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Economy: SBP slashes policy rate by 250bps to 15%

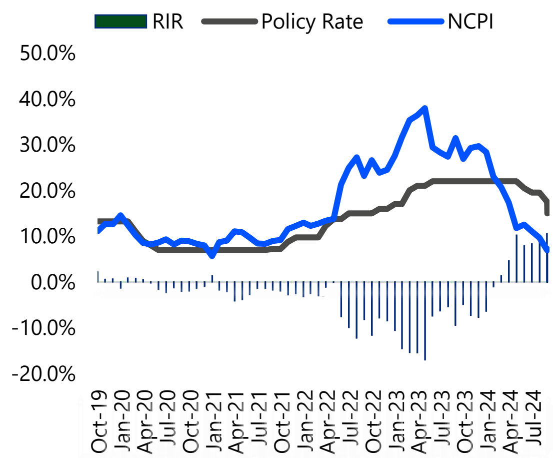
The State Bank of Pakistan (SBP) announced its monetary policy on 4th November (Monday), wherein the policy rate was cut by 250bps to 15.0%, bringing down the real interest rate to 780bps. This latest move marks the most significant rate reduction since the beginning of easing cycle, bringing the cumulative rate cuts to 700bps.

This decision reflects a faster-than-expected drop in headline inflation due to (i) a sharp decline in food prices, (ii) softening global commodity prices, and (iii) no recent adjustments in gas tariffs or petroleum development levy. Some developments influencing the monetary stance include (i) IMF board's approval for the EFF program, (ii) improvement in inflation expectations, (iii) a decline in secondary market yields, and (iv) lower-than-expected tax collection in the first four months of FY25.

Key Takeaways:

- The economic outlook has improved, with major Kharif crops like rice and sugarcane outperforming expectations, offsetting shortfalls in maize and cotton.
- The central bank revised its average inflation forecast for FY25 to a lower range than the initial 11.5%-13.5%, although risks remain from potential food inflation or energy price adjustments.
- The SBP governor said that the SBP has accounted for a potential 10-15% fluctuation in global oil prices, which they believe would not impact the MPC's decision.
- External debt has decreased from USD 100bn at FY22 end to USD 98.3bn by FY24 end, with a better maturity profile due to increased multilateral debt. Moreover, the domestic debt profile has improved, with short-term treasury bills now 21% of the total domestic debt in Oct-24, down from ~24% at FY24 end, and expected to fall below 20% by the end of FY25.
- The expected debt servicing cost as a share of revenue has decreased from 60% to below 50% for FY25 due to improved debt maturity and lower interest rates, with total debt costs expected to drop from PKR 9.8tn to ~PKR 8.5tn. This PKR 1.3tn reduction represents a significant saving of ~1% of GDP, providing a substantial relief to the country's fiscal challenges.
- For FY25, the total debt repayments are USD 26.1bn, including USD 22.1bn principal and USD 4bn interest. Of this amount, USD 5.7bn has been serviced, including a USD 2.3bn rollover. The remaining USD 20.4bn will include a further USD14.1bn rollover, leaving USD 6.3bn to be paid during the rest of FY25.
- The external position of the country has improved in 4MFY25, with remittances in October projected to exceed USD 3bn. Consequently, the FX reserves are expected to reach USD 11.7bn by mid-Nov 24.
- The governor also stated that no financing gap exists for the year, despite differences in projections between the IMF and the SBP.

Real Interest Rates over the Years (%)



Source: SBP, PBS, Akseer Research

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