MPC Preview | Pakistan Research

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Alpha Capital REN # REP - 004
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Economy: MPC likely to cut policy rate by 50bps

We anticipate the State Bank of Pakistan (SBP) to reduce the policy rate by 50bps in the upcoming MPC meeting on May 5th, 2025. The revised policy rate would settle at 11.5%. Our expectation is primarily driven by favorable economic factors, namely i) an improvement in external account, ii) a decline in headline inflation, and iii) falling global commodity prices. The geopolitical situation still remains fluid, with rising tensions on the eastern border alongside US-China trade war. These factors may influence the SBP to take a cautious stance and defer the rate cut until more clarity emerges.

Disinflationary trend paving way for a rate cut

The headline inflation is expected to settle within the SBP's 5–7% medium-term target range in the next 12 months. A combination of falling imported inflation amid trade war and declining local food prices, backed by improved supply conditions, has dimmed the inflation outlook. Core inflation (NFNE) is also expected to taper off after being sticky at 9% since Dec-24, reinforcing our stance of a 50bps cut in the upcoming MPC meeting.

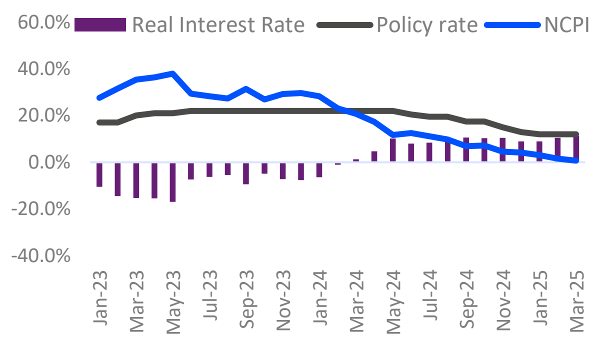
Stable external sector

Pakistan's current account posted an impressive surplus of USD 1.2bn in Mar-25, taking the cumulative 9MFY25 surplus to USD 1.9bn. The improvement was mainly backed by all-time high remittances, which surged to USD 4.1bn in Mar-25, extending a sturdy support for the external account.

Sluggish LSM sector backs rate cut

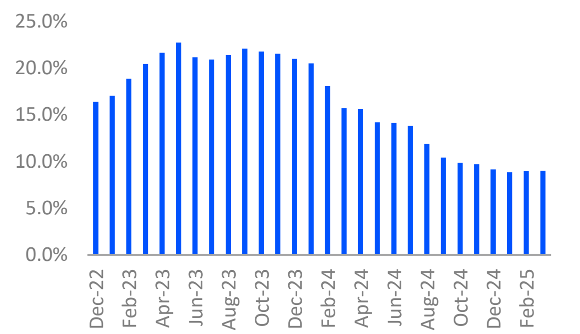
The LSM output decreased by 1.9% in H1FY25, compared to a decline of 1% in H1FY24, indicating weakness in industrial production and muted demand across major sectors. Pakistan's long-term average interest rate stands at 11.62%, indicating that the current policy rates reflect a neutral monetary policy stance which is evident in the LSM activity. For industrial activity to pick up pace, either the policy rate needs to drop below 11.5%, or the government has to step up its development spending. For now, increasing development expenditures remains a distant possibility due to constrained fiscal space. Therefore, LSM will only show a material uptick if the SBP takes a more dovish monetary policy stance and continues the monetary easing cycle to at least around 10%.

NCPI, Policy rate and Real Interest rate



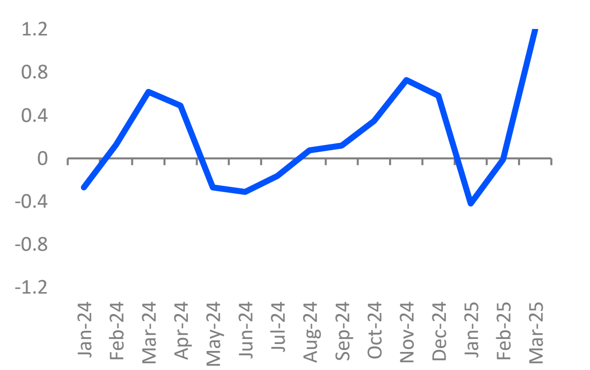
Source: PBS, Akseer Research

NFNE remains sticky (% YoY)



Source: PBS, Akseer Research

Current Account Balance (USD bn)



Source: PBS, Akseer Research

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

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