REP-300

Pakistan Economy

Long-awaited cut: Policy rate down by 150bps

10-June-2024

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Monetary Policy Statement
Long-awaited cut: Policy rate down by 150bps

- During the monetary policy meeting held on 10th Jun'24 (today), the SBP decided to reduce the policy rate by 150bps to 20.5%.
- The MPC acknowledged that the decline in inflation during May'24 was better than its earlier projection.
- Moreover, the MPC observed that inflation pressures are subsiding due to a tight monetary policy stance, resulting in fiscal consolidation.
- Meanwhile, the committee expects some upside risks for the short-term inflation outlook which can be influenced by the upcoming budgetary measures and uncertainty related to the future energy price adjustments.
- Moreover, the MPC highlighted that the prior monetary tightening will keep inflationary pressures under control.
- Lastly, committee noted that the real interest rate continues to be significantly positive, which plays an important role in steering inflation towards the medium term target of 5% - 7%.

Key observations since the last MPC meeting:

The MPC highlighted the following developments since the last meeting:

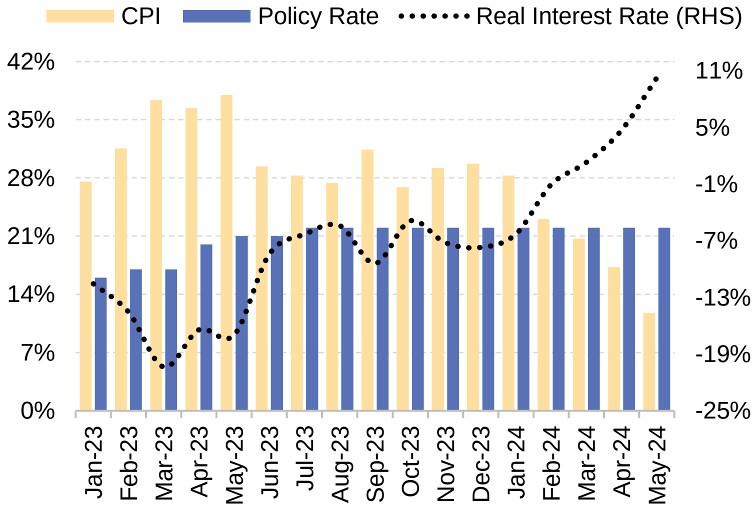
I. Moderate real GDP growth of 2.4% in FY24 owing to stellar growth in agriculture, which was partially offset by lower subdued recovery in industry and services.

II. Reduction in current account deficit resulted in improvement in SBP forex reserves (standing at USD 9bn).

III. SBP forex buffers are expected to built-up given the government has approached the IMF to negotiate EFF program.

IV. International oil prices have plummeted while non-oil commodity prices have witnessed a meager uptick.

Figure: CPI and Policy Rate



Source (s): SBP, PBS, AHL Research

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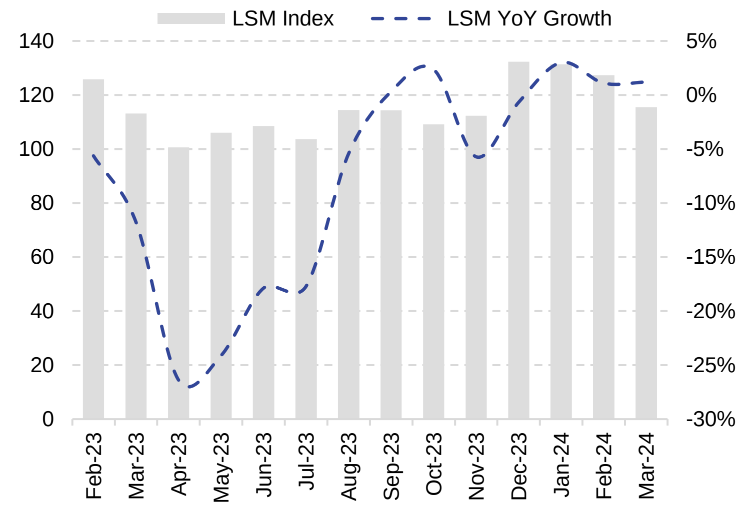
Real sector

- Real GDP growth at 2.1% in 3QFY24, compared to a contraction of 1.1% in the same quarter last year.
- Agriculture already showed strong growth, and the industry also experienced positive growth in Q3.
- Initial growth estimates for both Q1 and Q2 of FY24 were revised upward.
- Based on developments in 9MFY24 growth is provisionally estimated by PBS at 2.4%, compared to a contraction of 0.2% in FY23. Almost two-thirds of this recovery is attributed to improvements in the agriculture sector.
- For FY25, the MPC expects economic growth to remain moderate. This assessment considers the impact of expected moderation in agriculture output and ongoing stabilization policies.

