

**MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)  
HELD AT KARACHI ON MONDAY, MARCH 10, 2025 AT 10:00 AM**

**PRESENT**

Mr. Jameel Ahmad	Chairperson & Governor SBP
Mr. Saleem Ullah	Deputy Governor
Dr. Inayat Hussain	Executive Director
Mr. Muhammad Ali Malik	Executive Director
Mr. Fawad Anwar	Director SBP Board
Mr. Najaf Yawar Khan	Director SBP Board
Mr. Muhammad Ali Latif	Director SBP Board
Dr. Naved Hamid	External Member
Dr. Hanid Mukhtar	External Member
Dr. S. M. Turab Hussain	External Member
Mr. Fayyaz ur Rehman	Corporate Secretary

**Review of Current Economic Conditions and Outlook for FY25**

1. The staff apprised the Committee of recent global and domestic economic developments since the last MPC meeting held on January 27, 2025. The assessments and analysis of evolving trends in major macroeconomic indicators were also shared with the Committee, including key assumptions used in their baseline projections.

2. Starting with discussion on the global developments and trends, it was apprised that international commodity prices continued to show a mixed trend since the last MPC meeting. Oil prices reduced significantly, mainly reflecting phasing out of production cuts by OPEC+ and subdued oil demand. It was noted that overall agricultural prices have also reduced, however, the prices of palm oil, which have a significant share in Pakistan's imports, increased significantly. Moreover, international steel prices also surged. The staff apprised that global economic activity registered a slight recovery and trade volumes, led mainly by intra-regional trade, also increased compared to last year. However, ongoing global trade altercations posed a downside risk to global trade. The staff apprised that headline inflation showed signs of convergence with core inflation in both Advanced Economies (AEs) and Emerging Market & Developing Economies (EMDEs). Central banks in both EMDEs and AEs continued to lower their policy rates, albeit cautiously.

3. Discussing the domestic developments, it was apprised that most of the high-frequency economic activity indicators continued to show improvement since the last MPC meeting. This was evident in the sales of automobiles, POL products, cement, as well as increases in the import volumes and credit to private sector compared to last year. For agriculture, while the projections for major crops output remained unchanged, downside risks to wheat crops emanating from adverse weather conditions have somewhat subsided after the recent rains. Discussing the Large-Scale Manufacturing (LSM), it was apprised that positive momentum in key sub-sectors such as textiles, pharmaceuticals, automobiles and POL was more than offset by significant contraction in low weight sub-sectors. Consequently, LSM contracted by 1.9 percent in H1-FY25. However, going forward, manufacturing activity was expected to improve.

4. The staff presented nowcast for Q2-FY25 and Q3-FY25 of economic growth estimated through machine learning (ML) models based on high-frequency satellite indicators. It was apprised that the nowcast for Q2-FY25 was revised slightly downwards. The nowcast from ML models broadly

supported the assessment of traditional macroeconomic models, and suggested moderate increase in real GDP growth in Q2-FY25 relative to Q1-FY25, and a more pronounced increase in Q3-FY25. The staff also apprised that wheat vegetation position, while indicating some improvement from the last meeting after recent rainfalls, still remained relatively weak as observed by the reduced Normalized Difference Vegetation Index (NDVI) reflecting less dense vegetation. In contrast, elevated NO<sub>2</sub> emissions and increased night-time light intensities during Jul-Feb FY25 indicated improved industrial and services related activities in key cities. This was also supported by relatively improved employment related sentiments in these sectors and gradually increasing trend in online job postings.

5. Based on the available information and underlying assumptions, the real GDP growth projection for FY25 remained unchanged and is projected to remain within the range of 2.5 to 3.5 percent. The staff also apprised about certain downside risks to the growth projection such as lower wheat crop output and achievement of primary surplus at target, and an upside risk of decline in international oil prices.

