

Monetary policy to be announced tomorrow: SBP expected to shove interest rate up by 50 to 100 basis points

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KARACHI: The central bank is expected to push its key policy rate up third time in a row during a monetary policy announcement scheduled on Saturday as tamed inflation seems to be unleashed, while domestic demand needs a restrain to overcome external account challenge, analysts said on Thursday.

“We expect interest rates to increase by 50-100 basis points in the upcoming monetary policy announcement,” brokerage Topline Securities said in a flash note. “We have recently raised our interest rate forecast and expect hike of further 200 basis points in 2H2018, which will take State Bank’s policy rate to 8.5 percent by December 2018.”

The central bank said in a statement it will announce its interest rate decision for the next two months on Saturday. “Governor State Bank of Pakistan Tariq Bajwa will unveil monetary policy decision at a press conference.”

The monetary policy announcement is sooner than the schedule because of the timing of general elections, which are being held on July 25.

The SBP raised the policy rate by 50 basis points to 6.5 percent in the last monetary policy announced in May. The central bank pushed up its policy rate by a cumulative 75 basis points since January 2018.

Several analysts weigh in the forecast for interest rate hike as there is need to tackle rising inflation and offset pressure on the balance of payments position.

They pin their expectations on a sharp deterioration in external account. The current account deficit is likely to clock in at \$18 billion for the last fiscal year, around six percent of GDP.

A possible International Monetary Fund’s program will entail aggressive monetary tightening in upcoming monetary policies, they added.

The SBP said high current account deficit, together with limited financial inflows, will continue to keep the balance of payments under duress.

Moreover, consumer price inflation spiked to 5.2 percent in June from 4.2 percent in May, showing the biggest increase in the past three years and seven months.

Analysts expect consumer price inflation to average around seven percent between 2018 and 2020 due to currency devaluation and rising oil prices. Rupee lost around 15 percent against the US dollar since December last year.

The SBP said consumer price index inflation is likely to surge due to high domestic demand, lagged impact of adjustment in energy prices, and the rupee depreciation.

“Smooth supply of staple food items and soft oil prices on the other hand could offset these underlying pressures and help keep inflation around the target of six percent set for FY19,” the central bank said in its latest report on economy.

Sakib Sherani, chief executive officer of Macroeconomic Insights said the policy rate is likely to increase to 8-10 percent by June-end 2019.

“We expect continued interest rate hikes of additional 100-125 basis points to be complemented with greater liquidity management in the interbank market at some stage,” Sherani said in a report.

The SBP has maintained positive real interest rates of around 150 to 200 basis points in the last two years.