

**MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)  
HELD AT KARACHI ON MONDAY, MAY 5 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
Mr. Fayyaz ur Rehman	Corporate Secretary

**Review of Current Economic Conditions and Outlook for FY25 and FY26**

1. The staff apprised the Committee of recent global and domestic economic developments since the last MPC meeting held on March 10, 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 financial markets exhibited increased uncertainty and volatility in recent weeks due to substantial increase in effective tariff rates. Consequently, IMF significantly reduced its growth forecasts for global trade and economic activity. Moreover, international commodity prices declined since the last MPC meeting. Oil prices declined significantly mainly due to subdued oil demand accompanied by supply boost by OPEC+. It was noted that overall agricultural and metal prices have also come down. The staff apprised that in light of the tariff related developments, future expectations of policy rate showed signs of divergence between cuts and pauses for the Advanced Economies (AEs). While central banks in the Emerging Market & Developing Economies (EMDEs) showed a mixed trend regarding policy rate decisions, a cautious approach was adopted by both AEs and EMDEs.
3. The staff presented nowcast for Q3-FY25 of economic growth estimated through machine learning (ML) models based on high-frequency satellite indicators. It was also apprised that the provisional real GDP growth estimate of 1.7 percent for Q2-FY25 by PBS was in line with the SBP's nowcast for this period. It was apprised that given the trends in data, the growth nowcast for Q3-FY25 was revised upward from the last MPC Meeting. In particular, elevated gas emissions and increased night-time light intensities during Q3 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 and newspaper job postings. On agriculture, the staff apprised that though risks identified earlier for wheat crop have somewhat subsided, production still showed a notable decline in key regions on yearly basis as observed by the reduced Normalized Difference Vegetation Index (NDVI). Furthermore, based on data up till end April, the outlook for upcoming Kharif crops also appeared relatively weaker amidst unfavourable weather and soil moisture conditions.

4. Discussing the trends in real sector, it was apprised that GDP growth for H1-FY25 was largely in line with earlier projections. Furthermore, the high-frequency indicators suggest that economic activity is maintaining momentum. This was evident in the rising sales of passenger vehicles, POL products, as well as increase in electricity generation, private sector credit, and external trade. Improved Purchasing Managers' Index (PMI) and employment conditions also exhibit improving manufacturing sectors' prospects. Consequently, consistent with machine learning models, higher growth is expected in Q3-FY25 as compared to Q2-FY25. For agriculture, the output of major crops remained close to earlier assessments. Discussing the growth in Large-Scale Manufacturing (LSM), it was apprised that positive momentum in key sub-sectors such as garments, textiles, pharmaceuticals, automobiles and POL was more than offset by significant contraction in construction-allied and low-weight sub-sectors.

5. Based on the available information and underlying assumptions, the real GDP growth for FY25 is projected to remain within the range of 2.5 to 3.5 percent. Higher growth is expected for FY26 compared to FY25. Nonetheless, this outlook faces risks, particularly due to global uncertainty and adverse weather conditions for the upcoming Kharif season.

6. Discussing the latest developments related to the Balance of Payments (BoP) position, the staff apprised that the current account posted a surplus of USD 1.2 billion during March 2025; increasing the cumulative surplus to USD 1.9 billion during Jul-Mar FY25. This surplus was largely attributed to record-high worker's remittances and exports. Cumulatively, imports of goods grew by 11.1 percent during Jul-Mar FY25 in contrast to a 7.3 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, despite the rise in non-oil imports, the reduction in unit value of oil imports moderated the overall import bill. At the same time, exports of goods grew by 7.7 percent during Jul-Mar FY25, compared to a growth of 8.7 percent in the same period last year. This growth was primarily driven by higher volumes of High Value-Added (HVA) textiles. However, despite higher volumes, rice exports contributed negatively due to decrease in the international rice prices. The staff also apprised the MPC about the PBS trade data for April, which indicated a worsening of trade deficit to USD 3.4 billion. The services deficit decreased in March 2025 due to a marginal uptick in Telecom and IT services exports, while the primary income account deteriorated due to higher interest payments. Worker's remittances saw a historic monthly inflow of USD 4.1 billion in March 2025 driven by the seasonal surge associated with Ramadan and Eid. With regards to the financial account, net inflows remained weak, mainly reflecting shortfall in the planned official inflows and net outflow due to large debt repayments.

7. Discussing the external sector outlook, it was apprised that the current account to GDP ratio was revised upwards, and it is expected to remain in surplus during FY25 due to robust workers' remittances and increase in exports. The Committee also discussed upside and downside risks to the external sector outlook for FY25 and FY26. Moreover, with the anticipated realization of planned official inflows in the remaining months of FY25, the SBP's foreign exchange reserves are projected to reach USD 14 billion by June 2025. In addition, reserves are anticipated to increase further in FY26, supported by improved financial inflows and a moderate current account deficit.

8. Discussing fiscal developments, the staff apprised the Committee that estimates from the financing side showed improvement in fiscal indicators. Notably, primary balance estimates also showed improvement during Jul-Mar FY25 over Jul-Mar FY24. It was apprised that this improvement was primarily attributed to a substantial increase in non-tax revenue, on account of a sizeable transfer of SBP profit to the government in the month of September. However, despite a cumulative growth of 26.3 percent in revenue collection during Jul-Apr FY25, FBR's tax revenue fell short of the

target and the shortfall widened further in April 2025. Consequently, in the remaining two months of FY25, a sharp acceleration in tax collection would be required to meet the annual target. On the other hand, within the non-tax revenue, the government increased the Petroleum Development Levy (PDL) after the last MPC meeting, which is expected to increase non-tax revenues in the remaining months of FY25. The Committee was further apprised that the fiscal deficit may turn out to be close to the annual target; however, achieving the primary balance target of 2.1 percent of GDP seemed challenging.

