Day Break

Tuesday, July 30, 2024

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Economy

SBP Cuts Interest Rate by 100bps to 19.5%

- In the latest Monetary Policy Announcement (link) the State Bank of Pakistan (SBP) decided to reduce policy rate by 100bps to 19.5%. Since Jun-24 SBP has cumulatively cut interest rates by 250bps. The MPC noted that Jun-24 inflation was better than anticipated and inflationary impact of FY25 budgetary measures was inline with expectation. MPC noted that external account have improved reflected by buildup in SBP reserves despite substantial debt repayments and other obligations. Considering these developments, MPC viewed that it was appropriate to cut interest rates to support economic activity while keeping inflationary pressures in check.
- The Committee noted that few key developments since last MPC meeting which include sharp decline in C/a deficit in FY24 along with significant buildup in forex reserves. The Government also reached staff level agreement with IMF for EFF program of about US$ 7bn. While food and metal prices have eased internationally, oil prices have remained volatile. Furthermore, Central banks globally have started to cut interest rates as inflationary pressures and labour market conditions have eased.
- 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.

SBP Cuts Interest Rates by 100bps

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Exhibit: Monetary Policy Rate Decision

	Current	Previous	Chg. (bps)
Target Policy Rate	**19.50%**	**20.50%**	**(100)**
Discount rate (Ceiling Rate)	20.50%	21.50%	(100)
Floor Rate	18.50%	19.50%	(100)

Source: SBP, IGI Research

Analyst

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Exhibit: National CPI Heat Map

	Jun-24	May-24	Apr-24	Mar-24	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23
General	**12.6**	**11.8**	**17.3**	**20.7**	**23.1**	**28.3**	**29.7**	**29.2**	**26.8**	**31.4**	**27.4**	**28.3**
Food	1.0	-0.2	9.7	17.2	18.1	25.0	27.5	28.0	26.8	33.1	38.5	39.5
Transport	10.4	10.4	12.5	11.2	15.0	26.2	28.6	26.5	30.1	31.3	23.0	13.6
Utility/Rent	35.3	33.0	35.7	36.6	36.1	38.6	37.7	33.0	20.5	29.7	6.2	10.8
Essentials	17.4	17.5	17.9	15.8	18.4	19.5	18.6	18.9	18.6	18.2	16.5	16.7
Disc.	12.0	12.6	17.1	19.2	26.5	32.4	34.9	37.4	39.2	40.8	43.1	43.5

Source: SBP, IGI Research

Key takeaways from analyst briefing

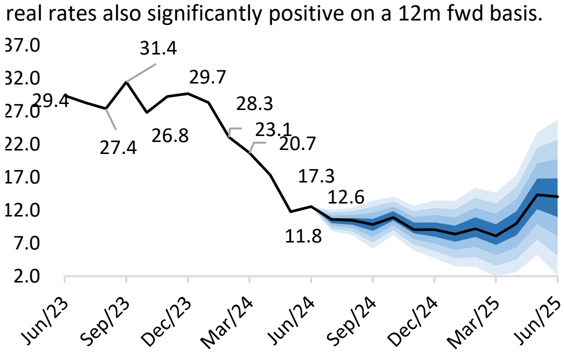
SBP in its post MPS briefing highlighted key updates on CAD, debt repayments and foreign exchange reserves which included:

- C/a balance recorded deficit in May and Jun-24 inline with expectation. The deficit was largely due to higher dividend and profit repatriation and seasonal increase in imports offsetting significant increase in exports and remittances. C/a deficit narrowed sharply from 1% of GDP to 0.2% of GDP in FY24. SBP expects a modest increase in imports while continued growth in exports and remittances is likely to limit c/a deficit in the range of 0-1% of GDP in FY25. The MPC highlighted that timely mobilization of financial inflows is critical to meet external financing needs and further strengthen reserves to absorb external shocks and support sustainable growth.
- SBP stated that GDP growth for FY25 is expected in the range of 2.5-3.5%. This is primarily led industry and services sector growth led by lower interest rates and higher development spending. However, after posting robust growth in FY24, growth in agriculture sector is expected to slowdown in FY25.
- Total debt repayment for FY25 stands at US$ 26.2bn (US$ 22bn in principle and US$ 4bn in interest). SBP stated that out of these payments, US$ 16bn (including US$ 4bn interest) is expected to be rolled over while remaining US$ 10bn is net payable out of which US$ 1.1bn has already been paid in Jul-24.
- Revised estimates of Government depict improvement in fiscal balances as primary balance turned in to surplus and overall

deficit declined. However, government's reliance on domestic bank borrowings increased amid shortfall in budgeted external and non-banking financing during FY24. For FY25, government has set primary surplus target of 2% of GDP, which would be crucial to support economic stability along with timely realization of external inflows. These fiscal and external buffers will be critical to address any future shocks.

