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Economy: SBP maintains policy rate at 11%

The State Bank of Pakistan (SBP) announced its monetary policy today (Wednesday), wherein the benchmark policy rate was kept unchanged at 11% for the second consecutive time.

Some key developments influencing the MPC decision include (i) risk of short-term inflationary pressures stemming from the potential flooding, (ii) anticipation of a widening trade deficit, (iii) uncertainty surrounding the impact of global tariff adjustments, and, (iv) currency volatility raising inflation concerns.

Key Takeaways:

- The economy gained momentum in FY25, with real GDP growth accelerating to 2.68%. This improvement was primarily driven by industrial sector which posted a growth of 4.77% YoY. Moreover, the services sector expanded by 2.91% YoY and was the largest contributor to GDP with 58.4% share. In contrast, the agriculture sector underperformed compared to FY24, largely due to a substantial decline in the output of major crops.

- Looking ahead for FY26, the manufacturing sector is expected to continue its upward trend, while the agriculture sector is also projected to recover. Recent monsoon rains have been favorable for key crops such as rice and sugarcane, although they have negatively impacted the cotton crop.

- The government is projecting a real GDP growth within the range of 3.25-4.25 % for FY26.

- Going forward, inflation is expected to stabilize in the target range of 5-7% during FY26, though it may cross the upper bound in some upcoming months.

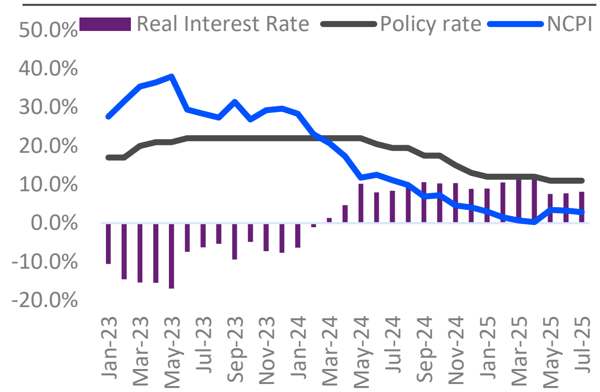
- On the external front, the current account remained in surplus of USD 0.3bn in Jun-25. On a cumulative basis for FY25, the country posted a current account surplus of USD 2.1bn. However, a widening trade deficit is anticipated due to enhanced pressure on imports following recouping purchasing power. The current account deficit is projected to be in the range of 0 to 1% of GDP in FY26.

- Remittances have shown remarkable strength and will continue to support the external account, but they are projected to grow at a slower pace amidst high base effect. In FY25, remittances increased by 27% YoY to USD 38.3bn. Furthermore, they are expected to cross USD 40bn in FY26.

- For FY26, total debt repayments amount to USD 25.9bn. Of this amount, USD 16bn is expected to be rolled over. The residual amount of USD 10bn comprises USD 6bn principal repayment and USD 4bn interest payment.

- The SBP's foreign exchange reserves crossed USD 14bn on the back of current account surplus and planned official financial inflows. Moreover, inflows are likely to improve further with the SBP anticipating FX reserves to reach USD 15.5bn by Dec-25 and USD 17.5bn by Jun-26.

NCPI, Policy rate and Real Interest rate



Source: SBP, PBS, Akseer Research

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