Day Break

Thursday, July 31, 2025

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Monetary Policy History		
Date	**Stance**	**Policy Rate**
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 Policy Rate Unchanged at 11%

- In the latest Monetary Policy Announcement (link), the State Bank of Pakistan (SBP) decided to keep rates steady at 11.0%. Since Jun-24 SBP has cumulatively cut interest rates by 1100bps. MPC noted that headline inflation declined in Jun-25 in line with expectation while core inflation dropped marginally. The Committee noted that inflation outlook has worsened owing to higher adjustment in energy prices especially gas. Inflation is likely to trend upward and stabilize within target range of 5-7% in FY26. The Committee highlighted that economic activity is rising owing to earlier rate cuts. However, trade deficit is expected to expand amid increase in economic activity and slowdown in global trade.
- The Committee noted that few key developments since last MPC meeting. SBP's FX reserves crossed US$ 14bn led by increased financial inflows and C/a surplus. Pakistan's credit rating was also upgraded which led to decline in Eurobond yields and narrowed CDS spreads. For FY25, FBR revenues were recorded at PKR 11.7trn, which fell short of the revised target by PKR 200bn. Global oil prices have remained volatile while metal prices have increased. Uncertainty over global trade tariffs have prompted central banks to maintain a cautious stance.
- Impact of higher than expected increase in energy prices and global uncertainty has prompted SBP to maintain a cautious stance. Moreover, core inflation declined but marginally. In our view, SBP is likely to monitor impact of external risks and energy price adjustments going forward. As core inflation remains higher, impact of geopolitical tensions and energy price adjustments remain key risks to inflation outlook.

SBP Keeps Rates Unchanged at 11%

In the latest Monetary Policy Announcement (link), the State Bank of Pakistan (SBP) decided to keep rates steady at 11.0%. Since Jun-24 SBP has cumulatively cut interest rates by 1100bps. MPC noted that headline inflation declined in Jun-25 in line with expectation while core inflation dropped marginally. The Committee noted that inflation outlook has worsened owing to higher adjustment in energy prices especially gas. Inflation is likely to trend upward and stabilize within target range of 5-7% in FY26. The Committee highlighted that economic activity is rising owing to earlier rate cuts. However, trade deficit is expected to expand amid increase in economic activity and slowdown in global trade. Thus, MPC's decision to keep rates steady was necessary to ensure price stability.

Exhibit: Monetary Policy Rate Decision	Current	Previous	Chg. (bps)
Target Policy Rate	**11.00%**	**11.00%**	**Unchanged**
Discount rate (Ceiling Rate)	12.00%	12.00%	Unchanged
Floor Rate	10.00%	10.00%	Unchanged

Source: SBP, IGI Research

Analyst

Abdullah Farhan
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The Committee noted that few key developments since last MPC meeting. SBP's FX reserves crossed US$ 14bn led by increased financial inflows and C/a surplus. Pakistan's credit rating was also upgraded which led to decline in Eurobond yields and narrowed CDS spreads. For FY25, FBR revenues were recorded at PKR 11.7trn, which fell short of the revised target by PKR 200bn. Global oil prices have remained volatile while metal prices have increased. Uncertainty over global trade tariffs have prompted central banks to maintain a cautious stance.

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% while ensuring sustainable economic growth. MPC also highlighted that without structural reforms it will be difficult to achieve higher growth on sustainable basis.

Exhibit: National CPI Heat Map

	Jun-25	May-25	Apr-25	Mar-25	Feb-25	Jan-25	Dec-24	Nov-24	Oct-24	Sep-24	Aug-24	Jul-24
General	**3.2**	**3.5**	**0.3**	**0.7**	**1.5**	**2.4**	**4.1**	**4.9**	**7.2**	**6.9**	**9.6**	**11.1**
Food	2.6	3.1	-4.8	-5.1	-4.1	-3.1	0.3	-0.2	0.9	-0.6	2.5	1.6
Transport	0.6	-2.5	-3.9	-1.2	-1.1	0.7	-2.5	-2.8	-6.1	-7.3	3.2	12.2
Utility/Rent	-3.3	-2.5	-2.6	-2.2	-0.6	1.5	3.4	7.9	19.2	20.9	22.2	25.3
Essentials	9.1	9.6	9.6	12.2	12.2	12.2	13.2	13.2	13.1	14.4	16.1	17.5
Disc.	8.2	8.3	8.1	8.1	8.3	8.1	8.2	8.7	8.8	9.1	9.7	11.6

