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ECONOMY
Monetary Policy

Pakistan Research

Economy: SBP Post-MPS Analyst Briefing: Key Takeaways

The SBP announced its monetary policy yesterday (Monday), wherein the policy rate was cut down by 100bps to 19.5%. The decision was taken after considering (i) better-than-expected inflation reading (Jun-24), (ii) in-line inflationary impact of recent budgetary measures and (iii) an improvement in external account leading to a buildup in FX reserves. The SBP's monetary policy stance remains tight to guide inflation towards a medium-term growth target of 5-7%. The decision is also contingent on achieving fiscal consolidation objectives, securing planned external funding, and addressing structural imbalances.

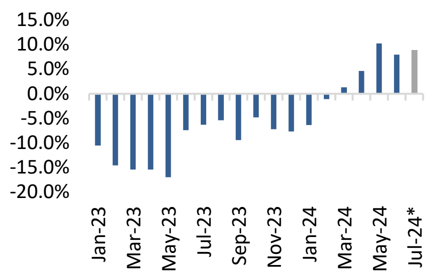
Key Takeaways

- GDP growth is targeted at 2.5%-3.0% with the outlook for Kharif crops appearing weaker for FY25 than last year, slowing growth in the agriculture sector. However, gradual recovery is expected in LSM and services sectors, supported by relatively lower interest rates, and higher development spending.
- As per the Federal Committee for Agriculture (FCA) targets, sugarcane is expected at 76.7mn tons (84.5mn tons), maize at 9.3mn tons (10.8mn tons), cotton at 10.9mn bales (10.2mn tons), and rice at 8.7mn tons (9.9mn tons) for FY25.
- On the external repayments front, USD 26bn are expected with regards to the debt servicing obligations for FY25, which include USD 22bn as principal repayment and USD 4bn as interest repayment. Of this, USD 16bn are expected to be rolled over, resulting in a net payable amount of USD 10bn. USD 1.1bn have already been repaid in Jul-24.
- CAD is expected at 0%-1% of GDP owing to a growth in workers' remittances and exports. The SBP released USD 2.2bn in dividends and profit repatriations in FY24, up by almost seven times from USD 331mn in the preceding fiscal year, clearing a backlog of USD 1.4bn over the past two months.
- Other targets released by the SBP for FY25 indicate average inflation within 11.5%-13.5% and FX reserves at USD 13bn.

Outlook

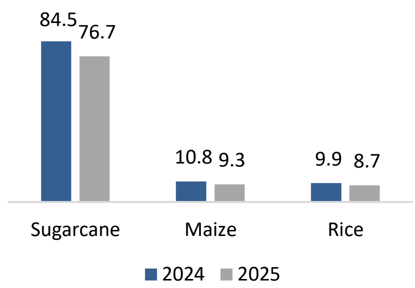
The MPS has highlighted core inflation in its outlook, which has steadied around the 14% mark over the past two months, indicating that the sticky nature of the inflation measure is being keenly observed. In addition, the inflationary impact of the FY25 budget is likely to remain largely in line with the expectations. However, the full impact of these measures on domestic prices is expected to take some time.

Real interest rate expected at 8.9% for Jul-24 (based on expected inflation data for Jul-24)



*Source: SBP, PBS, Akseer Research * Estimated*

Production outlook for sugarcane, maize, and rice looks weaker than 2024 (mn tons)



Source: SBP, Akseer Research

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Sell	Less than or equal to -5%

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