INTERNATIONAL THE NEWS

30th January, 2019

Central bank to unveil monetary policy on Thursday

KARACHI: The State Bank of Pakistan (SBP) will announce the interest rate decision for the next two months on Thursday.

SBP Governor Tariq Bajwa will unveil the monetary policy decision at a press conference in Islamabad, the SBP said in a statement on Tuesday.

Many analysts expect the central bank to raise policy rate further at its bi-monthly monetary policy review meeting.

“We anticipate the SBP Monetary Policy Committee to announce another round of hikes in the range of 50-100bps, due at the end of January 2019,” an analyst said at Taurus Research.

The SBP hiked policy rate by 150bps to 10 percent in November last year.

The central bank has pushed up the policy rates by cumulative 425bps since January 2018.

However, according to a recent poll conducted by Tresmark comprising over 25 bankers and brokers, 81.82 percent in the market unanimously agree that SBP was likely to keep the policy rate unchanged in its upcoming monetary policy this month. A small faction (13.64pc) however, was of the view that the SBP might further increase rates by 50bps.

Common reasons cited by market observers were status quo in the PIBs yields.

The SBP accepted Rs46.92 billion, while maintaining cut off yields in its latest PIB auction on January 23 indicating no anticipated change. The accepted amount is substantially greater than the previous accepted amounts, further indicating investor’s acceptance of this rate of return.

Consumer Price Index (CPI) inflation has been on a downward trajectory and is expected to maintain this trend till May 2019 given low oil prices. A hike in the policy rate at this point might be premature as the market needs to fully absorb the impact of an earlier 1.5 percent hike in November.

A real interest rate of 4.5 percent is in line with historical return expectations of investors.

“Market participants look forward to further tightening in the later policy announcements, as most participation was averted from longer tenors (10 and 20 years) in yesterday’s auction. Any balance of payment or external financing pressure may result in rate hike sooner than later,” according to poll findings.

However, Fitch Solutions—a macro research arm of the global credit ratings agency, in its latest report, assumes the State Bank to keep interest rates unchanged for the remaining fiscal year, as it evaluates the effect of massive monetary tightening in 2018, and gives its support to foster economic growth.

Fitch also expects the economy to grow at a slower pace of 4.4 percent in FY19, and fiscal and external accounts to remain vulnerable.

CPI for December 2018 stood at 6.17 percent year-on-year, compared with 6.5 percent in the previous month.

“CPI Inflation has now clocked in at 6.0 percent during 1HFY19 and is anticipated to average 7.5 percent in FY19. The rise in 2HFY19 is because of expected further hikes in energy prices and likely increase in taxation measures to bridge the yawning fiscal gap,” it was said in another report published earlier this month.

Our Correspondent