

**MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)
HELD AT KARACHI ON MONDAY, DECEMBER 15, 2025 AT 12:00 PM**

PRESENT

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

Review of Current Economic Conditions and Outlook for FY26

1. The staff apprised the Committee on global and domestic economic developments since the last MPC meeting held on October 27, 2025. They presented their assessments and analysis of evolving trends in major macroeconomic indicators to the Committee along with key assumptions underlying the baseline projections.

2. On global trends and developments, the staff briefed that since the last MPC meeting, global oil and agricultural prices have declined by 6.0 percent and 3.9 percent, respectively, while metal prices have risen by 6.3 percent. Headline inflation edged up slightly in Advanced Economies (AEs) but eased in Emerging Markets and Developing Economies (EMDEs) in October 2025. Moreover, most central banks adopted a cautious stance and left policy rates unchanged in November 2025. The staff also noted that although Pakistan has seen modest export gains in the US market, its exports to non-US destinations have remained broadly unchanged following the imposition of US trade tariffs.

3. The staff then presented real-sector developments using both satellite-based measures and traditional high-frequency indicators (HFIs). Night-time light intensity data showed improvement across major urban areas, and gas emission patterns pointed to continued improvement in consumption and manufacturing activity during Jul-Oct-FY26, with moderation in Q2-FY26 relative to Q1-FY26. Other HFIs, such as sales of automobiles, cement and fertilizer, and imports of machinery and intermediate goods, also signaled an improvement in economic activity during Jul-Oct FY26. Led by strong and broad-based growth in major sub-sectors, large-scale manufacturing (LSM) registered a growth of 4.1 percent (y/y) in Q1-FY26, marking the second consecutive quarter of growth after contraction in the previous three quarters. These developments in commodity-producing sectors bode well for the services sector, though the staff also highlighted some moderation in export-oriented sectors and job posting indicators in the recent period.

4. Regarding the economic outlook, the staff noted that conditions for Rabi crops remain broadly conducive, supported by improved water availability, weather patterns, and soil moisture. Wheat sowing has gained momentum, aided by vegetation health. The wheat sowing target has been set at 6.3 percent above last year's level by the Federal Committee on Agriculture (FCA) and is likely to be achieved, based on latest available information. Similarly, wheat yields are expected to improve amid favorable input conditions. LSM registered the highest first-quarter growth in FY26 since FY22,

which bodes well for the manufacturing sector outlook. These favorable developments in commodity-producing sectors are expected to provide spillover support to activity in the services sector as well. In the light of these developments, real GDP growth in FY26 is projected to remain in the upper half of the earlier projected range of 3.25–4.25 percent. The staff also highlighted the risks to this outlook, which are broadly coming from uncertain global environment for exports and recent domestic supply side disruptions.

5. The Committee also reviewed the main findings of the Labor Force Survey 2024-25, with the staff noting that both the labor force and employment have continued to grow on a yearly basis. However, the unemployment rate has risen to 7.1 percent from 6.3 percent in the previous survey wave (2020-21).

6. On the recent developments in the external sector, the staff noted that the current account recorded a deficit in October 2025, primarily due to a widening of the trade and primary income deficits. The cumulative current account deficit during Jul-Oct FY26 was broadly in line with the MPC's expectations. Export growth has been moderating since July 2025, reaching 2.0 percent (y/y) during Jul-Oct FY26, mainly reflecting subdued rice exports and a moderation in food-items exports. Whereas, imports have continued to rise at a faster pace, at 9.6 percent (y/y) during the same period, in line with improving economic activity and driven by non-oil categories with some respite from oil imports due to favorable global oil prices. Workers' remittances remained resilient, posting a 9.3 percent (y/y) growth during the same period. In the financial account, net inflows amounted to USD 140 million in October 2025.

