

# Pakistan Economy

## Central bank raises Policy rate for first time in 4 years

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## SBP raises policy rate by 25bps to 6%

- The State Bank of Pakistan (SBP) announced its monetary policy today where it decided to increase the policy rate by 25bps to 6%. SBP had kept the policy rate unchanged at 5.75% for last 1.5 years as it had cut the policy rate by 25bps in May 2016. The last rate hike was seen in Nov 2013 when SBP had increased policy rate by 50bps.
- The above is in line with our expectation of 100bps rate hike in calendar year.
- Shift in monetary policy stance by SBP is likely on the back of higher inflation expectations and deteriorating balance of payment of the country.
- Inflation during Dec 2017 increased by 4.7% reducing real interest rates to 1% as compared to last two years average of 1.9%. Inflation is expected to pick up further on account of rising oil prices & currency devaluation.
- We believe that currency devaluation in Dec 2017 was phase 1 while phase 2 of a similar magnitude i.e. 5% will follow in 2HFY18. This will take the Pak Rupee to Rs115 by Jun 2018, which will take FY18 devaluation to 10%. As a result, inflation will increase and we expect this to average 5.2% in FY18 and 6.5% in FY19 as compared to 4.2% in FY17.
- Current Account deficit of the country during 1HFY18 stood at US\$7.4bn vs. US\$4.7bn in same period last year. It is anticipated to clock in at around US\$14bn for FY18, higher than last year's US\$12bn.

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