

**MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)
HELD AT KARACHI ON MONDAY, SEPTEMBER 15, 2025 AT 11:00 AM**

PRESENT

Mr. Jameel Ahmad	Chairperson & Governor SBP
Mr. Saleem Ullah	Deputy Governor
Dr. Inayat Hussain	Executive Director
Mr. Najaf Yawar Khan	Director SBP Board
Dr. Hanid Mukhtar	External Member
Dr. Naved Hamid	External Member
Dr. S.M. Turab Hussain	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 July 30, 2025. The assessments and analysis of evolving trends in major macroeconomic indicators were shared with the Committee including key assumptions used in the baseline projections.

2. On global developments and trends, it was apprised that most of the trade tariff related uncertainties have subsided. The tariff rate for Pakistan is at 19 percent, which offers some potential comparative advantage. The staff briefed that global oil prices have come down by 4.7 percent, while metal and agricultural prices have slightly inched down since the last MPC meeting. The Terms of Trade (ToT) remained broadly unchanged since the last MPC meeting. It was also apprised that while headline inflation in Advanced Economies (AEs) increased, it slightly eased in Emerging Market and Developing Economies (EMDEs) in July 2025. The staff apprised that many central banks have adopted a cautious approach and decided to keep their policy rates unchanged in the last few months. Meanwhile, the recent weaker than anticipated labour market data in the US has increased market expectations of the number of FED rate cuts in 2025.

3. The staff presented the trends in the real sector using both satellite and other traditional high-frequency economic activity indicators. Based on data for the first two months of FY26, the staff highlighted that satellite data for gas emissions and night-time light intensities point to strengthening of services sector activity and consumption growth. These trends are also aligned with improved employment sentiments and a gradual rise in job postings. The staff apprised that the latest available data for traditional economic activity indicators like imports of machinery and intermediate goods, automobile sales, private sector credit, and business sentiments, continued to indicate strong growth momentum in the first two months of FY26. In particular, large-scale manufacturing – after recording contractions in the preceding three quarters, registered a 3.0 percent y/y increase in Q4-FY25 and is expected to show higher growth in July FY26.

4. Discussing the outlook for the real sector, the staff apprised that, although economic activity started the year on stronger footing, the intensification of recent floods has somewhat moderated overall growth prospects for FY26. The latest satellite data and initial information shows that the damage to major Kharif crops has been notable, while infrastructure and livestock losses remain much smaller than 2022 floods. Consequently, the agriculture sector outlook has weakened, although wheat production is expected to benefit from post-flood recovery in yields, in line with previous flood

episodes. In light of lower expected agriculture growth and its knock-on impact on other sectors of the economy, real GDP growth is likely to remain around the lower end of the earlier projected range of 3.25 to 4.25 percent.

5. On the recent developments in the external sector, the staff informed that the current account posted a deficit of USD 254 million in July 2025, mainly due to an increase in imports amidst improving economic activity and post-Eid normalization of workers' remittances inflow. On exports, it was appraised that the growth in July 2025 was 16.2 percent on y/y basis, mainly due to high value added (HVA) textiles and a favourable base effect. The exports are projected to decline slightly in FY26 due to a drop in rice export earnings on the back of flood-induced crop losses. Meanwhile, HVA textile export volumes are expected to pick up due to Pakistan's improved market access to the US. This is likely to offset the flood-induced losses in rice export earnings to some extent. The staff also shared that in line with improving economic activity, imports grew by 11.8 percent on y/y basis in July 2025 led by non-oil imports. Looking ahead, imports are expected to grow further in FY26 due to higher non-oil imports, particularly of cotton after the recent floods. Overall, trade deficit is expected to widen more than the earlier assessment due to flood-induced losses. Workers' remittances continued to remain strong during July and August 2025 and may pick up further as witnessed during previous natural disasters. On the financial account side, it was appraised that following the realization of planned official inflows in June 2025, the financial account weakened in July 2025.

6. Regarding the external sector outlook, it was noted that the current account is expected to slightly deteriorate due to further widening of trade deficit due to flood-induced crops losses. Remittances are expected to increase marginally compared to earlier assessment. On balance, the current account deficit is likely to remain in the earlier projected range of 0 to 1 percent of GDP in FY26. With the expected realization of planned official inflows, SBP's FX reserves are projected to reach around USD 15.5 billion by December 2025. The Committee also reviewed potential risks to the external outlook for FY26 including risks from even more intense flood scenario, growth slowdown in workers' remittances and non-realization of planned financial inflows.

