SBP Post MPS Takeaways | Pakistan Research

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Economy: SBP maintains policy rate at 12%

Monetary Policy Committee (MPC) decided to keep the benchmark policy rate unchanged at 12%. Some key developments influencing the MPC's decision include (i) real GDP growth in 1QFY25 turning out slightly lower than the MPC's earlier expectations, (ii) the current account posting a deficit in Jan-25 (highest since Jul-24), (iii) tax revenues growing significantly but still remaining below the target in 1HFY25, (iv) excessive volatility in global oil prices, and (v) higher uncertainty in the global economic environment.

Key Takeaways:

- There has been a continued momentum in economic activity reflected in high frequency indicators. However, the provisional data of the real GDP for 1QFY25 showed a modest growth of 0.9% compared to 2.3% growth recorded in 1QFY24. This slowdown was primarily due to the sharp decline in agriculture sector growth, which fell to 1.2% in 1QFY25, down from 8.1% in the same period last year. If the growth in agricultural sector had been the same as last years', the real GDP growth would have been 2.6%.

- Going forward, the MPC expects economic activity to improve and real GDP growth to remain in the earlier projected range of 2.5%– 3.5%, with major contribution from industry and services sectors.

- With CPI inflation easing to 1.5% in Feb-25 from 2.4% in Jan-25, the 8MFY25 average now stands at 5.85%. However, inflation is expected to rise in subsequent periods amid religious festivities, fading of base effect, and global inflationary pressures.

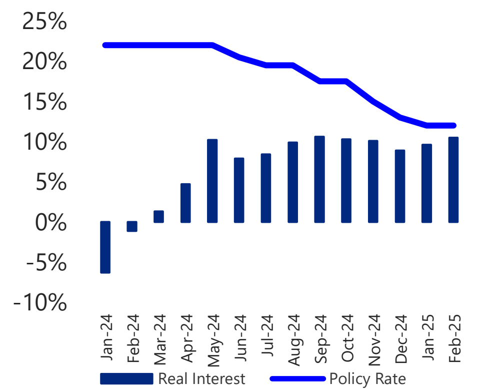
- The MPC has also noted that, going forward, the real rate must remain adequately positive in order to stabilize inflation within the target range of 5% – 7%.

- On the external front, the MPC's outlook for the current account balance is expected to remain between a surplus and a deficit of 0.5% of GDP in FY25.

- For FY25, the total debt repayments are USD 26.1bn. Of this, USD 16bn is to be rolled over while the remaining USD 10bn is to be repaid. Of the repayable amount, USD 7bn is already repaid and USD 3bn will be repaid during the remaining months of FY25.

- The net financial inflows are expected to improve going forward, as official debt repayment burden will reduce in the remainder FY25. Moreover, remittances are expected to improve owing to the Eid seasonality factor. Therefore, the improved current account outlook, along with the expected realization of planned financial inflows, is likely to increase the SBP's FX reserves beyond USD 13bn by Jun-25.

Real Interest Rates over the Years (%)



Source: SBP, Akseer Research

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