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REN # REP - 004

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Economy: SBP maintains policy rate at 11%

The State Bank of Pakistan (SBP) announced its monetary policy today (Monday), wherein the benchmark policy rate was kept unchanged at 11% aligning with market expectations.

Some key developments influencing the MPC decision include (i) volatility in global oil and commodity prices, (ii) risk of sustained widening in trade deficit, and (iii) potential supply chain disruptions from recent conflict in middle east.

Key Takeaways:

- The economy gathered pace in the second half of FY25, with real GDP growth accelerating to 3.9 percent, up from 1.5 percent in H1FY25. This improvement was primarily driven by a recovery in the industrial and services sectors, which significantly contributed to the overall uptick in economic activity during H2FY25. In contrast, the agriculture sector underperformed compared to FY24, largely due to a substantial decline in the output of major crops.

- The real GDP growth for FY25 is provisionally reported at 2.7 percent, and the government is targeting higher growth of 4.2 percent for next year. The SBP will assess this projected growth rate for FY26 and will brief in the next MPC meeting.

- Going forward, inflation is expected to trend up and stabilize in the target range during FY26. The real interest rate remains adequately positive to stabilize inflation within the target range of 5 – 7 percent.

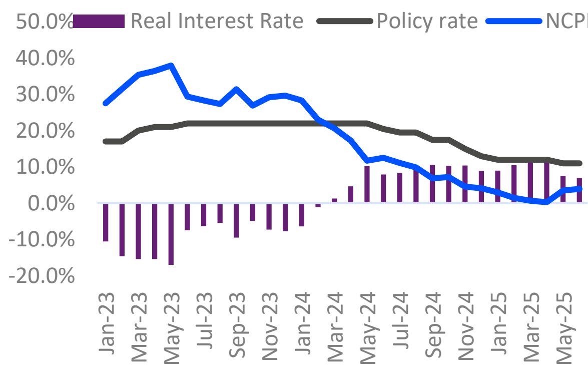
- On the external front, the current account remained nearly balanced in Apr-25, bringing the cumulative surplus to $1.9 billion for Jul–Apr FY25. While a modest deficit is expected in May-25, the overall current account is projected to close the fiscal year in surplus. However, the external outlook remains vulnerable to several risks, primarily stemming from heightened geopolitical tensions, volatility in international oil prices, potential adverse effects of proposed budgetary measures, and possible shortfalls in anticipated financial inflows.

- Remittances have shown remarkable strength and continue to support the external account. To date, remittances have reached USD 34.9bn and they are expected to reach ~USD 38bn for FY25.

- For FY25, total debt repayments amounted to USD 25.8bn. As the fiscal year draws to a close, the majority of these payments have already been made, with only a few rollovers currently in process. The associated documentation is expected to be finalized before year-end. A minimal outstanding amount of USD 400mn remains to be settled in the final two weeks of the fiscal year.

- As of June 6th 2025, foreign exchange reserves held by the SBP stood at USD 11.68bn. These reserves are projected to increase to USD 14bn, while total foreign exchange reserves—including USD 5bn held by the banking sector—are expected to reach USD 19bn.

NCPI, Policy rate and Real Interest rate



Source: SBP, PBS, Akseer Research

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