ARIF HABIB LIMITED
REP-300

Pakistan Economy

Monetary Policy (Nov'24) - Analyst Briefing Takeaways

04-Nov-2024

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Monetary Policy Statement Analyst Briefing Takeaways

The State Bank of Pakistan (SBP) decided to cut the policy rate by 250bps in today's Monetary Policy meeting.

Brief takeaways

- **External Debt Management:** For FY25, Pakistan's total external debt obligations are projected at USD 26.1bn, consisting of USD 22bn in principal and USD 4bn in interest. Of this, ~USD 16.4bn is expected to be rolled over, with USD 2.3bn already extended. To date, Pakistan has made payments totaling USD 5.7bn, including the USD 2.3bn rollover, leaving USD 14.1bn in planned rollovers. This results in an outstanding amount of USD 6.3bn to be repaid over the remaining eight months of the fiscal year.
- **Macroeconomic projections for FY25**
- GDP growth is expected to remain between 2.5% and 3.5%.
- The current account deficit is projected to be 0-1% of GDP.
- Inflation is anticipated to average significantly below earlier estimated 11.5%-13.5%.
- SBP reserves are expected to well above USD 13bn by the end of FY25, up from the current USD 11.2bn.
- **Debt Reprofiling:** The SBP reported on the government's debt restructuring efforts, highlighting a strategic shift from short-term to long-term external debt. Domestically, a similar adjustment is underway: the share of short-term T-bills in domestic debt, which was 24% in FY24, has been reduced to 21% as of 4MFY25, with plans to bring it below 20% by the end of FY25. This reduction is being offset by a shift towards longer-term bonds.
- **Government Interest Expense:** The government's budgeted interest payments are projected to decline, supported by PKR stability, the recent policy rate cut, and reduced overall debt stock. The initial budgeted interest cost of PKR 9.8trn for FY25 is now estimated to come in slightly higher than PKR 8.2trn from last year but below PKR 8.5trn, reflecting easing debt servicing requirements.
- **Debt-to-GDP Ratio:** As of June 30, 2024, Pakistan's total public debt stood at 75% of GDP, but this has since decreased to 67.2%.
- **Current Account Deficit (CAD) and Remittances**
- The current account deficit remains manageable, with Oct'24 expected to stay within a sustainable range, bolstered by healthy remittance inflows projected to exceed USD 3bn for the month.
- Addressing the impact of geopolitical developments on commodity prices, the SBP noted that it closely monitors such factors and incorporates potential effects into its assessments. For instance, oil price fluctuations have been accounted for in SBP's projections, with a 10-15% variance factored in to address potential volatility.
- **Funding Position and Reserve Accumulation:** The SBP confirmed that no funding gap currently exists, aligning with IMF assessments. Furthermore, a USD 500mn loan from the Asian Development Bank has been approved and is expected to strengthen SBP reserves, bringing the total (SBP reserves) to ~USD 11.7bn within the next week.

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