

Economy: MPC likely to keep the policy rate unchanged

The State Bank of Pakistan's (SBP) Monetary Policy Committee (MPC) is scheduled to convene on June 16, 2025. We expect the MPC to take a cautious stance and maintain the policy rate at 11%. Given the cumulative 11 percentage points reduction over the past 12 months, the SBP may opt to pause its rate-cutting cycle in the upcoming meeting. Our expectation is underpinned by several key factors, including re-basing of energy prices due at fiscal year-end, rising geopolitical tensions in the Middle East, and potential pressure on the PKR. These factors may influence the SBP to take a cautious stance and defer the rate cut until more clarity emerges.

Potential uptick in inflation expected

Inflation recorded a historic low of 0.3% YoY in Apr-25, before rebounding to 3.5% in May. Additionally, end-June inflation is expected to clock in at 4.0% due to seasonal food price pressures, heatwave-driven costs and Eid-related demand. We view this upcoming uptick as temporary.

In contrast, some key cost adjustments, including potential increases in gas and electricity tariffs, are expected to be announced before the start of the new fiscal year (FY26). The full inflationary impact of these adjustments will have to be assessed. Additionally, escalating tensions in the Middle East have pushed international crude oil prices to ~USD 75/barrel, raising concerns of domestic inflation and external accounts. Given this uncertainty, we believe the central bank will adopt a prudent approach, maintaining the current policy rate at 11%.

Uncertainties in external sector

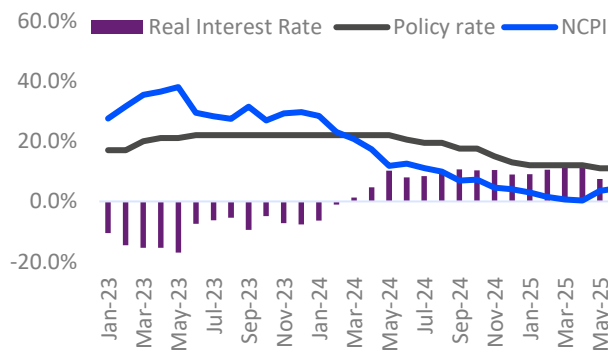
The current account remains in check and the PKR has shown relative stability in recent months. Although the remittance inflows declined by 22% MoM in Apr-25, they picked momentum and increased by 16% MoM in May-25.

Foreign exchange reserves have seen a gradual improvement but may deteriorate, as rising international oil prices could put pressure on the reserve position. Therefore, maintaining the policy rate will help anchor expectations amid ongoing external account uncertainties.

Outlook

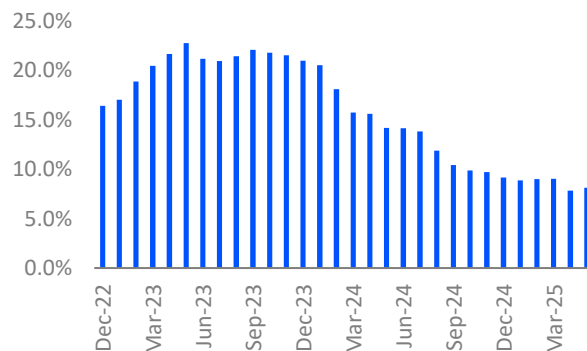
We believe the SBP may consider pausing rate cuts in the near term to assess the evolving situation in the Middle East and its potential implications for Pakistan's external account and inflation trajectory. However, our projections indicate that inflation is likely to remain well within the SBP's target range of 5–7%. Therefore, should the central bank choose not to adopt a cautious stance, there remains ample room for further policy rate reductions.

NCPI, Policy rate and Real Interest rate



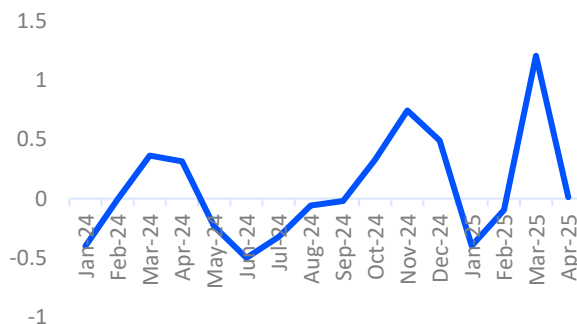
Source: PBS, Akseer Research

NFNE remains elevated (% YoY)



Source: PBS, Akseer Research

Current Account Balance (USD bn)



Source: PBS, Akseer Research

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