External sector

- The current account posted a surplus for the third consecutive month in Apr'24, driven by robust growth in remittances and exports, which offset the uptick in the imports.
- During 10MFY24, the current account deficit narrowed significantly to USD 202mn.
- The lower current account deficit, improved FDI, and the disbursement of the SBA tranche in Apr'24 have facilitated large debt repayments and supported the SBP's Forex reserves.
- Going forward, the Committee emphasized the importance of timely mobilization of financial inflows to meet external financing requirements.
- Strengthening FX buffers is crucial for the country to effectively respond to external shocks and support sustainable economic growth.

Figure: Quantum index of manufacturing



Source (s): PBS, AHL Research

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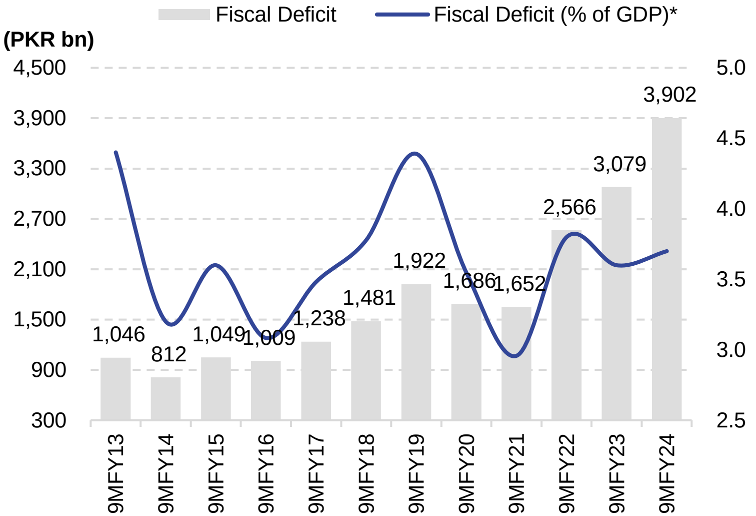
Fiscal sector

- Fiscal indicators showed improvement during Jul'24 –Mar24.
- The primary surplus increased to 1.5% of GDP, while the overall deficit remained almost at last year's level.
- This improvement was largely attributable to an increase in tax and PDL rates, higher SBP profits, and lower energy sector subsidies.
- Meanwhile, the FY25 budgetary measures are expected to be largely rate-based.
- The Committee emphasized that fiscal consolidation through broadening the tax base and reforming loss-making public sector enterprises is crucial for achieving durable fiscal sustainability.
- These measures are also essential to maintain a downward trajectory for inflation and contain external account pressures.

Money and credit

- Broad money (M2) growth decelerated to 15.2% YoY in May'24, from 17.1% in Mar'24.
- This reduction was primarily due to a slowdown in the growth of net domestic assets of the banking system.
- The growth contribution of net foreign assets in M2 remained positive.
- Meanwhile, on the liability side, deposits remained the main contributor to M2 growth, while currency in circulation growth decelerated.
- As a result, reserve money growth sharply declined from 10.0 percent to 4.3 percent during this period.
- The MPC noted that these developments in monetary aggregates are consistent with the tight monetary policy stance and have favourable implications for 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 a decline in headline inflation to 11.8% in May'24 from 17.3% in Apr'24.
- The core inflation has reduced to 14.2% in May'24 from 15.6% in Apr'24.
- In addition to the continued tight monetary stance, several other factors have contributed to this favorable outcome, including sharp decline in prices of wheat, wheat flour, and some other major food items tagged with downward adjustment in administered energy prices.
- Furthermore, the MPC noted that the impact of sharp decline in wheat price have in the past proved to be short-lived.
- The Committee observed that near-term inflation outlook could be influenced by the FY25 budgetary measures coupled with future adjustments in electricity and gas tariffs. Moreover, the inflation forecasted to rise significantly in Jul'24 from current levels, before gradually declining in FY25 .

Monetary Policy Statement
Impact of 150bps rate reduction

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Exhibit: Impact of 150 bps decrease in Policy Rate