6. Discussing the latest developments related to the Balance of Payments (BoP) position, the staff apprised that the current account posted a deficit of USD 0.4 billion during January 2025; shrinking the cumulative surplus to USD 0.7 billion during Jul-Jan FY25. This increase in deficit was largely attributed to broad-based increase in imports during January 2025. Cumulatively, imports grew by 10.9 percent during Jul-Jan FY25 in contrast to an 11.3 percent decline observed during the same period of FY24. It was noted that there was substantial growth in non-oil imports volume, suggesting pick-up in economic activity. Additionally, the rise in unit values of non-oil imports further contributed to the higher import bill in recent months. At the same time, exports of goods increased by 7.6 percent during Jul-Jan FY25, compared to a growth of 8.4 percent in the same period last year. This increase was primarily driven by higher volumes and prices of High Value-Added (HVA) textiles. However, despite higher volumes, rice exports contributed less due to a 25 percent decrease in the international rice prices. Supported by narrowing gap between interbank and open market exchange rates and enabling policies, workers' remittances remained robust. However, the net financial account inflows remained persistently weak, mainly reflecting shortfall in the planned official inflows and net outflow in portfolio investment.

7. Discussing the external sector outlook, it was apprised that export projections had been revised slightly upwards on account of better than expected HVA textiles. However, imports were also expected to be higher due to more than anticipated increase in non-oil import prices particularly palm oil and steel. It was noted that robust uptrend in workers' remittances and exports would offset the increase in imports. The Committee also discussed upside and downside risks to the external sector outlook for FY25. On balance, it was apprised that the current account is expected to remain between a surplus and a deficit of 0.5 percent of GDP in FY25. Moreover, with reduced debt repayments and the anticipated realization of planned official inflows in the remaining months of FY25, the SBP's foreign exchange reserves are projected to reach above USD 13 billion by June 2025.

8. Discussing fiscal developments, the staff apprised the Committee that the fiscal deficit narrowed to 1.2 percent of GDP in H1-FY25 from 2.3 percent in corresponding period last year. Similarly, primary balance also improved to 2.9 percent of GDP in H1-FY25 from 1.7 percent in H1-FY24. It was apprised that this improvement in fiscal indicators was primarily attributed to a substantial increase in non-tax revenue, on account of a sizeable transfer of SBP profit, and contained expenditures, particularly a notable reduction in subsidies. However, the gap between FBR's tax revenue collection and target widened further in January and February 2025; despite a cumulative growth of 26 percent in revenue collection during Jul-Feb FY25. Therefore, in the remaining four

months of FY25, a sharp acceleration in tax collection would be required to meet the annual target. Nevertheless, it was expected that contained current expenditures and anticipated reduction in interest payments may help to keep the overall fiscal position in check for the ongoing fiscal year.

9. Explaining the monetary sector developments, it was apprised that Broad Money (M2) growth remained almost unchanged at 11.5 percent (y/y) as of February 28, 2025 since the last MPC meeting. However, there were changes in its composition, as the contribution of Net Foreign Assets has increased. The government borrowing from the banking system increased and contributed to Net Domestic Assets (NDA). On the other hand, commercial banks' credit disbursements to non-government sector declined. The Committee was apprised that, as expected, the post December 2024 decline in banks' credit to private sector turned out higher than the seasonal retirement. Nevertheless, the Private Sector Credit (PSC) y/y growth remained higher than last year, reflecting easing financial conditions and recovery in economic activity.

10. On the liability side, growth of banks' deposits decelerated while the Currency in Circulation (CiC) increased slightly since the last MPC meeting. Resultantly, the currency to deposit ratio reached at around 36 percent. The Committee was apprised that growth in Reserve Money (RM) has slightly increased due to increase in contribution of Net Foreign Assets (NFA). The contribution of NDA in RM growth remained muted. Discussing the monetary sector outlook for FY25, it was apprised that the M2 and RM outlook was kept unchanged.

