

Pakistan Economy

SBP keeps policy rate unchanged at 22%

Tuesday, December 12, 2023

In an anticipated move, the State Bank of Pakistan (SBP) kept the policy rate unchanged at 22% during Dec23's monetary policy meeting. The move comes after a sharp increase in inflation readings.

Monetary Policy Highlights

- **Inflationary pressure picking pace:** The SBP took note of recent inflation prints, which incorporated the higher-than-anticipated hike in gas prices. Notably, November 2023's inflation figure of 29.2% came considerably higher than the industry's original estimates. Moreover, with another gas tariff hike on the cards, pressure on monthly inflation readings is projected to pick pace in the coming months.
- **Certain developments, however, may offset the inflationary trend:** Global crude oil prices have eased off by nearly 10% over the past two weeks, with estimates suggesting a potential Rs. 12-15/liter reduction in domestic petroleum prices. Moreover, improvements in agriculture output are expected to alleviate the pressure on domestic food prices, potentially offsetting the recent inflationary trend. The State Bank highlighted that real rates remain positive on a 12-month forward basis and will continue to trend downwards as the high inflation base kicks in. It conveyed that its policy action will be influenced by its **medium-term inflation target of 5-7% by FY25**.
- **GDP growth on track as business confidence improves:** The SBP conveyed that the quarterly 2.13% growth in GDP came in line with the central bank's estimates. The recovery from the previous year's contraction can be credited to higher agriculture output and an increase in LSM production. Given the improving macroeconomic prospects, the central bank highlighted that its recent surveys hinted at a material improvement in consumer and business confidence.
- **External accounts remain under control:** The central bank conveyed that Pakistan's external accounts have largely been under control in FY24 with the current account deficit (CAD) falling by 66% YoY to USD 1.1bn. The decline was credited to a sharp fall in imports. Moreover, recent months have seen a pick up in remittances and exports. External debt servicing amidst limited inflows, however, has caused the SBP's reserves to fall around the USD 7.0bn mark.
- **Broad Money (M2) growth decelerating:** The central bank highlighted that M2 growth reduced to 13.7% as against 14.2% at the end of the fiscal year. The SBP credited this development to net retirements of private sector credit and a reduction in commodity financing. Moreover, the reserve money also declined because of a reduction in the currency in circulation.
- **Outlook:** We think SBP's decision to maintain the policy rate was largely priced in by the investment community. We foresee the central bank **reducing interest rates by March 2024** as inflation slows down to around 20% because of the high inflation base.

Historical Policy Rate

Date	Policy Rate
26-Jun-23	22.00%
04-Apr-23	21.00%
03-Mar-23	20.00%
24-Jan-23	17.00%
28-Nov-22	16.00%
13-Jul-22	15.00%
24-May-22	13.75%
08-Apr-22	12.25%
15-Dec-21	9.75%
22-Nov-21	8.75%
21-Sep-21	7.25%

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Old rating system

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To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)