Day Break

Tuesday, May 6, 2025

Monetary Policy History		
Date	Stance	Policy Rate
5-May-25	-100bps	11.0%
10-Mar-25	Status Quo	12.0%
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	22.0%

Source: SBP, IGI Research

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Economy

SBP Slashes Policy Rate by 100bps to 11%

- In the latest Monetary Policy Announcement (link), the State Bank of Pakistan (SBP) decided to cut policy rate by 100bps to 11.0%. Since Jun-24 SBP has cumulatively cut interest rates by 1100bps. MPC noted that headline inflation declined substantially during Mar-25 and Apr-25 due to lower food prices and downward adjustment in electricity prices. The Committee noted that global uncertainty amid trade tariffs and geopolitical developments could pose risk to economy.
- The Committee noted that few key developments since last MPC meeting. GDP for 2QFY25 was reported at 1.7% whereas 1QFY25 was revised up to 1.3%. C/a also recorded a sizeable surplus of US$ 1.2bn in Mar-25 led by higher remittances. This surplus along with SBP's FX purchases partially cushioned ongoing large debt repayments on SBP's FX reserves. Business and consumer confidence has improved. Tax collection shortfall has also widened. Lastly, global uncertainty due to ongoing trade tariffs has led IMF to sharply downgrade 2025 and 2026 growth projections for advanced and emerging economies.
- Decline in inflation has outpaced expectations owing to decline in food and energy prices, which prompted SBP to cut rates cumulatively by 1100bps since Jun-24. However, inflation is anticipated to rise in coming months. In our view, SBP is likely to monitor inflation on forward looking basis and assess risk to inflation outlook such as geopolitical developments and trade tariff, while also keeping a balance between supporting economic activity and pressure from external front.

SBP Cuts Interest Rates by 100bps to 11%

In the latest Monetary Policy Announcement (link), the State Bank of Pakistan (SBP) decided to cut policy rate by 100bps to 11.0%. Since Jun-24 SBP has cumulatively cut interest rates by 1100bps. MPC noted that headline inflation declined substantially during Mar-25 and Apr-25 due to lower food prices and downward adjustment in electricity prices. However, core inflation proves to be more persistent at higher levels. The Committee noted that global uncertainty amid trade tariffs and geopolitical developments could pose risk to economy. SBP maintained its GDP target for FY25 in the range of 2.5-3.5% and reaffirmed real rates are adequately positive to stabilize inflation in the target range of 5-7%.

Exhibit: Monetary Policy Rate Decision	Current	Previous	Chg. (bps)
Target Policy Rate	**11.00%**	**12.00%**	**-100bps**
Discount rate (Ceiling Rate)	12.00%	13.00%	-100bps
Floor Rate	10.00%	11.00%	-100bps

Source: SBP, IGI Research

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Considering the recent developments and risks, MPC noted that real policy rates are adequately positive to stabilize inflation in the target range of 5-7% while ensuring sustainable economic growth.

Exhibit: National CPI Heat Map

	Apr-25	Mar-25	Feb-25	Jan-25	Dec-24	Nov-24	Oct-24	Sep-24	Aug-24	Jul-24	Jun-24	May-24
General	**0.3**	**0.7**	**1.5**	**2.4**	**4.1**	**4.9**	**7.2**	**6.9**	**9.6**	**11.1**	**12.6**	**11.8**
Food	-4.8	-5.1	-4.1	-3.1	0.3	-0.2	0.9	-0.6	2.5	1.6	1.0	-0.2
Transport	-3.9	-1.2	-1.1	0.7	-2.5	-2.8	-6.1	-7.3	3.2	12.2	10.4	10.4
Utility/Rent	-2.6	-2.2	-0.6	1.5	3.4	7.9	19.2	20.9	22.2	25.3	35.3	33.0
Essentials	9.6	12.2	12.2	12.2	13.2	13.2	13.1	14.4	16.1	17.5	17.4	17.5
Disc.	8.1	8.1	8.3	8.1	8.2	8.7	8.8	9.1	9.7	11.6	12.0	12.6

