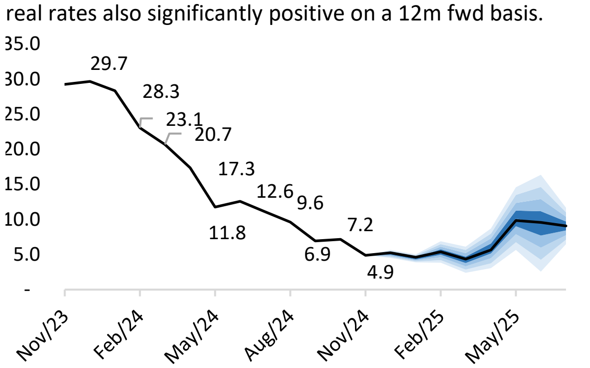
SBP in its post MPS briefing highlighted key updates, which included:

- C/a balance surplus clocked in at US$ 0.2bn during 4MFY25 mainly due to rise in exports and remittances while import were contained due to favorable oil prices, which helped in achieving overall surplus. SBP expects imports to rise owing to increase in economic activity. Higher remittances and exports along with contained imports due to favorable oil prices are likely to limit c/a deficit in the lower range of 0-1% of GDP in FY25. Contained C/a deficit along with realization of inflows under IMF program will further strengthen SBP's forex reserves to around US$ 13bn by Jun-25.
- SBP stated that GDP growth for FY25 is expected in the upper range of 2.5-3.5%. The initial estimates of crop outlook have turned out to be better than earlier expectations of MPC. Higher than expected cotton arrival and encouraging wheat crop outlook has improved prospects of agriculture growth. Recent sales data of cement, auto, fertilizer and POL products depict continuing momentum in Industrial activity. Moreover, improved prospects of commodity producing sectors and easing inflationary pressures are also expected to support services sector.
- Total debt repayment for FY25 stands at US$ 26.1bn (US$ 22bn in principle and US$ 4bn in interest). SBP stated that out of these payments, US$ 10.4bn (including US$ 5.4bn rollover) has already been repaid or rolled over. A significant portion of the debt is

likely to be rolled over while US$ 5bn is projected to be repaid during the remaining part of FY25.

- Official inflows during 1QCY25 are expected to be around US$ 2bn which is likely to largely offset outflows. As a result, SBP is likely to further strengthen its liquid reserves during this period.
- M2 Broad Money and reserve money growth decelerated to 13.9% during Nov-24. The net budgetary borrowing from banks declined notably while banks' credit to non-government sector increased. Banks' lending to private sector increased amid ease in financial conditions and their efforts to meet ADR threshold by Dec-24 end. On the liability side, deposit growth continues to drive M2 growth.
- SBP expects reserves to exceed US$ 13bn by Jun-25 from current US$ 12.1bn.
- SBP expects C/a balance to report another sizeable surplus during Nov-24 supported by higher remittances.

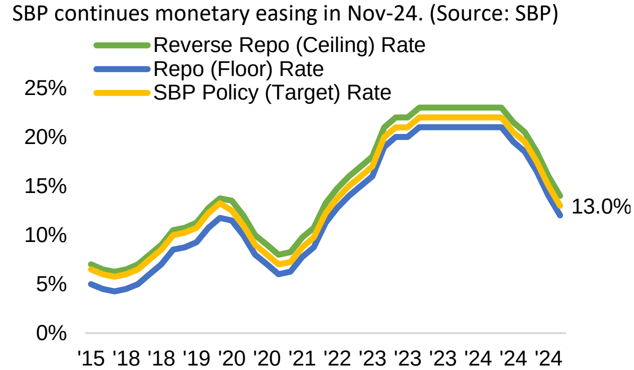
Exhibit: CPI likely to continue its downward trajectory with real rates also significantly positive on a 12m fwd basis.



Source: SBP, PBS, IGI Research

Exhibit: Pakistan Policy Rate (historical)

SBP continues monetary easing in Nov-24. (Source: SBP)



Outlook

Decline in inflation has outpaced expectations turning real rates significantly positive on spot basis, which prompted SBP to cut rates cumulatively by 700bps since Jun-24. Although SBP highlighted decline in oil, improved domestic supply of food commodities and favorable base effect as reason behind slowdown in inflation. However, SBP noted that inflation is likely to pick up after 3-4 months. In our view, SBP is likely to keep monetary policy data driven and reduce interest rates gradually keeping a balance between supporting economic activity and building pressure from external front.

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