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REN # REP - 004 REN # REP - 400 R

Economy: SBP slashes policy rate by 200bps to 17.5%

The State Bank of Pakistan (SBP) announced its monetary policy on 12th September (Thursday), wherein the policy rate was cut by 200 bps to 17.5%, bringing down the real interest rate to 790bps. The Monetary Policy Committee (MPC) has assessed the real interest rate to be adequately positive to guide inflation towards their medium-term target of 5-7%. There has been a sharp deceleration in core and headline inflation readings over the past two months with inflation entering single-digit territory in Aug-24 (9.6% YoY), marking a 34-month low. Some key developments shaping the MPC stance include (i) sharp fall in global oil prices, (ii) stability in FX reserves standing at USD 9.5bn in Sep-24 despite continued debt repayments, and (iii) decline in secondary market yields.

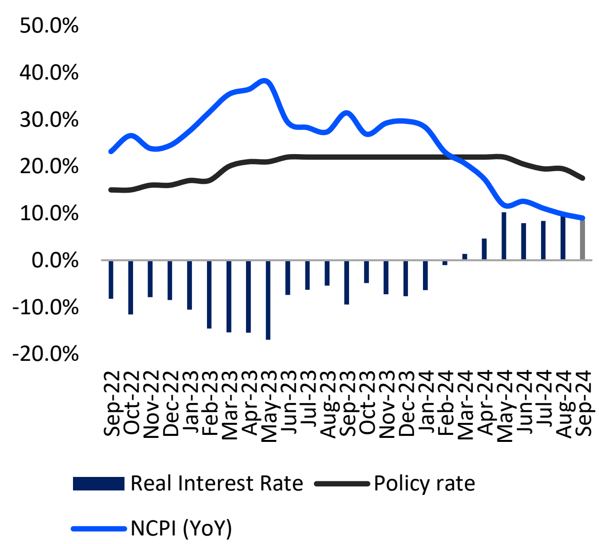
Key Takeaways

- GDP growth is targeted at 2.5%-3.5% for FY25, with the outlook for the agriculture sector appearing weaker than last year due to an expected decline in cotton production given the fall in area under cultivation and a drop in cotton arrivals by Aug-24. However, the MPC has identified growth prospects for the industry and services sectors supported by easing inflation and declining interest rates.
- Current Account Deficit (CAD) is expected at 0%-1% of the GDP owing to (i) growth in workers' remittances and (ii) recovery in the growth of exports from textiles. Import volumes are expected to increase; however, falling crude oil prices will stabilize CAD.
- FX reserves currently stand at USD 9.5bn despite debt repayments. The IMF approval is expected to further elevate this level to USD 12bn by Mar-25 and USD 13bn by the end of FY25.
- On the external repayments front, a total of USD 14.1bn are expected with regards to the debt servicing obligations until Mar-25, of which USD 8.3bn will be rolled over and USD 5.8bn will be repaid.
- The SBP will be paying a profit to the government more than the budgeted amount of PKR 2.5tn in the next few days.
- The SBP Governor has confirmed that all external financing arrangements have been made by the government to meet the IMF's requirements. The final approval for the Extended Fund Facility (EFF) program will be secured by Sep-24 end.
- The MPC has assessed that the momentum of tax collection in the coming months of FY25 needs to be higher than the current rate to achieve the revenue target for the year.

Outlook

The country's easing inflation and improving external balance point towards successful outcome of the tight monetary stance. Moving forward, the MPC expects a possibility of FY25 average inflation falling below the earlier forecast range of 11.5 – 13.5%. However, achieving fiscal consolidation targets and timely realization of planned external inflows present challenges in achieving this benchmark.

Monetary easing continues amidst softening inflation



Source: SBP, PBS, Akseer Research

Disclaimer

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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