11. Discussing the inflation trends and developments, the staff informed the Committee that headline inflation (y/y) declined further to 1.5 percent in February 2025 from 2.4 percent in January 2025. This decrease was primarily attributed to favourable supply-side factors with major contribution from fall in food and energy prices. Sharp fall in prices of perishable food items further suppressed the overall food prices. The pre-Ramadan seasonal food price hike was also muted due to sufficient domestic stocks of key food items. Likewise, energy prices continued to decline amid moderate global oil prices, stable exchange rate and favourable base effect. The staff apprised the Committee that unlike food and energy prices, core inflation was proving stickier, as it remained unchanged at the last month level of 8.9 percent in February 2025.

12. Discussing the inflation outlook, it was apprised that the projections for FY25 were revised downward due to non-materialization of expected gas tariff hike for consumers, and sharper than expected decline in food inflation. The Committee was also informed that the inflation is expected to come down further, before gradually inching up and stabilizing within the target range of 5 – 7 percent. The staff further apprised the Committee that the inflation outlook is susceptible to multiple risks, including volatile global commodity prices, protectionist policies in major economies, timing and magnitude of administered energy tariff adjustments, volatile perishable food prices and any additional measures to meet the revenue target.

### **Financial Market and Reserve Management**

13. With regards to monetary policy implementation, the staff stated that the overnight repo rate averaged 11.8 percent during the review period, compared to the target of 12.0 percent. The SBP's average liquidity support, mainly provided to conventional banks, increased significantly to PKR 11.8 trillion during the review period as compared to PKR 11.1 trillion in the last review period.

14. It was apprised that an upward shift in the yield curve was observed since the last MPC meeting. This indicated that the market had already factored-in the decline in the policy rate decided in the January 2025 MPC meeting; and going forward the market expectations had shifted towards a

much smaller reduction in policy rate. In the primary auctions of Market Treasury Bills (MTBs), the amount accepted was lower than the announced targets, effectively resulting in net retirement.

15. In the recent Pakistan Investment Bond (PIB) primary auction, the amount accepted was higher than the targets for both fixed rate and floating rate PIBs. The net retirement from MTB auctions was compensated by the higher amount accepted in PIB auctions. The Committee was apprised that the first ever buy-back of PIBs took place during the review period. In addition, the outstanding stock of government securities inched up after witnessing a slight reduction in November 2024, with further shift in its composition towards securities with tenors of greater than 1-year maturity.

16. The staff informed the Committee that Pakistan Eurobond yields and CDS improved significantly since the last MPC meeting, but still remained at elevated levels.

17. In the FX market, the PKR slightly depreciated by 0.4 percent against the USD since the last MPC meeting. In addition, the USD Index had also depreciated by 3.3 percent against other major currencies during the review period.

### **Model-Based Assessment**

18. The staff apprised the Committee about inflation projections conditional on the policy rate path. The staff also presented alternate scenarios based on different assumptions of global oil prices and exchange rate and further easing of policy rate.

19. Keeping in view the above developments, the MPC discussed the monetary policy stance to bring inflation within the target range under various scenarios.

### **Result of SBP Surveys for Monetary Policy**

20. The staff apprised the Committee on the perceptions of consumers and businesses during February 2025. Both the Consumer and Business Confidence showed improvement since the last MPC meeting, with business confidence nearing its highest recorded level since June 2021. The diffusion indices for both consumers' and businesses' inflation expectations, that represent the ratio of positive and negative responses, were on a downwards trajectory for consumers, while businesses expected a slight increase. Improvement was also visible in the Purchasing Managers' Index (PMI), which remained above the threshold of 50 percent.

21. The staff also apprised about the survey results of professional forecasters, conducted during February 2025. It was noted that the forecasters have revised down their inflation forecasts for all three years in context (FY25-FY27). At the same time, they have slightly revised upwards their quarterly and annual GDP growth forecasts.

### **Monetary Policy Deliberations and Decision Vote**

22. The MPC unanimously decided to maintain the policy rate.

### **DECISIONS:**

- *The policy rate remains unchanged.*
- *The Monetary Policy Statement – March 2025 is approved.*