7. Regarding the external sector outlook, the Committee noted that the assessment for the current account is broadly unchanged from the previous meeting. The outlook for exports has become more challenging, primarily reflecting lower expected rice export earnings, closure of western border and moderation in High Value-Added (HVA) textile exports amid increased competition. However, imports are expected to be slightly lower than anticipated earlier, mainly owing to favorable international oil prices. The outlook for workers' remittances and the primary income balance remains broadly unchanged. On balance, the current account deficit is expected to remain within the earlier projected range of 0 to 1 percent of GDP in FY26. Following the receipt of around USD 1.2 billion from the IMF after successful completion of Extended Fund Facility (EFF) and Resilience and Sustainability Facility (RSF) reviews, and with continued SBP purchases from the interbank, SBP's FX reserves have crossed the December 2025 target of USD 15.5 billion. Moreover, with the anticipated realization of remaining planned official inflows, SBP's FX reserves are projected to reach around USD 17.8 billion by June 2026. The Committee also reviewed potential risks to the external sector outlook for FY26, including volatility in global commodity prices, prolonged disruptions at the Pakistan-Afghanistan border, and the non-realization of planned financial inflows.

8. With respect to fiscal developments, the staff highlighted that fiscal consolidation continued, supported by the transfer of a significant SBP profit to the government in Q1-FY26. A fiscal surplus of 1.7 percent of GDP and a primary surplus of 2.8 percent of GDP were recorded for the first quarter of FY26. However, FBR missed its tax collection target by PKR 419 billion during Jul-Nov FY26. The shortfall was mainly due to lower direct and sales taxes, indicating the need for accelerating revenue growth in the remaining seven months of the year to meet the annual FBR target for FY26. Looking ahead, the staff noted that fiscal consolidation is expected to continue. However, it was pointed out that achieving the primary balance target would be challenging. The Committee also considered potential risks to the fiscal outlook, including lower-than-expected development spending and additional tax revenue shortfall relative to target.

9. The staff informed the Committee that broad money (M2) growth accelerated to 14.9 percent year-on-year as of November 28, 2025, up from 12.3 percent on October 10, 2025. The increase was primarily driven by higher contribution from Net Domestic Assets (NDA), reflecting greater budgetary borrowing from scheduled banks, while the contribution of Net Foreign Assets (NFA) declined slightly. On the liability side of M2, currency in circulation remained largely unchanged since the last MPC meeting, whereas contribution of deposits increased, causing a slight decline in the currency-to-deposit ratio from 37.6 percent as on October 10, 2025 to 36.1 percent as on November 28, 2025. Reserve money growth also accelerated to 17.0 percent year-on-year as of November 28, 2025, up from 15.3 percent as of October 10, 2025. This increase was mainly led by higher NDA growth from the SBP, while the contribution of NFA to reserve money growth declined during the same period.

10. The staff apprised the Committee that private sector credit (PSC) growth declined by 0.3 percent y/y as of November 28, 2025, against a growth of 15.2 percent recorded during the previous MPC review period. This contraction reflects the previous year's advance-to-deposit ratio tax-driven surge in PSC during Q2-FY25. On cumulative basis, private sector credit offtake was PKR 187 billion during July-November FY26, broadly in line with historical average. The key industrial sectors such as textiles and chemicals were among major borrowers, amidst the declining trend in the weighted average lending rate (WALR). Easing financial conditions have also encouraged growth in consumer financing, particularly auto financing.

11. The staff updated the Committee on recent inflation developments, noting that inflation edged up to 6.2 percent and 6.1 percent in October and November 2025, respectively, from 5.6 percent in September 2025. This increase was largely driven by inching up of food inflation amid supply chain disruptions. With the flood-related effects receding, food inflation is expected to moderate in the near term. In particular, high frequency data reported in SPI shows considerable month-on-month decline in prices of sugar and perishable food items. Rising trend in energy inflation continued in line with earlier anticipation. Core inflation remained relatively persistent and increased to 7.9 percent in October 2025 before easing to 7.3 percent in November 2025.

