Day Break

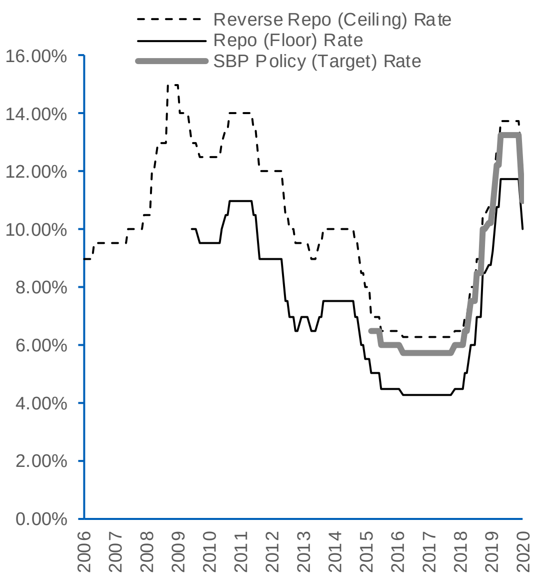
Wednesday, 25 March 2020

Economy

Exhibit: Historic Discount rates

Date	Reverse Repo Rate	Repo Rate	Policy Rate	Chg. Bps
23-May-16	6.25%	4.25%	5.75%	
29-Jan-18	6.50%	4.50%	6.00%	25
28-May-18	7.00%	5.00%	6.50%	50
16-Jul-18	8.00%	6.00%	7.50%	100
1-Oct-18	9.00%	7.00%	8.50%	100
3-Dec-18	10.50%	8.50%	10.00%	150
1-Feb-19	10.75%	8.75%	10.25%	25
1-Apr-19	11.25%	9.25%	10.75%	50
21-May-19	12.75%	10.75%	12.25%	150
17-Jul-19	13.75%	11.75%	13.25%	100
29-Jan-20	13.75%	11.75%	13.25%	0
18-Mar-20	13.50%	11.50%	12.50%	-75
24-Mar-20	12.00%	10.00%	11.00%	-150

Exhibit: Monetary Policy converging close to GFC era of 2009



Source: Bloomberg, PSX 100 & IGI Research

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Monetary Policy and Economic Relief Package

Amid COVID-19 fallout, policy rate slashed by another 150bps and relief package announced

- ✓ Following the scheduled monetary policy statement announcement earlier on 17th March, 2020 the State Bank of Pakistan (SBP) held an emergent meeting yesterday whereby reducing the policy rate further by 150bps to 11.0%, taking the total cut to 225bps in a span of a week as SBP sees further lackluster demand amid COVID-19 fallout.
- ✓ Moreover, the Prime Minister (PM) Imran Khan also announced a fiscal stimulus package worth PKR ~1.2trn or roughly USD 8.0bn with an estimated direct relief package worth PKR 0.9trn (USD 6.0bn) aimed at low income earners / vulnerable families and a cash flow support package for other industries estimated at PKR 0.3trn (USD 2.0bn).

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SBP cuts policy rate by another 150bps to 11.0%; taking the total cut to 225bps in a span of a week

SBP in its emergent meeting held yesterday announced another 150bps policy rate cut to 11.0% in addition to 75bps cut last week. The move as per SBP came amid weak growth and inflation outlook in Pakistan in the wake of COVID-19 outbreak and its fallout on global growth and to synchronise global central banks across.

"On the domestic front, since the last MPC (monetary policy committee), the number of COVID-19 cases has increased considerably, prompting social distancing and curtailment of activity. This is expected to lead to noticeable slowdown in domestic demand." - - SBP

Exhibit: SBP Monetary Policy decision and effective rates

	Current	Previous	Chg. (bps.)
Target Policy Rate	**11.00%**	**12.50%**	**-150**
Discount rate (Ceiling Rate)	12.00%	13.50%	-150
Floor Rate	10.00%	11.50%	-150
Minimum Deposit Rate	9.50%	11.00%	-150
Interest Rate Corridor	2.00%	2.00%	0

IMF director in its latest statement has revised down global growth to negative from earlier 3.3% and have highlighted emerging and low-income economies could face significant challenge and accordingly so easing interest rates and extensive fiscal stimulus packages are welcoming signs.

Economic Relief package

In addition to monetary policy rate cut, Prime Minister (PM) Imran Khan announced a fiscal stimulus package aimed mainly at protecting and helping low-income earners families and individuals as country prepares for a lockdown. The relief package will tend to curb growing anticipation of rising food and other essentials prices with the help of food subsidy package of PKR 50bn at utility stores and a wheat procurement package of PKR 280bn. Moreover, daily-wage earners (estimated at 7million) will be given PKR 3,000/month as a compensation for loss of income during the lockdown and reduced economic activity.

Similarly, the government earlier than schedule announced a PKR 15/litre reduction in HSD/MoGas/Kerosene prices, which will further ease price pressure. We estimate this will have a direct impact of 40-50bps reduction on headline CPI inflation in the following months.

Further to ease cash flow for borrowers the government and the SBP combined efforts include deferment and restructuring of loans payments and immediate disbursement of sales tax refunds for exporters.

Exhibit: Government Fiscal stimulus package

	PKRbn
Wheat Procurement	280.0
Daily wages (labour) - PKR 3,000 per month for 7mn monthly	200.0
Relief for Poor - extension of Ehsas and BISP	150.0
Vulnerable Families (est. 12million families)	144.0
Utility stores	50.0
Additional funds Panagah (govt. sponsored homeless shelter)	6.0
Utility bill payment to be paid in 3 months instalments	110.0
Reduced prices of MoGas/HSD and Kerosene by PKR 15/litre	
Direct relief package for low-income earners	**940.0**
Emergency Fund	100.0
National Disaster Management Authority (NDMA)	25.0
Health and other medical supplies	15.0
Other industries and emergency fund	**140.0**
Deferment of loan payment for SME and agri sector	100.0
Export Industry tax refunds and deferred loans	100.0
Financial Measures	**200.0**
Total (estimated)	**1,280.0**

Source: Various Newsprint

Will the monetary policy be enough?

The market response seems to be less appreciative of SBP's last week 75bps cut, as market consensus stood at 50-100bps cut with most optimistic viewing a 250-300bps cut. So the decision to cut another 150bps comes in-line with market consensus.

Whether the monetary policy cut will have any substantial impacts on easing corporate earnings and thus on market is yet to be seen. However, in recent reports published by IMF highlights that a broader monetary and fiscal stimulus can lift confidence and aggregate demand but would most likely be more effective when business operations begin to normalise.

Thus from a market direction, investor anticipation of business normalisation at home and the time global growth will take to recover will be crucial, which at current is rather difficult to ascertain. Nevertheless, a well synchronised global monetary and fiscal policy can to an extent, shorten the length of overall global growth slowdown and reduced human life impact. In terms of policy responds Pakistan is following IMF recommendation which are;

Fiscal Measures - A coordinated and synchronised global fiscal stimulus: Referring to 2009 global financial crisis (GFC), IMF urged the fiscal stimulus will much higher than that of GFC. A top priority is ensuring that front-line health-related spending is available to protect people's wellbeing, take care of the sick, and slow the spread of the virus. In countries where there are limitations in health care systems, the international community must step in to help them avert a humanitarian crisis.

Monetary Policy – Support demand and ease financial conditions: Emerging countries have faced an estimated USD 42bn outflow in since the beginning of COVID-19 outbreak, which is the highest ever recorded. Hence, central banks' policy action in will need to balance the especially difficult challenge of addressing capital flow reversals and commodity shocks. In times of crisis such as at present, foreign exchange interventions and capital flow management measures can usefully complement interest rate and other monetary policy actions.

Financial System stability: A coordinated response by country's financial institutions is required to ease the borrowers burden, in particularly on loan stressed companies and SME.

Banks (reduce), Cyclical (accumulate)
Nevertheless, as mentioned earlier from a market standpoint, conventional banks will face NIMs compression due to reduced interest rates and deferment of loan for SME and Agri-sector will further hurt margins but will also delay provisioning charge in arising from these two groups. We have preference for HBL, BAHL and MCB as these would be least impacted amongst our coverage banks, but recommend cautious accumulation as overall pressure on sector can well orchestrate on these stocks.

For high leveraged companies, rate cut would come as a relief. Under construction sector DGKC, MLCF, CHCC, PIOC, ISL and ASTL will stand beneficiary to rate cut. Under fertilizer EFERT, FFC and FFBL in that order stands most impacted and NCL/NML under textiles and PSMC under automobile assemblers.

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