Company	Impact on 2025 EPS	% of EPS	Company	Impact on 2025 EPS	% of EPS
E&P			**Fertilizer**		
PPL	(0.30)	-0.8%	ENGRO	(0.71)	-0.9%
POL	(2.55)	-2.3%	FFC	(0.49)	-1.4%
OGDC	(0.27)	-0.6%	FFBL	(0.34)	-2.4%
MARI	(4.17)	-0.7%	EFERT	(0.09)	-0.3%
Banks			**Oil Marketing**		
MCB	(2.41)	-4.1%	PSO	7.67	10.4%
UBL	(3.23)	-6.2%	APL	(1.78)	-1.6%
BAFL	(1.95)	-8.1%	**Power**		
HBL	(2.92)	-6.7%	HUBC (Con)	0.93	1.6%
ABL	(1.67)	-5.0%	**Autos**		
NBP	(1.81)	-9.8%	INDU	(9.73)	-5.0%
AKBL	(0.46)	-3.3%	HCAR	0.89	3.7%
BOP	(0.08)	-2.7%	MTL	0.26	0.4%
MEBL	(2.43)	-4.5%	**Textile**		
FABL	(0.73)	-4.9%	NML	1.66	3.7%
Cement			NCL	1.38	12.0%
ACPL	0.80	3.0%	FML	0.56	3.2%
DGKC	0.88	5.8%	**Chemical**		
FCCL	0.14	2.2%	LOTCHEM	(0.04)	-0.8%
KOHC	(0.76)	-1.6%	EPCL	0.32	3.0%
LUCK	(0.21)	-0.2%	LCI	2.20	1.8%
MLCF	0.13	1.3%			
Technology					
SYS	(0.13)	-0.3%			

Source (s): Company Financials, AHL Research

Monetary Policy Statement
KSE-100 performance post rate cut

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Exhibit: KSE-100 performance post rate cut

Date	MPC Decision	KSE100 Index	KSE100 Change Next Working Day	15 Day	30 Day	60 Day
1-Mar-94	200 bps decrease	2,505	1.2%	2.3%	1.4%	-5.1%
18-Jun-97	100 bps decrease	1,567	1.3%	5.2%	17.7%	22.1%
2-Jul-98	150 bps decrease	878	-1.2%	0.5%	4.8%	10.5%
4-Mar-99	100 bps decrease	971	1.4%	8.3%	8.4%	15.3%
2-Apr-99	150 bps decrease	1,052	-1.0%	-4.8%	5.2%	12.2%
19-May-99	100 bps decrease	1,269	2.4%	-10.5%	-17.1%	-10.6%
5-Jan-00	200 bps decrease	1,481	1.3%	16.1%	21.5%	28.8%
19-Jul-01	100 bps decrease	1,284	-1.8%	-2.4%	0.5%	-11.2%
17-Aug-01	100 bps decrease	1,290	-0.7%	-2.5%	-11.7%	-4.6%
19-Oct-01	200 bps decrease	1,267	6.7%	10.5%	9.0%	8.9%
23-Jan-02	100 bps decrease	1,501	1.7%	14.8%	14.8%	26.2%
15-Nov-02	150 bps decrease	2,272	1.2%	0.6%	8.0%	25.5%
20-Apr-09	100 bps decrease	7,902	-0.9%	-10.4%	-10.7%	-10.9%
13-Aug-09	100 bps decrease	8,011	-1.0%	6.6%	13.1%	20.4%
7-Oct-11	150 bps decrease	11,854	2.0%	-2.8%	0.9%	-4.1%
10-Aug-12	150 bps decrease	14,761	1.0%	1.9%	3.3%	6.3%
23-Jan-15	100 bps decrease	34,027	1.3%	1.9%	-0.1%	-8.0%
22-May-15	100 bps decrease	32,606	0.3%	4.3%	5.9%	10.1%
25-Mar-20	150 bps decrease	27,229	7.4%	16.9%	20.5%	24.3%
16-Apr-20	200 bps decrease	31,329	4.8%	8.9%	8.6%	8.0%
15-May-20	100 bps decrease	34,008	-0.6%	-0.2%	1.8%	8.0%
25-Jun-20	100 bps decrease	33,710	0.7%	7.4%	11.6%	18.1%
Average return			**1.25%**	**3.30%**	**5.33%**	**8.64%**
Market return on average post 150 bps decrease			**1.58%**	**2.07%**	**7.12%**	**12.44%**

Source (s): PSX, SBP, AHL Research

Monetary Policy Statement
Analyst Briefing Takeaways

The State Bank of Pakistan (SBP) decided to cut the policy rate by 150bps 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 as principal repayments. Consequently, USD 10.8bn has been paid till 11MFY24. Moreover, USD 1bn additional payment is expected in the remaining months of FY24, this will take total repayment to ~USD 12bn. This is in addition to the rollovers of USD 11-12bn in FY24.
- SBP expects reserves to stay above USD 9bn by the end of Jun'24, despite repaying around USD 1bn in the remaining period.
- Total of USD 1.5bn in dividends have been repatriated in FY24, and it is likely that FY25 will start with no backlog .
- The SBP governor clarified that the SBP does not set a specific target level for real interest rate.
- Inflation is anticipated to average in the range of 23-25% in FY24. For FY25, SBP has already factored in budgetary measures, while taking inflation assumptions into account.
- On a question regarding further reduction in interest rates, Governor said that the SBP will monitor and assess post-budgetary and IMF measures before making the decision.

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

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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)

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