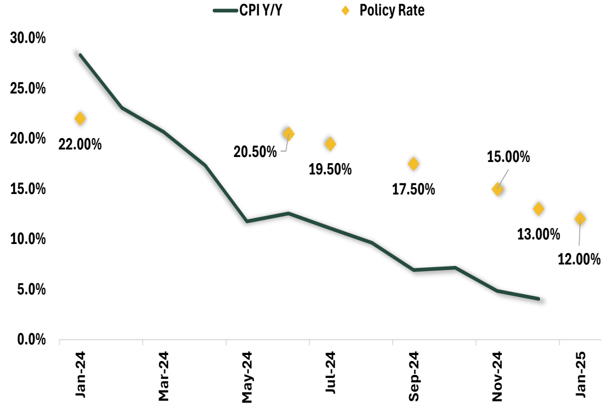
HABIBMETRO
Financial Services

Economy

Monday, January 27, 2025

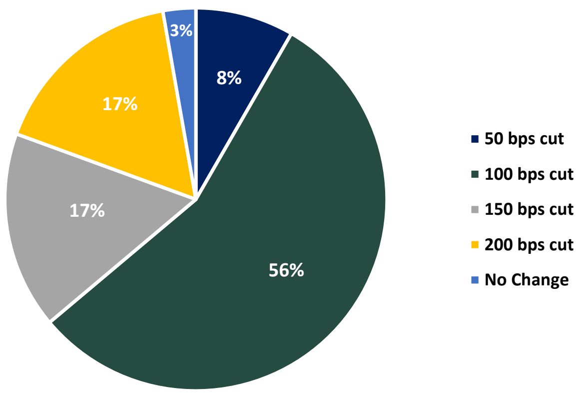
Another 100bps Cut: SBP Continues to Slash Rates in 2025

CPI vs Interest Rate



Source: SBP, PBS, HMFS Research

HMFS Poll: Market Expectation



Source: HMFS Research

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The State Bank of Pakistan (SBP) has announced a 100bps reduction in the policy rate, bringing it down to 12%, effective from January 28, 2025. This decision reflects sustained inflation stability within single digits and a positive real interest rate environment. The move aligns with expectations from the HMFS survey, where 56% of participants predicted a 100bps cut. Notably, this marks the sixth consecutive rate cut since the monetary easing cycle commenced in June 2024.

The SBP has reduced the policy rate, citing improved economic indicators, as 1HFY25 showcased notable achievements for the country's economy. Total foreign exchange reserves stood at USD 16.19bn, while inflation eased to 4.1% in December 2024—its lowest level in nearly seven years—falling within the SBP's medium-term target range of 5-7%. Remittances surged to USD 17.8bn in 1HFY25, reflecting a growth of 32.8%. Pakistan's current account recorded a surplus of USD 1.21bn during 1HFY25, a sharp contrast to the substantial deficit of the previous year. Additionally, Foreign Direct Investment (FDI) rose by 20%, with inflows reaching USD 1.33bn. Pakistan has also signed the billions of dollars MoUs with Saudi Arabia, Qatar and UAE. These indicators highlight strengthened economic fundamentals, improved external balances, and stability.

SECTORIAL IMPACT:

The recent policy rate cut is expected to pressure the Commercial Banking sector by reducing interest income, potentially challenging profitability. However, its impact on Fertilizer and Automobile sectors will depend on their respective leverage positions, resulting in mixed outcomes. Conversely, highly leveraged sectors such as Cement, Engineering, and Textiles are poised to benefit significantly from lower financing costs, likely improving their margins and supporting growth prospects.

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Policy Rate Impact of MPC Meeting Announcement i.e. 100bps Cut

Sector	Symbol	Net EPS Impact (PKR)
Cement	LUCK	1.85
	FCCL	0.08
	KOHC	(0.81)
Steel	MUGHAL	0.99
	ASTL	0.74
	ISL	0.19
Fertilizer	EFERT	0.14
	FFC	(0.55)
E&P	POL	(0.00)
	OGDC	(0.30)
	PPL	(0.45)
Textile	GATM	0.83
	NCL	0.73
	ILP	0.44
	NML	0.05
Autos	HCAR	0.30
	INDU	(6.31)

Source: *Company Financials, HMFS Research*

OUTLOOK:

The recent decline in CPI inflation to single digits, with expectations of January inflation falling below 3%—a nine-year low—opens the door for another modest rate cut in March. Prime Minister's indication of a potential reduction in the policy rate to 8% by the end of 2025 further reinforces optimism in the economic outlook. Meanwhile, Pakistan is set to launch Panda Bonds in June 2025, and the Pakistan Stock Market's robust returns continue to draw investor interest, contributing to a more stable economic outlook. Additionally, the Finance Minister confirmed that Pakistan is on track to meet IMF tax targets and is prepared for the second tranche review scheduled for mid-February.

Despite these positive developments, the SBP may opt to pause its rate cut cycle in the upcoming MPC meetings. While the current real interest rate provides room for further easing, a rapid reduction to single digits could pose risks to economic stability. A more gradual approach would enable the SBP to maintain positive real interest rates, aligned with forward-looking inflation trends, supporting sustainable growth. Sudden, aggressive rate cuts could inadvertently fuel import-driven demand, heightening pressures on the current account and exchange rate, which remain critical for meeting IMF benchmarks. As Pakistan strives to secure the next tranche of IMF funding, a cautious and measured approach to monetary policy is essential to safeguard economic credibility and ensure external sector stability.

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HMFS RATING GUIDE	
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HOLD	*Between 15% Upside & 15% Downside*
SELL	*More than 15% Downside*

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