12. The staff apprised the Committee that inflation outlook remained broadly unchanged from the previous assessment. Average inflation is projected to remain within its medium-term target range during FY26 and FY27. However, inflation may temporarily exceed the upper bound of the 5-7 percent target range during a few months in the second half of FY26, before returning to the target range in FY27. The staff also highlighted multiple risks to this forecast, including volatility in international commodity prices and unforeseen adjustments in administered energy tariffs.

Financial Markets and Reserve Management

13. Regarding monetary policy implementation, the staff reported that the overnight repo rate averaged 11.03 percent during the review period, which is very close to the target of 11.0 percent. The SBP's average liquidity support, predominantly extended to conventional banks, rose by PKR 137 billion to PKR 12.9 trillion during the review period.

14. Following the status quo policy rate decision of October 2025, short-term yields remained broadly stable, whereas longer-term yields, particularly the 5-year tenor, recorded a modest increase. It was also noted that there was net retirement in Market Treasury Bills (MTBs) as the government accepted amounts below the target despite active market participation.

15. The staff further stated that the government accepted less than the announced targets for floating-rate Pakistan Investment Bonds (PIBs) in two of four auctions held during the review period, with acceptance being more substantial for fixed-rate PIBs, signaling a continued preference for longer-term fixed-rate borrowing. The debt maturity profile of outstanding government securities remained largely unchanged since the last MPC meeting. Around 55 percent of the government securities have maturities of more than 3-years, while the outstanding stock of government securities slightly inched up in December 2025, due to higher budgetary needs.

16. The staff informed the Committee that sovereign yields and spreads continued to ease, reflecting further improvement in the country's external position.

17. In the foreign exchange market, the PKR appreciated by 0.2 percent against the US dollar, while the USD weakened by 0.4 percent against other major currencies during the review period.

Model-Based Assessment

18. The staff apprised the Committee about the inflation projections based on an unchanged baseline and alternate paths of policy rates. In addition, the staff also presented the inflation projections conditional on different assumptions of global oil prices and exchange rate.

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

Results of SBP Surveys for Monetary Policy

20. The staff briefed the MPC on insights from the Economic Agents Network (EAN) regarding prevailing economic conditions and the outlook. It was noted that the Rabi season outlook has improved across major crops, with strong farmer interest in wheat sowing following the support price announcement, although concerns persist around the effectiveness of the government's procurement mechanism. The outlook for sugarcane, maize, canola, and mustard has also strengthened since the last MPC meeting. In the non-agricultural sectors, industry and services continue to show improvement amid improving domestic demand, particularly in automobiles, construction-related activities, textiles, and chemicals. However, stakeholders flagged risks stemming from the Pak-Afghan border situation, intensifying export competition in textile markets especially in the EU and benign impact from recent energy package announced by the government for the manufacturing sector.

21. The staff also briefed the Committee on findings from various SBP surveys conducted in November and December 2025. It was noted that twelve months ahead inflation expectations of both consumers and businesses declined during these months, reflecting normalization of supply chains after floods. Consumer confidence deteriorated slightly, though it was still above its long-term average. Moreover, it has been around this level since February 2025, supported by gradually improving household financial conditions and employment expectations. Business confidence and capacity utilization improved marginally in December 2025. Although, it declined marginally, the forward-looking purchasing managers' index (PMI) also remained above the 50 threshold indicating relatively more positive views regarding expected economic activity for the coming months.

22. The staff also briefed the Committee on the results of the survey of professional forecasters conducted in December 2025. In line with improving economic activity, forecasters lowered their

medium-term inflation outlook compared to the last MPC meeting, whereas medium-term growth outlook remained largely unchanged.

Monetary Policy Deliberations and Decision Vote

23. The MPC decided to reduce the policy rate by 50 bps to 10.5 percent with effect from December 16, 2025 with majority decision of six out of nine members. One member voted to maintain the status quo and two members voted to decrease the policy rate by 100 bps.

DECISIONS:

- *The policy rate was reduced by 50 bps to 10.5 percent with effect from December 16, 2025.*
- *The Monetary Policy Statement – December 2025 is approved.*