

# Day Break

Tuesday, January 27, 2026

**IGI**

Securities

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Monetary Policy History		
Date	Stance	Policy Rate
26-Jan-26	Status Quo	10.5%
15-Dec-25	-50bps	10.5%
27-Oct-25	Status Quo	11.0%
15-Sep-25	Status Quo	11.0%
30-Jul-25	Status Quo	11.0%
16-Jun-25	Status Quo	11.0%
5-May-25	-100bps	11.0%
10-Mar-25	Status Quo	12.0%
27-Jan-25	-100 bps	12.0%
16-Dec-24	-200 bps	13.0%
04-Nov-24	-250 bps	15.0%
12-Sep-24	-200 bps	17.5%
29-Jul-24	-100 bps	19.5%
10-Jun-24	-150 bps	20.5%
29-Apr-24	Status Quo	22.0%
18-Mar-24	Status Quo	22.0%
29-Jan-24	Status Quo	22.0%
12-Dec-23	Status Quo	22.0%
30-Oct-23	Status Quo	22.0%
14-Sep-23	Status Quo	22.0%
31-Jul-23	Status Quo	22.0%
26-Jun-23	Status Quo	22.0%
12-Jun-23	+100 bps	22.0%

Source: SBP, IGI Research

## Economy

### SBP Keeps Rates Steady; CRR Slashed to 5%

- In the latest Monetary Policy Announcement ([link](#)), the State Bank of Pakistan (SBP) decided to keep Policy Rate unchanged at 10.5%. Since Jun-24 SBP has cumulatively cut interest rates by 1150bps. MPC noted that inflation of 5.6%/y remained in line with expectation during Dec-25, however core inflation remains sticky. The MPC noted high frequency indicators reflect economic activity is gaining momentum mainly led by domestic oriented sectors. Considering these factors, MPC highlighted that inflation and C/a outlook remains unchanged from previous assessment. As a result, the Committee decided to keep rates unchanged to ensure price stability and support sustainable economic growth.
- The Committee noted few key developments since last MPC meeting. Real GDP growth provisionally was reported at 3.7%/y during 1QFY26 driven by Agriculture and Industrial sector. FX reserves crossed Dec-25 end target and reached US\$ 16.1bn by 16-Jan-26 primarily due to SBP's interbank FX purchases. Although IMF raised its global growth forecast for 2026, it has also highlighted risks from global tariff uncertainty and volatile commodity prices due to ongoing geopolitical tensions.
- Inflation is likely to increase above SBP's target range during 2HFY26 and normalize within the range in FY27. However, core inflation remains elevated. We expect inflation for FY26 between 6-7%. In our view, SBP is likely to monitor impact of external risks, geopolitical tensions and potential energy price adjustments going forward.

### SBP keeps Policy Rate unchanged at 10.5%

In the latest Monetary Policy Announcement ([link](#)), the State Bank of Pakistan (SBP) decided to keep Policy Rate unchanged at 10.5%. Since Jun-24 SBP has cumulatively cut interest rates by 1150bps. MPC noted that inflation of 5.6%/y remained in line with expectation during Dec-25, however core inflation remains sticky. The MPC noted high frequency indicators reflect economic activity is gaining momentum mainly led by domestic oriented sectors. C/a deficit has remained contained on the back of higher remittances and lower commodity prices despite pick up in imports and subdued exports. Considering these factors, MPC highlighted that inflation and C/a outlook remains unchanged from previous assessment. As a result, the Committee decided to keep rates unchanged to ensure price stability and support sustainable economic growth.

#### Analyst

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Exhibit: Monetary Policy Rate Decision			
	Current	Previous	Chg. (bps)
<b>Target Policy Rate</b>	<b>10.50%</b>	<b>10.50%</b>	<b>Unchanged</b>
Discount rate (Ceiling Rate)	11.50%	11.50%	Unchanged
Floor Rate	9.50%	9.50%	Unchanged

Source: SBP, IGI Research

The Committee noted few key developments since last MPC meeting. Real GDP growth provisionally was reported at 3.7%/y during 1QFY26 driven by Agriculture and Industrial sector. Business and consumer confidence improved while inflation outlook also eased. FX reserves crossed Dec-25 end target and reached US\$ 16.1bn by 16-Jan-26 primarily due to SBP's interbank FX purchases. FBR's revenue growth decelerated to 7.3% in Dec-25 falling short of target. Although IMF raised its global growth forecast for 2026, it has also highlighted risks from global tariff uncertainty and volatile commodity prices due to ongoing geopolitical tensions.

Considering the recent developments and risks, MPC noted that real policy rates are adequately positive to stabilize inflation in the target range of 5-7% in medium term and contribute towards economic growth. The Committee noted continued monetary and fiscal policies along with structural reforms is likely to ensure a durable and higher growth trajectory.

Exhibit: Annualized earnings impact on Banks from 1% cut in CRR	
Bank	Earnings Impact %
HBL	1.9%
NBP	1.7%
FABL	1.7%
ABL	1.6%
BAFL	1.6%
BAHL	1.5%
UBL	0.9%
MCB	0.7%

Source: Company Financials, IGI Research

### Cash Reserve Requirement (CRR) for Banks revised down to 5%

SBP in its Monetary Policy Statement also notified that average Cash Reserves Requirement (CRR) for Banks has also been reduced to 5.0% from 6.0% currently to provide liquidity to bank which is likely to increase private sector credit. This is likely to bring in excess liquidity of PKR 300-315bn which should support credit expansion and earnings growth as these funds don't generate any return. Banks are likely to witness annualized earnings growth of 1-2% on average.

