

SBP lists reasons behind inflation

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The State Bank of Pakistan (SBP) has said that high domestic demand, adjustment in energy prices, and PKR depreciation may contribute to higher CPI inflation in FY19. The SBP in its third quarterly report "The State of Pakistan's Economy" has said that several external sector developments have started to impact inflation. The pass-through of rising global oil prices to domestic fuel prices pushed up the energy component of inflation. Similarly, the impact of PKR depreciation started to translate into costly imports and shoring up of inflationary expectations.

Therefore, SBP is expecting that higher demand, lagged impact of adjustment in energy prices, and PKR depreciation are likely to contribute to higher CPI inflation in FY19. "Smooth supply of staple food items and soft oil price on the other hand could offset these underlying pressures and help keep inflation around the target of 6 percent set for FY19," it added.

According to report, rising global commodity prices and strong domestic demand played a key role in determining the trend of domestic prices during Jul-Mar FY18 and non-food inflation rose by just under one percentage point YoY; however, its impact was more than offset by a decline in food inflation.

After the higher inflation a historic low policy rate regime in the country, came to a close in third quarter of FY18. Four key developments motivated the Monetary Policy Committee to raise the policy rate by 25 bps 25 basis points to 6 percent in January 2018 -this was the first hike since November 2014.

The key factors influencing the MPC's January decision included PKR depreciation of nearly 5 percent in December 2017, rising international oil prices, monetary tightening by other central banks (particularly the US Fed and Bank of England), with its concomitant impact on PKR interest rate differential and a possible overheating of the economy as indicated by increased capacity utilization in a number of industries.

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