

## Economy: SBP increases the policy rate by 100bps

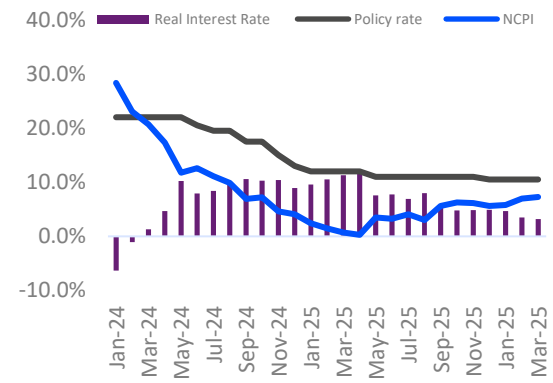
The State Bank of Pakistan (SBP) announced its monetary policy today, raising the policy rate by 100bps to 11.5%. This marks the first rate hike after nearly two years of monetary easing. The decision reflects SBP's cautious approach to strengthening the economy's resilience amid an evolving global landscape while supporting sustainable economic growth.

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) rising inflation and elevated forward looking inflation expectations, and (iv) supply chain disruptions in the backdrop of war.

### Key Takeaways:

- Recent high-frequency indicators that had been signaling growth momentum are now showing some signs of moderation. Large Scale Manufacturing (LSM) recorded a notable growth of 5.9% YoY during Jul-FebFY26. The agricultural sector is also exhibiting slightly slower growth driven mainly by lower than expected wheat production.
- Real GDP growth is now expected to settle at the lower end of the earlier projected range of 3.75-4.75%. The moderation in economic activity is likely to continue into FY27, although risks remain elevated particularly due to the geopolitical situation.
- Fiscal management is becoming increasingly challenging amid the ongoing situation. FBR tax collection fell short by PKR 611bn during Jul-MarFY26. Structural reforms, particularly broadening the tax base are essential to strengthen fiscal sustainability.
- On the external front, the current account posted a slight surplus of USD 1.07bn in Mar-26. The overall current account deficit is projected to remain in the lower bound of the earlier projected range of 0-1% of GDP in FY26, despite challenging external environment. Worker's remittances are continuing to finance a significant part of trade deficit.
- Total external debt obligations for FY26 were estimated at around USD 25.6bn of which USD 21.4bn have already been either rolled over or settled. This leaves approximately USD 4.2bn outstanding, of which USD 2.7bn is expected to be rolled over. Consequently, the net repayable amount for the remainder of this fiscal year is estimated at USD 1.5bn.
- USD 1.3bn in Eurobond obligations and bilateral loans amounting to USD 3.45bn owed to the UAE have also been successfully settled. Despite these sizeable external payments FX reserves have remained intact reflecting strong external liquidity management.
- The SBP's foreign exchange reserves currently stand at USD 15.8bn 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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