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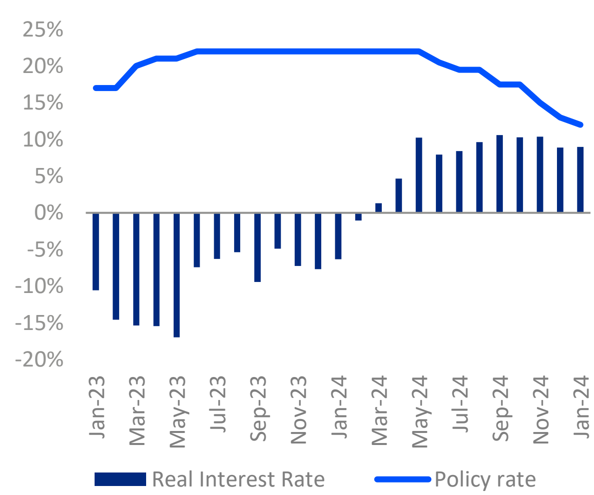
REN # REP - 004 REN # REP - 400 R

Economy: SBP slashes policy rate by 100bps to 12%

The State Bank of Pakistan (SBP) announced its monetary policy today (Monday), wherein the policy rate was cut by 100bps to 12%, bringing down the real interest rate to ~930bps. This latest move brings the cumulative rate cuts to 1,000bps since Jun-24.

Some key developments influencing the macroeconomic outlook include (i) real GDP growth in 1QFY25 turning out slightly lower than the MPC's earlier expectations, (ii) the current account remaining in surplus in Dec-24 despite low financial inflows and high debt repayments, (iii) tax revenues remaining below target in 1HFY25, (iv) global oil prices showing increased volatility over the past few weeks, and (v) the global economic policy environment becoming more uncertain, prompting central banks to adopt a cautious approach.

Real Interest Rates over the Years (%)



Source: SBP, PBS, Akseer Research

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 expected sharp decline in the growth of the agriculture sector, which fell to 1.2% in 1QFY25, down from 8.1% in the same period last year.

- 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.

- Inflation is expected to ease further in Jan-25 before picking up in the subsequent months. The MPC reiterated its earlier assessment suggesting that the near-term inflation will remain volatile and is expected to increase close to the upper bound of the target range towards the end of FY25. The MPC has revised its inflation outlook to average between 5.5%–7.5% for FY25.

- The MPC has also noted that, going forward, the real policy 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 has improved considerably, with the outlook revised from 0-1% of GDP (from Jul-24) 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 and the remaining USD 10bn is repayable. And of the repayable amount, USD 6.4bn is already repaid and USD 3.7bn will be repaid during the remaining months of fiscal year.

- The net financial inflows are expected to improve going forward, as a major part of official debt repayments has already been made. 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.

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