REP-300

Pakistan Economy

Status Quo - Policy rate kept unchanged at 22%

29-Apr-2024

Best Securities House: 2023
Best Investment Bank: 2023

Best Investment Bank: 2022

Best Equity House: 2022

Best Equity Advisor: 2021

Best Brokerage House: 2023
Corporate Finance House: 2023
Best Economic Research House: 2023
Best Equity Sales Person (Runner up): 2023

Top 25 Companies
(2019, 2018 & 2017)

Excellence Award
Leading Brokerage House for RDA 2021

Best Money Market Broker
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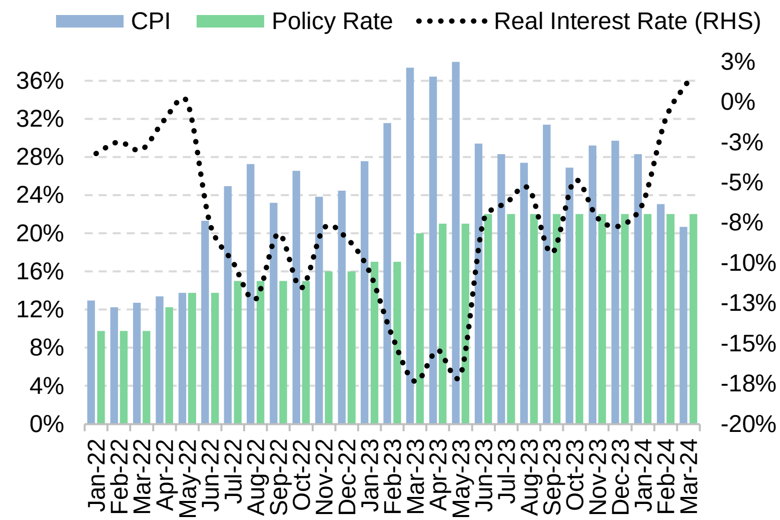
Monetary Policy Statement
Status Quo - Policy rate kept unchanged at 22%

In today's monetary policy meeting held on 29th Apr'24, the SBP decided to maintain the policy rate unchanged at 22% (which has remained status-quo since Jun'23). The MPC acknowledged that the persistent macroeconomic stabilization efforts have led to a prominent improvement in both inflation and the external position, amidst a gradual economic recovery. However, the MPC observed that inflation levels remained elevated. Moreover, global commodity prices seem to have stabilized due to robust global growth. Meanwhile, recent geopolitical developments have created uncertainty regarding the future direction of commodity prices. Along with this, the short-term inflation outlook can be influenced by the upcoming budgetary measures. Keeping these factors into consideration, the Committee decided to retain the current monetary policy stance to achieve the targeted inflation range of 5% – 7% by Sep'25.

Figure: CPI and Policy Rate



Source (s): SBP, PBS, AHL Research

Key observations since the last MPC meeting:

The MPC highlighted the following developments since the last meeting:

I. Improvement in the output of agriculture, which has led to a modest pickup in economic activity,

II. Sizable current account surplus in Mar'24 kept SBP forex reserves stable,

III. Consumer inflation expectations witnessed a slight increase in Apr'24, while for businesses declined.

IV. Central banks in advanced economies have opted for a cautious stance.

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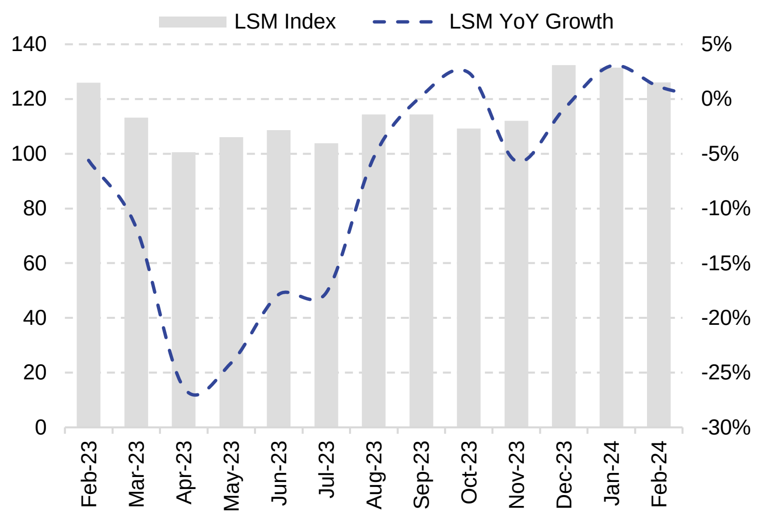
Real sector

- For FY24, real GDP growth is project to remain stable within the range of 2% - 3%.
- In 1HFY24, the agriculture sector remained a significant driver, exhibiting robust growth of 6.8%.
- During 8MFY24, the large scale manufacturing depicted a modest decline of 0.5% YoY. MPC expects this to recover in the future on the back of improved capacity utilization and employment conditions along with favourable base effect.

External sector

- A substantial improvement in the current account balance was witnessed, with the deficit narrowing by 88% YoY to USD 537mn during 9MFY24, which is attributable to shrinking of trade deficit, led by jump in exports and a reduction in imports.
- Higher food exports have resulted in an increase in the country's exports.
- Meanwhile, higher domestic agriculture output, adequate domestic demand, and supportive global commodity prices kept import payments restrained.
- Furthermore, the continuation of workers' remittances has climbed up since Oct'23 on account of incentives and regulatory reforms to bring in inflow through formal channels.
- The committee highlights that further build-up in foreign exchange buffers will be a key catalyst to react to external shocks and support sustainable economic growth.

