Day Break

Tuesday, January 28, 2025

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Monetary Policy History		
Date	**Stance**	**Policy Rate**
27-Jan-25	-100 bps	12.0%
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 100bps to 12.0%

- In the latest Monetary Policy Announcement (link), the State Bank of Pakistan (SBP) decided to reduce policy rate by 100bps to 12.0%. Since Jun-24 SBP has cumulatively cut interest rates by 1000bps. MPC noted that decline in headline inflation remained in line with expectations mainly due to moderate domestic demand, easing supply-side dynamics and favorable base effect. The Committee noted that inflation is expected to come down further in Jan-25 before inching up in coming months. SBP maintained its GDP target for FY25 in the range of 2.5-3.5% and revised its average inflation forecast for FY25 to stand in the range of 5.5-7.5% from earlier 11.5-13.5%
- Real GDP growth for 1QFY25 stood lower than expected. Moreover, C/a also remained in surplus during Dec-24, however, Forex reserves declined amid lower financial inflows and higher debt repayments. Tax revenue collection remained below target during 1HFY25 despite higher collection in Dec-24. MPC also highlighted that oil prices have witnessed higher volatility recently while global economic environment has become more uncertain which has prompted central banks to adopt a cautious approach.
- Inflation is expected to rise in coming months as low base effect kicks in. In our view, SBP is likely to monitor inflation on forward looking basis and assess risk to inflation outlook while also 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	**12.00%**	**13.00%**	**(100)**
Discount rate (Ceiling Rate)	13.00%	14.00%	(100)
Floor Rate	11.00%	12.00%	(100)

Source: SBP, IGI Research

Analyst

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The Committee noted that few key developments since last MPC meeting. Real GDP growth for 1QFY25 stood lower than expected. Moreover, C/a also remained in surplus during Dec-24, however, Forex reserves declined amid lower financial inflows and higher debt repayments. Tax revenue collection remained below target during 1HFY25 despite higher collection in Dec-24. MPC also highlighted that oil prices have witnessed higher volatility recently while global economic policy environment has become more uncertain which has prompted central banks to adopt a cautious approach.

Exhibit: National CPI Heat Map

	Dec-24	Nov-24	Oct-24	Sep-24	Aug-24	Jul-24	Jun-24	May-24	Apr-24	Mar-24	Feb-24	Jan-24
General	**4.1**	**4.9**	**7.2**	**6.9**	**9.6**	**11.1**	**12.6**	**11.8**	**17.3**	**20.7**	**23.1**	**28.3**
Food	0.3	-0.2	0.9	-0.6	2.5	1.6	1.0	-0.2	9.7	17.2	18.1	25.0
Transport	-2.5	-2.8	-6.1	-7.3	3.2	12.2	10.4	10.4	12.5	11.2	15.0	26.2
Utility/Rent	3.4	7.9	19.2	20.9	22.2	25.3	35.3	33.0	35.7	36.6	36.1	38.6
Essentials	13.2	13.2	13.1	14.4	16.1	17.5	17.4	17.5	17.9	15.8	18.4	19.5
Disc.	8.2	8.7	8.8	9.1	9.7	11.6	12.0	12.6	17.1	19.2	26.5	32.4

Source: PBS, IGI Research

Key takeaways from analyst briefing

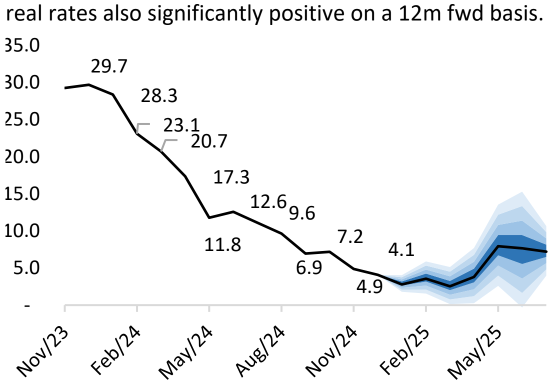
SBP in its post MPS briefing highlighted key updates, which included:

- C/a balance surplus clocked in at US$ 1.2bn during 1HFY25 mainly due to rise in exports and remittances while import witnessed notable increase indicating improvement in economic activity. Although import bill exceeded exports, higher remittances more than offset the trade deficit. Based on this, SBP anticipates an improved outlook for C/a balance and expects a deficit of 0.5% of GDP in FY25. Contained C/a deficit along with realization of inflows 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 range of 2.5-3.5%. High frequency indicators point towards improving economic conditions which is reflected by increase in automobile, POL and fertilizer sales along with import volumes, power generation and credit disbursement to private sector. Although 1QFY25 GDP growth depicted lower than expected reading it was mainly due to sharp deceleration in agriculture sector growth. Latest available information points towards modest wheat output. The MPC noted that industrial output was witnessing downtrend mainly due to low-weight items such as furniture while textile, food and automobiles have reported noticeable improvement. MPC expects economic activity to gain further traction going

forward and projects GDP growth for FY25 in the range of 2.5-3.5% for FY25.

- 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$ 12.3bn will be rolled over and US$ 3.7bn is expected to secured through commercial loans. Out of the remaining US$ 10.1bn, US$ 6.4bn has already been repaid while US$ 3.7bn is likely to be repaid in the remaining 5 months of FY25, which will be financed through a mix of commercial and multilateral loans.
- M2 Broad Money and reserve money growth decelerated to 11.3% as at Jan-25 compared to 13.3% at the time of last MPC meeting in Dec-24. M2 growth declined mainly due to substantial deceleration in NDA growth. Government's borrowing from banking system remained relatively low while credit to private sector improved sharply. This was mainly due to economic recovery, ease in financial conditions and banks effort to meet ADR thresholds. As a result, banking sector deposits have declined while there was marginal increase in currency in circulation.
- SBP expects reserves to exceed US$ 13bn by Jun-25 from current US$ 11.4bn mainly due to favorable C/a balance and lower debt repayments in 2HFY25.
- SBP profits are expected to decline in FY26 compared to FY25 likely due to reduction in interest rates.
- The SBP stated that there is no upside risk for food inflation and energy prices. The headline inflation has reduced sharply in comparison with core inflation.

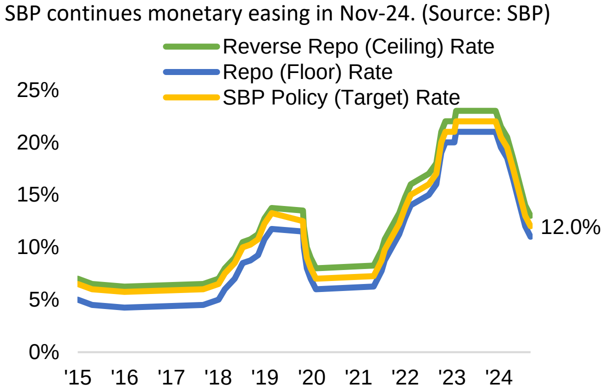
Exhibit: CPI likely to continue its downward trajectory with real rates also significantly positive on a 12m fwd basis.



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 1000bps since Jun-24. However, inflation is expected to rise in coming months as low base effect kicks in. In our view, SBP is likely to monitor inflation on forward looking basis and assess risk to inflation outlook while also keeping a balance between supporting economic activity and building pressure from external front.

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