- M2 Broad Money and reserve money grew by 16% and 2% in FY24. MPC noted that trends and composition of monetary aggregates remained consistent with tight monetary stance. Entire M2 growth was in led by growth in bank deposits while currency in circulation remained same as last year. As a result, currency to deposit ratio declined from 41.1% in Jun-23 to 33.6% in Jun-24. Contribution of net foreign assets in monetary expansion increased owing to improvement in external account. The Committee viewed that these developments bode well for inflation outlook.
- SBP further informed that impact of monetary transmission mechanism typically lags by 6-8 quarters.
- During FY24, dividend and profits repatriated stood at US$ 2.2bn, which was 7x higher than last year. However, as of now there are no pending payments with banks.
- SBP clarified that there are no import restrictions in place as non-oil imports have increased to monthly average of US$ 3.2bn from US$ 2.2bn while oil imports have declined to US$ 1.4bn from previous average of US$ 2.3bn.
- SBP noted that it expect inflation to average between 11.5-13.5% for FY25. SBP will continue to monitor and assess the budgetary measures before deciding on Monetary Policy.

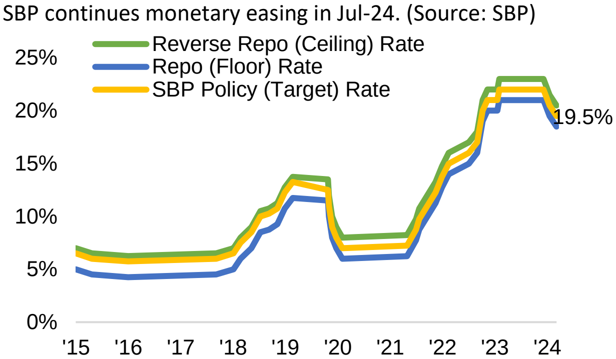
Exhibit: CPI likely to continue its downward trajectory with real rates also significantly positive on a 12m fwd basis.



Source: SBP, PBS, IGI Research

Exhibit: Pakistan Policy Rate (historical)

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



Outlook

Decline in inflation during Jun-24 had turned real rates significantly positive on spot basis, which prompted SBP to cut rates cumulatively by 250bps since Jun-24. SBP also assessed the impact of budgetary measures and noted that it was inline with expectation. However, SBP stated that full impact of budgetary measures would take some time and highlighted that fiscal slippages and ad-hoc adjustment in energy prices remain key risk to inflation outlook. 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.

From market standpoint, highly leveraged sectors such as textile, steel, cements and chemicals are likely to benefit from interest rate cut. Few highly leverage companies such as MUGHAL, ASTL, FCCL, DGKC, EPCL, PSO, NCL and ILP are likely to benefit most from interest rate cuts whereas Banks and E&Ps are likely to have a negative impact. Within Banks, MEBL, BAFL, HBL and UBL are likely to impacted most by decline in interest rate.

Exhibit: Impact of 100 bps rate cuts on companies under our coverage

Company	EPS Impact	% of Earnings
Banks		
BAFL	(1.3)	-4.8%
HBL	(1.3)	-2.7%
BAHL	(0.8)	-2.1%
UBL	(1.4)	-2.5%
FABL	(0.3)	-2.0%
ABL	(0.7)	-1.8%
MCB	(1.1)	-2.0%
Fertilizer		
FFBL	(0.2)	-1.8%
FFC	(0.3)	-1.2%
EFERT	(0.0)	-0.3%
E&Ps		
POL	(1.7)	-1.4%
MARI	(2.8)	-0.5%
PPL	(0.2)	-0.5%
OGDC	(0.1)	-0.3%
POWER		
HUBC	0.3	0.5%

Company	EPS Impact	% of Earnings
Autos		
INDU	(6.1)	-3.6%
HCAR	0.2	1.0%
Cements		
KOHC	(0.5)	-1.1%
LUCK	(0.1)	-0.2%
CHCC	0.1	0.4%
MLCF	0.1	1.1%
PIOC	0.3	1.7%
FCCL	0.1	1.7%
DGKC	0.5	5.3%
Chemicals		
LCI	(0.2)	-0.2%
EPCL	0.2	1.9%
Steel		
ISL	0.0	0.1%
ASTL	0.4	5.8%
MUGHAL	0.4	3.1%
OMCs		
PSO	5.0	7.0%

Source: Company Accounts, IGI Research

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