

# Pakistan Economy

## SBP raises interest rates by 50 basis points

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## SBP Policy Rate raised by 50bps to 6.50%

- State Bank of Pakistan (SBP) in its monetary policy announcement today raised its Policy Rate by 50bps to 6.50%, which was higher than market expectations. In a Bloomberg Poll of 27 respondents, 21 were expecting a rate hike while remaining 6 anticipated status quo. Out of 21 economists that were forecasting a raise, 11 economists were expecting 25bps hike while remaining 10 economists were expecting 50bps hike.
- To recall, SBP had raised rates by 25bps to 6% in its Jan 2018 monetary policy announcement (after 4 years) and had held the rate in its Mar 2018 announcement contrary to broader expectations of a hike.
- SBP has cautioned that since the last monetary policy announcement, the external balance of payments picture has deteriorated despite some rise in exports due to sharp increase in international oil prices and limited financial flows to date. In absence of sufficient flows, country's own resources were used to finance the external deficit (Jul-Apr'18 current account deficit of US\$14bn) that led the country's FX reserves to decline by US\$5.8bn to US\$10.3bn as of May 18, 2018.
- SBP expects inflation to remain relatively in control despite the recent rise in core inflation, where Non-Food Non-Energy (NFNE) inflation rose to an average 6.4% during the last two months. However, rising trend in international oil prices can adversely impact inflation going forward. SBP expects average inflation for FY18 to remain contained around 4.5% range while for FY19 inflation is expected to be slightly higher than 6%.
- SBP has stated that the real sector has posted broad based growth in FY18. However, the govt's GDP growth target of 6.2% for FY19 remains ambitious and will depend on how the external challenges are managed.
- We are maintaining our expectations that SBP will increase interest rates by a further of 75 basis during 2018 (75 basis points have been increased) in order to curb spiraling aggregate demand and imports of the country.

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