

Monetary Policy Review

The SBP keeps policy rate unchanged at 22%

Monday, October 30, 2023

The State Bank of Pakistan (SBP) opted for a status quo and kept policy rate unchanged at 22%. The central bank’s decision was in-line with the general industry consensus.

Key Highlights

- The central bank highlighted certain risks to inflation, particularly the planned gas tariff hike and volatile global oil prices. It nevertheless foresees inflation tapering off in the 2nd half of the fiscal year, largely supported by the high inflation base. Notably, the SBP highlighted that recent surveys conducted by the central bank showed an improvement in inflation expectations of consumers and individuals.
- The central bank conveyed that real interest rates on a 12-month forward looking basis stand considerably positive but felt that maintaining a tight policy stance is necessary to ensure it achieves its **medium-term inflation target of 5-7%**.
- As per the projected data, the SBP see a sharp improvement in the supply of domestic crops, particularly cotton. It sees prices of agricultural produce easing as the post-flood supply normalizes.
- Discussing the industrial sector, the central bank conveyed that it exhibited modest growth. Recent data points, however, show signs of recovery, evident by improving sales figures of key industries, including cement, automobiles, and petroleum.
- The SBP highlighted that external account pressure considerably eased off during the first quarter of the fiscal year, registering a decline of 58% YoY to USD 947mn.
- The central bank also conveyed that administrative efforts to combat illicit currency markets, including major reforms to exchange companies, helped investor sentiments towards the FX market. These efforts resulted in considerable US Dollar inflows and enabled the SBP to maintain its reserves at USD 7.5bn despite limited official inflows. It also conveyed that a successful completion of the IMF review could potentially unlock additional financing avenues from multilateral and bilateral sources.
- Discussing the fiscal accounts, the SBP highlighted the improvement in both the fiscal (-0.9% of GDP) and primary balances (+0.4% of GDP). The improvement was a production of higher revenue collection and controlled spending.

Pakistan Interest Rates

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

Source: SBP, BMA Research

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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.)