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Economy: SBP maintains Status quo at 10.5%

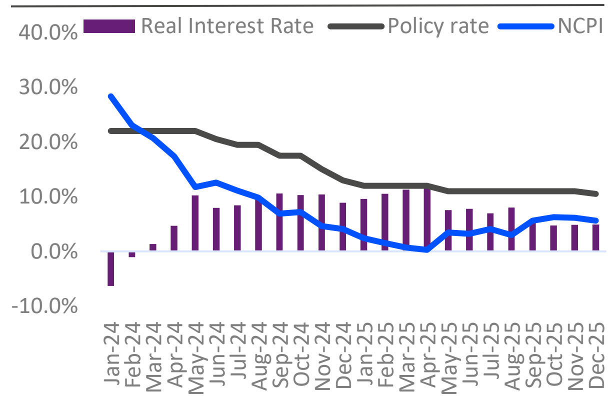
The State Bank of Pakistan (SBP) announced its monetary policy today, deciding to maintain the benchmark policy rate at 10.5%, contrary to market expectations. This decision underscores the SBP's cautious and prudent approach, aimed at safeguarding price stability while supporting sustainable economic growth.

Some key developments influencing the MPC's decision include: (i) core inflation remaining steady at an elevated level, (ii) a widening trade deficit due to increased imports, and (iii) adoption of wait and see approach for global commodity prices amid geopolitical tensions.

Key Takeaways:

- Recent high frequency indicators suggest that growth momentum continues to strengthen. Industrial activity has remained robust, with Large Scale Manufacturing (LSM) recording cumulative growth of 6% YoY during Jul-NovFY26. The agricultural sector is also showing improved prospects, particularly for the wheat crop. 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 projected range of 3.75-4.75%.
- The real policy rate is adequately positive to ensure that the medium-term inflation remains in the target range of 5-7%.
- The fiscal balance improved due to contained expenditures during H1FY26. However, achieving the targeted primary surplus appears somewhat challenging. Moreover, FBR tax collection grew by 9.5% in H1FY26 falling short of the target. A significant acceleration in revenue mobilization will be required to meet the budgeted tax collection target over the remaining 6 months of FY26.
- On the external front, the current account recorded a cumulative deficit of USD 1.2bn during H1FY26, mainly due to rising imports and a decline in exports. However, the current account deficit is still projected to remain within the range of 0-1% of GDP in FY26. Resilient remittance inflows and strong ICT exports have helped contain external account pressures.
- For FY26, total external debt repayments have declined and are now estimated at USD 25.7bn. Of this amount, USD 12.5bn comprises bilateral debt that has been agreed for rollover. In addition, USD 2.2bn in commercial loans from Chinese banks is expected to be refinanced. As a result, the net repayable amount is estimated at around USD 11bn. Of this, USD 5.7bn has already been repaid, leaving approximately USD 5.3bn to be paid during the remaining months of FY26.
- 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. Furthermore, foreign exchange reserves are expected to reach USD 20.6bn by the end of CY26.

NCPI, Policy rate and Real Interest rate



Source: SBP, PBS, Akseer Research

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