Source: PBS, IGI Research

Key takeaways from analyst briefing

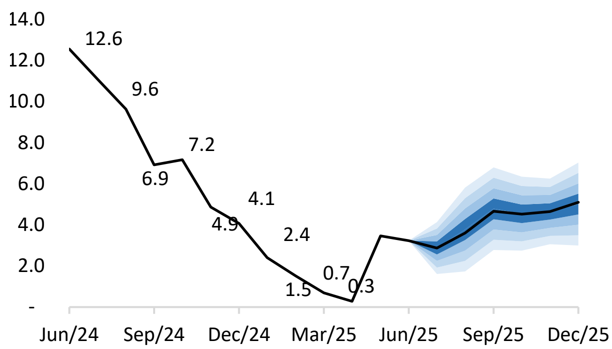
SBP in its post MPS briefing highlighted key updates, which included:

- C/a surplus stood at US$ 328mn in Jun-25, bringing total surplus for FY25 to US 2.1bn largely supported by higher remittances offsetting the impact of widened trade deficit. Official planned inflows in Jun-25 raised SBP's FX reserves beyond US$ 14bn. Although remittances are expected to grow at a slower pace in FY26, trade deficit is expected to widen further led by higher import demand, slowdown in global demand and unfavorable export prices. Thus, C/a deficit is projected at US$ 0-1% of GDP in FY26. On the financing front, inflows are likely to improved due to higher private financing following recent upgrade in credit rating. SBP's FX reserves are expected to increase to US$ 15.5bn by end of Dec-25.
- High-frequency indicators depict a gradual economic recovery reflected by growth in automobile, fertilizer, import of goods and machinery and credit to private sector. Agriculture sector is also expected to recover in FY26 barring any flood related risks. Due to

heavy rainfalls outlook for major crops have improved from earlier expectation as water availability improved. Real GDP growth is expected to rise between 3.25%-4.25% in FY26 from provisional estimate of 2.7% for FY25.

- M2 Broad Money accelerated to 14.0% as of 11-July-25 compared to 12.6% as the time of last MPC meeting. The Committee noted that this was led by higher contribution from NFA of the banking system as FX reserves improved. Private sector credit growth increased to 12.8%y/y led by easing financial conditions and improving economic activity. Textile, telecommunication and wholesale & retail sectors were major borrowers. The Committee also noted currency to deposit ratio increased in Jul-25 which has declined in Jun-25. As a result, SBP had to increase liquidity injection in the market to align overnight interbank repo rate with Policy Rate leading to higher reserve money growth.
- Debt repayments for FY26 stand at US$ 25.9bn compared to US$ 26.3bn last year. Out of these US$ 16bn is expected to be rolled over based on assurances to IMF from lenders. The remaining US$ 10bn includes US$ 6bn in principal and US$ 4bn in interest payments.
- SBP maintains a cautious stance on enhancing the auto financing limit from US$ 3mn due to its potential impact on import bills and current account. Despite the cap auto financing has increased which reinforces the stance for a measured approach.
- Widened gap between interbank rate and open market has eased due to increased vigilance and law enforcement against illegal flow of currency.
- SBP has purchased nearly US$ 20bn over FY23-25, which has helped boost reserves to US$ 14.5bn. These interventions have provided cushion against external vulnerabilities and debt sustainability without creating undue market pressure..
- For FY26, Pakistan has maintained its oil price assumption of US$ 70bbl, which is a reasonable assumption despite recent increase in oil prices. C/a deficit is projected at 0-1% of GDP for FY26.
- Remittances reached nearly US$ 38.3bn in FY25 and projected to exceed US$ 40bn in FY26.

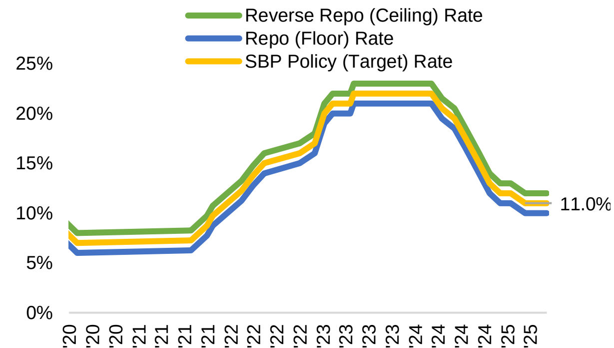
Exhibit: CPI likely to pick up gradually going forward



Source: SBP, PBS, IGI Research

Exhibit: Pakistan Policy Rate (historical)

SBP keeps rates steady in Jul-25. (Source: SBP)



Outlook

Impact of higher than expected increase in energy prices and global uncertainty has prompted SBP to maintain a cautious stance. Moreover, core inflation declined but marginally. In our view, SBP is likely to monitor impact of external risks and energy price adjustments going forward. As core inflation remains higher, impact of geopolitical tensions and energy price adjustments remain key risks to inflation outlook.

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