Figure: Quantum index of manufacturing



Source (s): PBS, AHL Research

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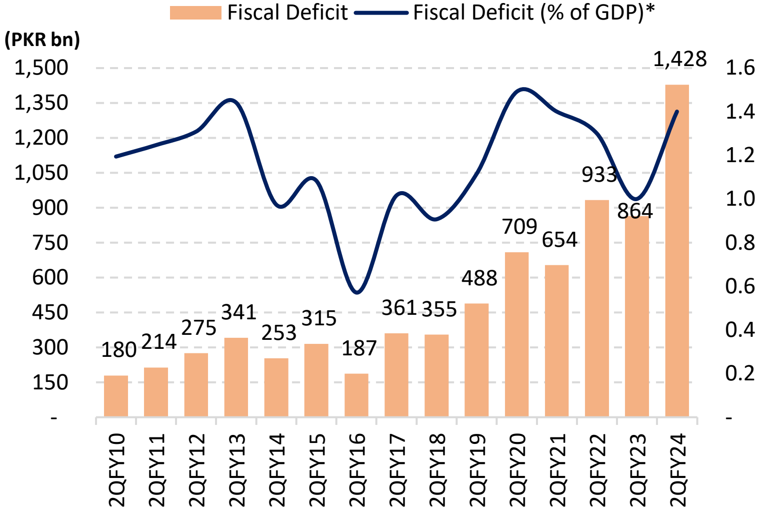
Fiscal sector

- Fiscal consolidation is ongoing as indicated by the latest data.
- During 9MFY24, the overall fiscal deficit has increase to 2.6% of GDP from 2.3% in SPLY, while primary surplus jumped up to 1.8% vis-à-vis 1.1% in SPLY.
- Improved revenue collection from non-tax sources and relatively controlled non-interest expenditures contributed to the improvement in the primary surplus to GDP ratio.
- The expansion in the overall deficit is driven by substantial interest payments, resulting from elevated debt levels and increasing dependence on costly domestic financing.
- The MPC acknowledges the ongoing fiscal consolidation efforts, emphasizing their importance for ensuring the sustainability of macroeconomic and price stability.

Money and credit

- The growth of broad money (M2) in Mar’24 increase to 17.1% YoY from 16.1% in Feb’24.
- The improvement in broad money comes due to expansion in net foreign assets on the back of improved foreign exchange reserves.
- The committee noted the growth in reserve money is sharply increased to 10% in Mar’24 from 8.2% in Feb’24.
- The committee observes that the compositional changes in M2 will have a positive impact on the inflation outlook.

Exhibit: Historical Fiscal Deficit



Source (s): MoF, AHL Research, *FY16-FY21 numbers are calculated on revised GDP

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Inflation outlook

- The committee acknowledged decline in headline inflation to 20.1% in Mar’24 from 23.1% in Feb’24.
- The core inflation has reduced to 15.7% in Mar’24 from 18.1% in Feb’24.
- In addition to the coordinated tight monetary and fiscal policy response, several other factors have contributed to this favorable outcome, including lower global commodity prices, improved food supplies, and the high base effect.
- The Committee expects inflation to continue on a downward trajectory. However, it also acknowledged that this outlook is subject to risks arising from recent global oil price volatility, stabilization of other commodity prices, potential inflationary effects of resolving circular debt in the energy sector, and future tax rate-driven fiscal consolidation.
- Recognizing these risks, the Committee deems it prudent to maintain the current monetary policy stance at this stage, characterized by significant positive real interest rates.

Monetary Policy Statement
Analyst Briefing Takeaways

The State Bank of Pakistan (SBP) decided to keep the policy rate unchanged at 22% in today's Monetary Policy meeting.

Brief takeaways

- In FY24, the total external debt to be serviced amounted to USD 24.3bn, with USD 3.9bn allocated for interest payments and the remaining USD 20.4bn for principal repayments. Most of this total amount has been settled, with only USD 1.8bn in principal remaining to be paid in the remaining months of FY24.
- In response to a query about the SBP reserves by Jun'24, the Governor affirmed their target at USD 9.1bn, in accordance with the agreement made with the IMF under the SBA program. Moreover, with approval of a USD 1.1bn tranche by the IMF Executive Board (scheduled to meet today), the SBP anticipates its reserves to surpass USD 9bn. Moreover, the SBP aims to sustain or enhance its reserves to meet or exceed the target for Jun'24. The Governor emphasized that the SBP has bolstered reserves since the end of FY23 without significantly increasing debt. He also highlighted Pakistan's improved maturity profile achieved by repaying short-term commercial loans during this period.
- During 9MFY24, the total dividend and profits repatriated amounted to ~USD 800mn, compared to USD 235mn paid in the previous year.
- The governor disclosed that for FY24, the anticipated profit of the SBP, which will be transferred to the government upon the completion of SBP's financial audit, is expected to be over PKR 2trn, compared to PKR 972bn transferred last year.
- The SBP governor clarified that the SBP does not set a specific target level for REER. Instead, the REER is influenced by factors such as domestic inflation, inflation in other countries, monetary aggregates, and various other economic developments.
- Commenting on the gold reserves held by the SBP, the governor mentioned that the SBP currently holds ~USD 4.3bn worth of gold as strategic investments.

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Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2024 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -15% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -15% from last closing of market price(s)

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks: The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk