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REN # REP - 004 REN # REP - 400 R

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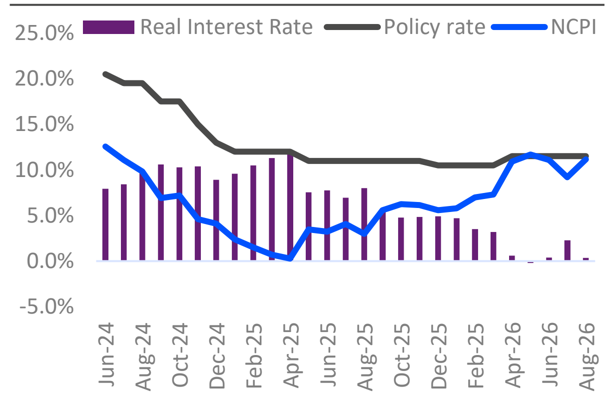
Economy: SBP Holds Policy Rate Steady at 11.5%

The State Bank of Pakistan (SBP) announced its monetary policy today, wherein the policy rate was kept unchanged at 11.5%, with seven out of ten MPC members voting for the status quo. The MPC considers the current stance appropriate to guide inflation towards the 5-7% target range, though uncertainty around the outlook has increased.

Some key developments influencing the MPC's decision include (i) headline inflation rising to 11.1% in Aug-26 from 9.2% in Jul-26, (ii) high frequency indicators pointing to a pickup in economic activity, and (iii) contained external account pressures on robust workers' remittances and higher financial inflows.

Real Interest Rates over the Years (%)



Source: SBP, PBS, Akseer Research

Key Takeaways:

- Pakistan's total external debt repayment requirement for FY27 stands at USD 21.5bn, of which around USD 10.5bn is expected to be rolled over or refinanced, including USD 3.2bn of commercial loans. This leaves a net repayable amount of nearly USD 11.0bn including interest, of which USD 3.5bn has been repaid during 2MFY27, leaving USD 7.5bn for the rest of the year.
- SBP's FX reserves rose to USD 21.4bn after the receipt of USD 3bn in Eurobond proceeds, surpassing the end-FY27 target of USD 21bn, which is set to be revised upward at the next meeting. The forward book has been cut to under USD 0.7bn from USD 5.7bn in Feb-23, while reserves are projected to approach the three-month import cover by end-Jun 2027.
- The Jul-26 current account deficit was in line with the MPC's expectations, with the FY27 deficit projected within 0 to 1% of GDP. Remittances are expected to cross USD 44bn and exports to reach around USD 32bn against just under USD 31bn last year.
- Real GDP growth for FY27 is projected within the earlier range of 3.5-4.5%, against provisional growth of 3.7% in FY26. Economic activity moderated in Q4FY26 but is picking up, while LSM grew 5.0% in FY26 despite a 3.5% contraction in Jun-26.
- Headline inflation clocked in at 11.1% YoY in Aug-26 against 9.2% in Jul-26 on food inflation, while higher fuel prices pushed core inflation to 8.7%. Inflation is expected to ease towards the upper bound of the 5-7% range by Jun-27, though risks have increased significantly.
- FY26 fiscal consolidation exceeded the budgetary target, with the overall deficit at 2.6% of GDP and a primary surplus of 2.9% of GDP. For FY27, the primary surplus is targeted at 2.0% of GDP and the fiscal deficit at 3.6% of GDP, aided by the SBP profit transfer of PKR 1.9tn against PKR 1.4tn budgeted, while public debt has declined to 68.3% of GDP.

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