Exhibit: National CPI Heat Map												
	Dec-25	Nov-25	Oct-25	Sep-25	Aug-25	Jul-25	Jun-25	May-25	Apr-25	Mar-25	Feb-25	Jan-25
<b>General</b>	5.6	6.1	6.2	5.6	3.0	4.1	3.2	3.5	0.3	0.7	1.5	2.4
Food	3.2	5.5	5.6	5.0	-1.8	0.9	2.6	3.1	-4.8	-5.1	-4.1	-3.1
Transport	4.9	6.1	6.7	4.2	2.5	2.7	0.6	-2.5	-3.9	-1.2	-1.1	0.7
Utility/Rent	6.9	5.3	4.2	3.7	3.6	3.6	-3.3	-2.5	-2.6	-2.2	-0.6	1.5
Essentials	6.8	6.9	8.3	8.4	8.5	8.5	9.1	9.6	9.6	12.2	12.2	12.2
Disc.	7.9	7.6	8.0	7.2	7.3	7.6	8.2	8.3	8.1	8.1	8.3	8.1

Source: PBS, IGI Research

### Key takeaways from analyst briefing

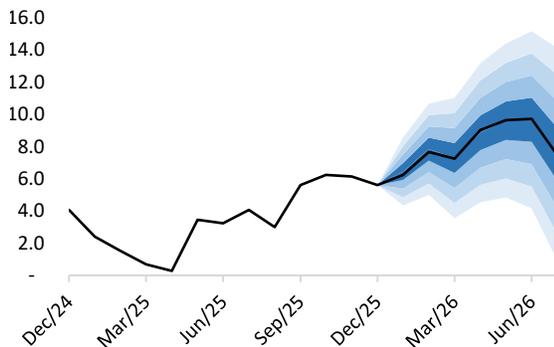
SBP in its post MPS briefing highlighted key updates, which included:

- C/a deficit stood at US\$ 1.2bn during 5MFY26, mainly due to widening trade deficit. Imports increased in line with improving economic activity while remittances continued to remain strong. However, exports remain subdued owing to decline in food exports. This has supported buildup in SBP's FX reserves mainly

through purchases. SBP expects C/a deficit to remain within 0-1% of GDP in FY26 supported by higher remittances and ease in global commodity prices. As a result, SBP's FX reserves are expected to surpass US\$ 18.0bn by Jun-26 further supported by realization of planned inflows and rise further in FY27. However, geopolitical and global trade uncertainty remain key risk to outlook.

- Real GDP growth for 1QFY26 was provisionally reported at 3.7%/y/y compared to 1.6%/y/y in the same period last year. High frequency indicators suggest continued momentum in 2QFY26. Notable growth was reported in Auto, Cement, POL, Fertilizer and import of machinery and intermediate goods. LSM growth also stood at 6.0% during 5MFY26. Wheat crops outlook also looks promising based on sowing information and satellite imagery. These developments in commodity producing sectors are expected to further lift services sector outlook. Based on these factors, SBP has lifted its GDP growth forecast range to 3.75%-4.75% from earlier 3.25%-4.25%.
- M2 Broad Money accelerated to 16.3%/y/y as of 09-Jan-26 since last MPC meeting driven by increase in private sector credit and government borrowing. Private sector credit increased by PKR 578bn during 6MFY26 with Textile, chemicals and wholesale & retail sectors as key borrowing sectors. Consumer financing has also continued to increase. SBP decided to reduce average CRR for banks to 5% from 6% previously to increase private sector credit.
- Pakistan's external debt obligation has reduced owing to decline in global interest rates. Debt repayments for FY26 now stand at US\$ 25.7bn. Out of these US\$ 12.5bn related to bilateral loans of which US\$ 7bn has already been rolled over while remaining US\$ 5.5bn is expected to be rolled over. US\$ 2.2bn is owed to Chinese commercial banks which is also expected to be refinanced. Thus, out of the remaining US\$ 11bn, US\$ 5.7bn has been repaid while remaining US\$ 5.3bn will be repaid in the remaining months.
- Debt-equity swap with UAE is under advance stages and is likely to be a one-off transaction. Ministry of Finance is also in advance stages of floating the Panda Bonds.

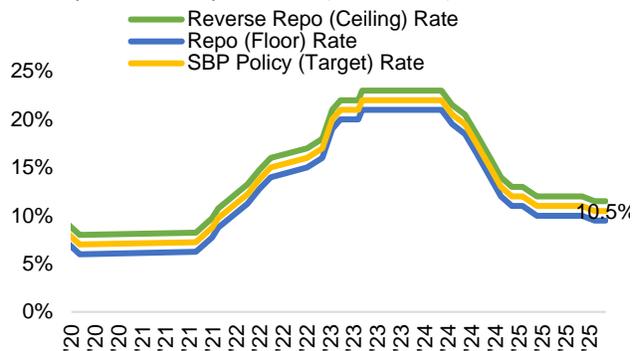
**Exhibit: CPI likely to pick up gradually going forward**



Source: SBP, PBS, IGI Research

**Exhibit: Pakistan Policy Rate (historical)**

SBP keeps rates steady in Jan-26. (Source: SBP)



### Outlook

Inflation is likely to increase above SBP's target range during 2HFY26 and normalize within the range in FY27. However, core inflation remains elevated. We expect inflation for FY26 between 6-7%. In our view, SBP is likely to monitor impact of external risks, geopolitical tensions and potential energy price adjustments going forward.

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