Rida Asif
rida.asif@akseerresearch.com

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REN # REP - 004 REN # REP - 400 R

Economy: SBP slashes policy rate by 50bps

The State Bank of Pakistan (SBP) announced its monetary policy today (Monday), cutting the benchmark policy rate by 50bps to 10.5%. This move marks an unexpected rate adjustment after the policy rate had remained unchanged at 11% since May-25.

Some key developments influencing the MPC's decision include: (i) average inflation remaining within the target range during Jul–Nov of FY26, and (ii) continued benign global commodity prices.

Key Takeaways:

- Recent high frequency indicators suggest that growth momentum is continuing to pick up. Industrial performance has been strong with 4.1% YoY growth in Q1FY26. The agricultural sector is also performing relatively well, as intel on the area under cultivation indicates that the wheat production may surpass its target. These positive developments in the commodity producing sectors are expected to provide spillover support to activity in the services sector as well.

- Real GDP growth is expected to fall in the upper half of the previously projected range of 3.25–4.25%.

- Inflation is expected to rise above the target range of 5–7% toward the end of FY26, primarily due to low base effects from last year, before easing back into the target range in FY27.

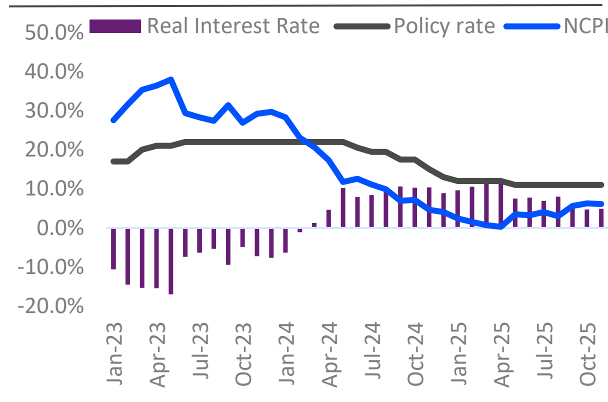
- The overall fiscal and primary balances recorded surpluses in Q1FY26, primarily driven by the transfer of SBP profits. However, FBR tax collection growth slowed markedly to 10.2% YoY during Jul–Nov of FY26, implying that a considerable acceleration will be needed to meet the budgeted tax collection target over the remaining 7 months of FY26.

- On the external front, the current account recorded a USD 0.7bn cumulative deficit during Jul-Oct of FY26. The current account deficit is projected to remain in the projected range of 0 to 1% of GDP in FY26. Remittances have remained resilient, with their outlook further improved, and are projected to cross USD 41bn in FY26.

- For FY26, total external debt repayments are estimated at USD 25.8bn, including ~USD 21bn in principal and ~USD 4bn in interest. To date, nearly USD 9.7bn have been settled of which rollover agreements of around USD 5.3bn have been secured, while actual repayments of approximately USD 4bn have already been made. Of the remaining USD 16.2bn, around USD 9.3bn is expected to be rolled over, with the balance to be repaid during the remainder of the fiscal year.

- The SBP's foreign exchange reserves have crossed the target of USD 15.5bn and they are now standing at USD 15.8bn after the receipt of USD 1.2bn from the IMF. The SBP reserves are projected to reach USD 17.8bn by Jun-26 with the realization of planned inflows.

NCPI, Policy rate and Real Interest rate



Source: SBP, PBS, Akseer Research

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Contact Details

Akseer Research (Pvt) Limited
1st Floor, Shaheen Chambers, KCHS block 7 & 8,
off. Shahrah-e-Faisal
T: +92-21-34320359 -60
E: info@akseerresearch.com

Alpha Capital (Pvt) Limited
3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
KCH Society, Block 7 & 8, Near Virtual University, Karachi
T: +92-21-38694242
E: info@alphacapital.com.pk

www.jamapunji.pk