Day Break

Tuesday, October 28, 2025

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Monetary Policy History		
Date	**Stance**	**Policy Rate**
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 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%. MPC noted that inflation increased significantly in Sep-26 to 5.6% while core inflation remained sticky at 7.3%. The Committee noted that impact of floods on economy is lower than expected while crops losses are likely to be contained with minimal supply disruptions. Based on these factors, overall macroeconomic outlook has improved since last MPC however, uncertainties such as volatile commodity prices, export prospects amid evolving tariff dynamics and potential domestic food supply frictions remain key risk to outlook. Thus, MPC's decision to keep rates steady was necessary to ensure price stability.
- The Committee noted that few key developments since last MPC meeting. GDP growth for FY25 was revised upwards by PBS to 3% against previous estimate of 2.7%. Major Kharif crop output estimate by Federal Committee remains close to last year's production. SBP's FX reserves continue to increase despite US$ 500mn Eurobond repayments. Pakistan also reached Staff Level Agreement (SLA) with IMF on EFF and RSF review.
- 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 5-6%. In our view, SBP is likely to monitor impact of external risks, impact of Afghan Border closure and potential energy price adjustments going forward. 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 inflation increased significantly in Sep-26 to 5.6% while core inflation remained sticky at 7.3%. The Committee noted that impact of floods on economy is lower than expected while crops losses are likely to be contained with minimal supply disruptions. Based on these factors, overall macroeconomic outlook has improved since last MPC however, uncertainties such as volatile commodity prices, export prospects amid evolving tariff dynamics and potential domestic food supply frictions remain key risk to outlook. 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. GDP growth for FY25 was revised upwards by PBS to 3% against previous estimate of 2.7%. Major Kharif crop output estimate by Federal Committee remains close to last year's production. SBP's FX reserves continue to increase despite US$ 500mn Eurobond repayments. Pakistan also reached Staff Level Agreement (SLA) with IMF on EFF and RSF review. Inflation expectations of both consumer and business have eased in latest surveys. Global commodity prices have witnessed mixed trends with higher volatility in oil prices.

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. The Committee noted that external and fiscal buffers remain key in absorbing future shocks and facilitate continued pickup in economic activity without putting pressure on inflation and external accounts.

Exhibit: National CPI Heat Map

	Sep-25	Aug-25	Jul-25	Jun-25	May-25	Apr-25	Mar-25	Feb-25	Jan-25	Dec-24	Nov-24	Oct-24
General	**5.6**	**3.0**	**4.1**	**3.2**	**3.5**	**0.3**	**0.7**	**1.5**	**2.4**	**4.1**	**4.9**	**7.2**
Food	5.0	-1.8	0.9	2.6	3.1	-4.8	-5.1	-4.1	-3.1	0.3	-0.2	0.9
Transport	4.2	2.5	2.7	0.6	-2.5	-3.9	-1.2	-1.1	0.7	-2.5	-2.8	-6.1
Utility/Rent	3.7	3.6	3.6	-3.3	-2.5	-2.6	-2.2	-0.6	1.5	3.4	7.9	19.2
Essentials	8.4	8.5	8.5	9.1	9.6	9.6	12.2	12.2	12.2	13.2	13.2	13.1
Disc.	7.2	7.3	7.6	8.2	8.3	8.1	8.1	8.3	8.1	8.2	8.7	8.8