9. Explaining the monetary sector developments, it was apprised that the Broad Money (M2) growth increased to 13.3 percent (y/y) as of April 18, 2025 from 11.4 percent (y/y) since the last MPC meeting. Both Net Domestic Assets (NDA) and Net Foreign Assets (NFA) contributed to M2 growth. The NDA growth was up, primarily, due to uptick in credit to the private sector, which grew by 12.6 percent (y/y), reflecting easing financial conditions and improving economic activity. The NFA increased due to the discharge of foreign liabilities by commercial banks.

10. Discussing the liability side of M2, it was apprised that the Currency in Circulation (CiC) increased significantly in March 2025 due to Ramadan and Eid related seasonality. On aggregate, currency to deposit ratio increased though, it remained lower than the historical average. Reserve money (RM) grew by 13.1 percent as of April 18, 2025 against 11.4 percent in the last MPC meeting. This increase came on the back of SBP's NDA on account of OMO injections. Discussing the monetary sector outlook, it was apprised that the M2 and RM outlook was kept unchanged for FY25.

11. Discussing inflation trends and developments, the staff informed the Committee that headline inflation (y/y) declined sharply to 0.7 percent in March 2025 and further to 0.3 percent in April 2025. This decrease was primarily attributed to continued favourable supply side dynamics as indicated by lower food and energy prices. Decline in food prices was primarily attributed to sharp fall in wheat and allied products amid new wheat market dynamics including the abolishment of support prices. Reduction in energy prices was mainly due to sizeable downward adjustments in electricity tariffs as part of the government's tariff relief package, thus translating to lower than expected inflation in April 2025. Moreover, core inflation, after remaining sticky at around 9 percent over the past few months, declined to 8.0 percent y/y in April 2025, largely due to favourable base effect and moderate domestic demand.

12. Discussing the inflation outlook, it was apprised that the inflation projections for FY25 and FY26 were revised downward due to moderation in global commodity prices and lower electricity tariffs. It was apprised that inflation would gradually increase in the coming months and stabilize within the target range of 5 – 7 percent. However, the outlook, particularly for FY26, was subject to risks emanating from changing dynamics of wheat and other food prices, timing and magnitude of electricity and gas tariff adjustments, impact of global trade tariffs and potential global supply-chain disruptions, and uncertain commodity price outlook.

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

13. With regards to monetary policy implementation, the staff stated that the overnight repo rate averaged 12.07 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 from PKR 11.8 trillion during the last MPC review period to PKR 12.7 trillion during the current monetary policy review period.

14. It was apprised that an upward shift in the yield curve was observed particularly on the shorter end of the yield curve since the last MPC meeting. This reflected a modest adjustment in the expectations of the market participants. However, the longer end of the yield curve remained largely unchanged except for a slight upward adjustment for 10-year maturity. It was also apprised that during this review period, the Government introduced 1-month maturity T-bills. However, there was net retirement in MTBs while market participation remained concentrated in floating rate PIBs.

15. The staff elaborated that the net retirement from MTBs was compensated by the higher amount accepted in the PIB auctions, which helped to extend the maturity profile of domestic debt. The government also initiated another buy-back of floating rate PIBs as part of its debt management during the review period. In this regard, the outstanding stock of government securities increased further along with lengthening of the maturity profile. Specifically, around half of the government securities have maturity of more than 3-years.

16. The staff informed the Committee that Pakistan Eurobond yields and CDS recorded significant changes in recent weeks due to increasing uncertainty in the wake of tariff-related developments, thereby impacting access to global financial markets for developing countries including Pakistan.

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 3.6 percent against other major currencies during the review period.

### **Model-Based Assessment**

18. The staff apprised the Committee about the projected inflation trajectory conditional on different policy rate paths. The staff also presented alternate scenarios based on different assumptions of global oil prices and exchange rate.

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

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

20. The staff apprised the Committee on the various SBP surveys conducted during April 2025. Both the consumer and business confidence continued to show slight improvements over the last few months. It was apprised that the latest readings of consumer confidence and business confidence depicted an increase of 24 percent and 6 percent on y/y basis, respectively. The improved business specific conditions, i.e., production & employment uptake, and general economic conditions contributed to improving business confidence. This improvement was also visible in the PMI, which remained above the threshold of 50 percent. Inflation expectations showed a downward shift both for consumers and businesses. While inflation expectations of consumers have almost halved on y/y basis, the inflation expectations of businesses declined by about one-third on y/y basis.

21. The staff also apprised about the survey results of professional forecasters, conducted during April 2025. It was apprised that forecasters have revised down their inflation forecasts for all three years in context (FY25-FY27). At the same time, they have slightly revised downwards their quarterly and annual GDP growth forecasts. Further, it was apprised that majority of the forecasters expected inflation to decrease. In addition, the findings of the SBP's Economic Agents Network (EAN) indicated that exporters' perceptions are mixed concerning the possible impact of tariff-related developments.

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

22. The MPC decided to decrease the policy rate by 100 bps with a majority of eight votes out of nine, while one member voted to keep the policy rate unchanged.

### **DECISIONS:**

- *The policy rate is reduced by 100 bps to 11 percent.*
- *The Monetary Policy Statement – May 2025 is approved.*