

Economy: SBP maintains Status quo at 10.5%

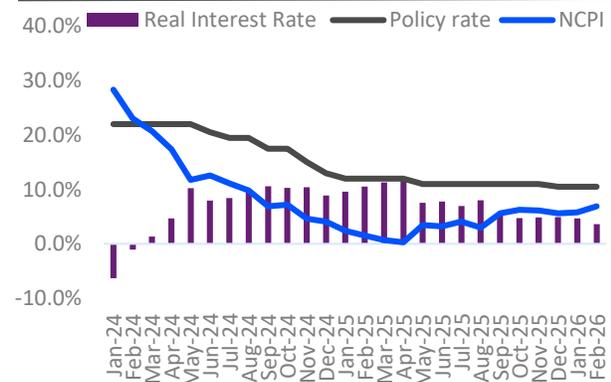
The State Bank of Pakistan (SBP) announced its monetary policy today, deciding to maintain the benchmark policy rate at 10.5%, in line with market expectations. This decision underscores the SBP's cautious and prudent approach, aimed at increasing the economy's resilience to shocks.

Some key developments influencing the MPC's decision include: (i) rising oil prices and freight costs amid geopolitical tensions, (ii) expectation of a widening trade deficit, (iii) sticky core inflation, and (iv) supply chain disruptions in the backdrop of war.

Key Takeaways:

- Recent high frequency indicators suggest that growth momentum continues to strengthen. Industrial activity has remained robust with Large Scale Manufacturing (LSM) recording a notable growth of 4.8% YoY during Jul-DecFY26. The agricultural sector is also showing improved prospects particularly for the wheat crop which has met its sowing target. These positive developments in the commodity producing sectors are expected to generate spillover support for activity in the services sector as well.
- Real GDP growth is expected to fall in the earlier projected range of 3.75-4.75%. However, some risks persist particularly due to the geopolitical situation.
- The fiscal balance improved because of contained expenditures due to lower interest payments. FBR tax collection rose by 10.6% during Jul-FebFY26 falling short of the target. A significant acceleration in revenue mobilization will be required to meet the budgeted tax collection target over the remaining months of FY26.
- On the external front, the current account posted a surplus of USD 121mn in Jan-26 bringing the cumulative deficit to USD 1.1bn during Jul-JanFY26. The current account deficit is still projected to remain within the earlier range of 0-1% of GDP in FY26. Worker's remittances are continuing to finance a significant part of trade deficit.
- For FY26, total external debt repayments are estimated at USD 25.6bn. Of this, USD 14.6bn has already been addressed - USD 7bn repaid and the remainder to be rolled over. Of the USD 11bn outstanding, approximately USD 4.3bn is due in the remaining four months of FY26, while the rest is expected to be rolled over. Also, the USD 1.3bn Eurobond maturing in April 2026 is fully on track for repayment at maturity.
- The SBP's foreign exchange reserves have crossed USD 16bn and are projected to surpass USD 18bn by Jun-26 with the realization of planned inflows, bringing reserves close to the benchmark import cover of three months.

NCPI, Policy rate and Real Interest rate



Source: SBP, PBS, Akseer Research

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