Source: PBS, IGI Research

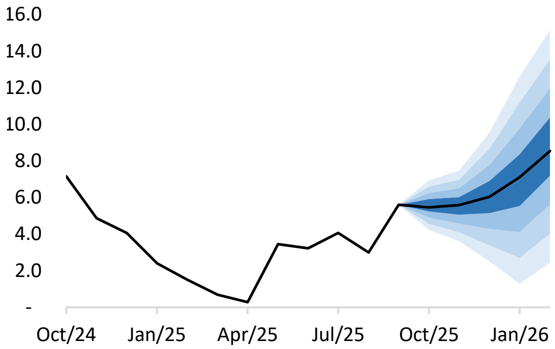
Key takeaways from analyst briefing

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

- C/a surplus stood at US$ 110mn in Sep-25, containing overall 1QFY26 deficit to US$ 594mn remaining in line with MPC's expectation. Trade deficit widened as exports posted moderate growth while imports increased at a relatively faster pace. However, higher remittances remained on the higher side. This along with net financial inflows increased SBP's FX reserves to US$ 14.5bn as of 17-Oct-25. Going forward, imports are likely to increase further in line with pickup in economic activity while remittances are likely to increase further. C/a deficit is likely to remain within projected range of 0-1% of GDP in FY26. SBP's FX reserves are expected to increase to US$ 15.5bn by end of Dec-25 and US$ 17.8bn by Jun-26 led by contained C/a deficit and realization planned inflows.

- High-frequency indicators depict a strong economic momentum. In agriculture, major Kharif Crops estimate turned out better than expected with satellite based images indicating healthy vegetation cover. Rabi crop prospects have also improved with expected post-flood uptick in yields. Moreover, LSM increased by 4.4% during 2MFY26. Robust growth in automobiles, cement, fertilizer and POL products have improved industrial outlook. These positive developments have improved growth outlook where GDP is now expected to be in the upper half of the projected range of 3.25-4.25%.
- M2 Broad Money decelerated to 12.3%y/y as of 10-Oct-25 since last MPC meeting driven by decline in banking system's net domestic assets. This was mainly due to slowdown in bank's credit to non-bank financial institutions. Private sector credit increased due to lower net budgetary borrowing. Textile, telecommunication, chemicals and wholesale & retail sectors were major borrowers. M2 growth accelerated while deposit growth slowed down leading to increase in currency to deposit ratio to 37.6%. This has kept reserve money growth at elevated levels.
- Debt repayments for FY26 stand at US$ 25.9bn including US$ 4.1bn in interest and US$ 21.8bn in principal. Out of these US$ 3.1bn have been repaid along with rollovers. FX debt levels have remained unchanged over the last 3 years. SBP has reduced its forward short positions to US$ 2bn only.
- SBP highlighted that IMF board approval for US$ 1.2bn tranche under EFF and RSF is expected by Dec-25. The longer time is due to carrying on of annual meetings however there are no pending items or conditions which are causing delays.
- SBP is working aggressively with other stakeholders to reduce currency in circulation to less than 34% of deposits by 2028.
- Difference in SBP and PBS trade data is mainly due to difference in basis of collection and source. SBP data is based on bank receipts and payments while PBS data is based on shipments. A reconciliation between the two is available in SBP's recent annual report.

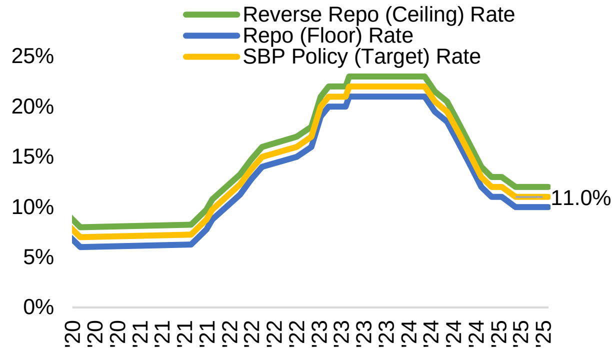
Exhibit: CPI likely to pick up gradually going forward



Source: SBP, PBS, IGI Research

Exhibit: Pakistan Policy Rate (historical)

SBP keeps rates steady in Sep-25. (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 5-6%. In our view, SBP is likely to monitor impact of external risks, impact of Afghan Border closure and potential energy price adjustments going forward. Geopolitical tensions and energy price adjustments remain key risks to inflation outlook.

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