Source: PBS, IGI Research

Key takeaways from analyst briefing

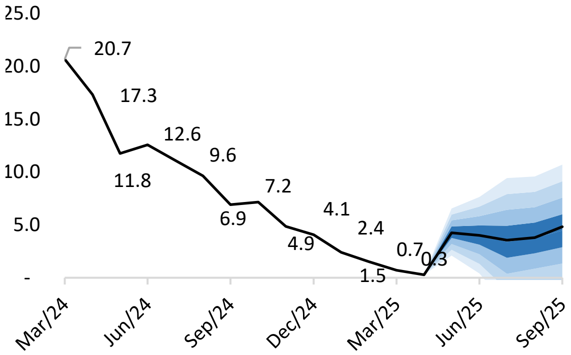
SBP in its post MPS briefing highlighted key updates, which included:

- C/a recorded a substantial surplus of US$ 1.2bn in Mar-25 mainly led by higher remittances bringing total surplus to US$ 1.9bn in 9MFY25. Furthermore, moderation is import bill was observed mainly due to decline in oil prices and higher HVA-textile exports further contributed to surplus in Mar-25. However, in Apr-25 trade deficit has widened to US$ 3.4bn while remittances also remained elevated. MPC assessed C/a to remain in surplus in FY25. Net financial inflows remained weak due to large debt repayments and delays in realization of official inflows. Nevertheless, MPC expects SBP's FX reserves to rise to US$ 14bn by Jun-25 on the back of realization of planned inflows.
- Real GDP growth for 2QFY25 clocked in at 1.7% bringing cumulative growth for 1HFY25 to 1.5%, which is in line with MPC's expectation. Indicators depict that economic activity is likely to maintain its momentum reflected by rising passenger car and POL sales. However, LSM continues to remain below expectation. Contraction is witnessed in low weight segment and construction

and allied sector, which is more than offsetting growth in key segments such as garments, textile, pharma and automobiles. Although wheat output turned out better than expected but remains lower than last year. MPC maintained its growth projection in the range of 2.5%-3.5% for FY25, which is prone to risks such as lower crop output during Kharif season and global uncertainty.

- M2 Broad Money accelerated to 13.3% since last MPC meeting. The Committee noted compositional change in NDA as private sector credit picked up reflecting better financial condition and improved economic activity. Specifically firms in textile, refinery, chemical and fertilizer increased their borrowings for working capital. Auto financing and personal loans have also increased compared to last year. On the liability side, growth in currency in circulation increased in Mar-25 due to Eid season and has reversed so far..
- SBP expects reserves to exceed US$ 14bn by Jun-25 mainly due to favorable C/a balance and planned financial inflows (including IMF).
- Regarding OMO, SBP clarified that shortening of OMO tenor to 14 days is not a permanent policy but is based on market liquidity needs and SBP will adjust OMO tenors based on market conditions and liquidity requirements.
- Although wheat crop has met its target other crops such as cotton have underperformed which has led to overall weak agricultural growth.
- SBP stated that theres no immediate plan to remove PKR 3mn cap on auto financing despite improvement in macroeconomic indicators. Auto financing has risen by more than 40% during this fiscal year despite the cap.

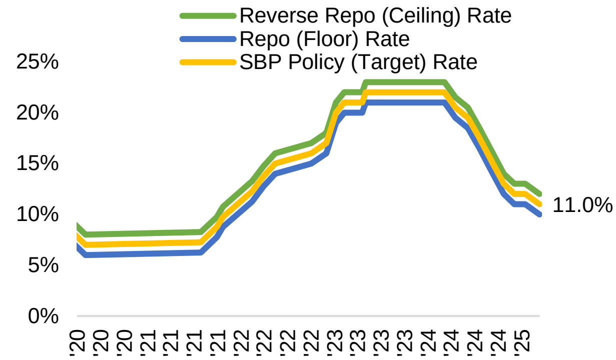
Exhibit: CPI likely to continue its downward trajectory with real rates also significantly positive on a 12m fwd basis.



Source: SBP, PBS, IGI Research

Exhibit: Pakistan Policy Rate (historical)

SBP halts easing cycle in Mar-25. (Source: SBP)



Outlook

Decline in inflation has outpaced expectations owing to decline in food and energy prices, which prompted SBP to cut rates cumulatively by 1100bps since Jun-24. However, inflation is anticipated to rise in coming months as low base effect kicks in. Moreover, core inflation still remains high. In our view, SBP is likely to monitor inflation on forward looking basis and assess risk to inflation outlook such as geopolitical developments and trade tariff, while also keeping a balance between supporting economic activity and pressure from external front.

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