7. Regarding the fiscal developments, the staff stated that FBR slightly missed its revenue target in August 2025, likely, due to flood related disruptions. On the fiscal sector outlook, the staff appraised that provision of emergency funds allocated in the budget would likely be utilised for flood relief efforts, while the provincial expenditures are expected to increase for reconstruction and rehabilitation in flood-affected areas. It was also appraised that government's future course of action to address the flood-related disruptions will bring further clarity on the fiscal side. However, fiscal consolidation is expected to continue during FY26.

8. Explaining monetary sector developments it was reported that the Broad Money (M2) growth decelerated to 13.4 percent (y/y) as of August 29, 2025. The growth contribution of both, net domestic assets (NDA) and net foreign assets (NFA), in M2 declined. Regarding the liability side of M2, it was shared that Currency in Circulation (CiC) declined in recent months due to seasonal factors. Accordingly, the Currency to Deposit ratio declined to 36.1 percent as of August 29, 2025 against 38.4 percent as of July 11, 2025. Reserve money increased to 17.5 percent (y/y) as of August 29, 2025 against 17.0 percent as of July 11, 2025 due to slight uptick in SBP's NDA on account of transfer of SBP's profits to the government and reduction in the stock of OMOs mop-ups.

9. It was also appraised that the private sector credit (PSC) growth accelerated to 14.1 percent (y/y) as of August 29, 2025 against 12.8 percent as of July 11, 2025 reflecting easing financial conditions, improving economic activity and continued decline in net budgetary borrowing. Both

working capital and fixed investment loans contributed to the broad-based increase in PSC. The key borrowing sectors were textile, wholesale and retail trade, chemicals, and telecommunication. Furthermore, easing financial conditions also facilitated a pick-up in consumer financing, notably in auto financing and credit cards.

10. Discussing the recent inflation trends and developments, the staff apprised the Committee that inflation, after inching up to 4.1 percent (y/y) in July, came down to 3.0 percent in August 2025. The staff attributed this moderation in inflation to unanticipated sharp fall in prices of perishable food items and some downward adjustment in energy prices. However, it was apprised that volatility of perishable food prices is expected to continue going forward as is indicated in the high frequency SPI data. Furthermore, core inflation slightly eased to 7.4 percent and 7.3 percent in July and August 2025, respectively, from 7.6 percent in June 2025 (y/y), mainly due to moderate domestic demand conditions.

11. In regards to the inflation outlook, the Committee was informed that projections for FY26 have been revised upward incorporating the impact of recent floods. Most notably, the floods pose a supply-side shock to food inflation in the near term particularly for wheat and perishable food items. However, the impact from higher food prices is likely to be somewhat offset by the favourable adjustments in electricity tariffs. Based on the revised assessments, inflation is expected to cross the upper band of the 5 – 7 percent target range during H2 FY26, before reverting to target range in FY27. This outlook remains subject to multiple risks emanating from the evolving floods situation, volatility in the international commodity prices and unanticipated adjustments in administered energy prices.

Financial Markets and Reserve Management

12. With regards to monetary policy implementation, the staff stated that the overnight repo rate averaged 11.01 percent during the review period, which is very close to the target of 11.0 percent. The SBP's average liquidity support, mainly provided to conventional banks, decreased to PKR 13.3 trillion during the current monetary policy review period from PKR 13.7 trillion during the last MPC review period.

13. The staff apprised that following no change in the policy rate, a slight upward shift in the yield curve was observed since the last MPC meeting. The increase was more pronounced for maturities ranging from 6-month to 3-year tenors. It was also apprised that there was net retirement in MTBs, despite aggressive market participation as the government continued to accept less than the target amount.

14. Elaborating further, the staff stated that the government accepted less than the announced targets for floating rate PIBs, while acceptance was more pronounced in case of fixed rate PIBs. This continued to signal a shift towards borrowing at favourable fixed rates for longer maturities. Discussing the debt profile of the government, it was apprised that the maturity profile of outstanding stock further increased. Around 56 percent of the government securities have maturities of more than 3-years, while outstanding stock of government securities declined due to retirement of PKR 1.13 trillion of SBP debt by the Federal Government, which was enabled by the transfer of SBP profits.

15. The staff informed the Committee that sovereign yields and spreads recorded slight improvement in the recent weeks, reflecting further improvement in the country's external position.

16. In the FX market, the PKR appreciated by 0.5 percent against the USD since the last MPC meeting. In addition, the USD Index has weakened by 1.4 percent against other major currencies during the review period.

Model-Based Assessment

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

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

Result of SBP Surveys for Monetary Policy

19. The staff apprised about the insights from the Economic Agents Network (EAN) related to current economic conditions and outlook. The staff discussed the implications of relative US tariff reduction on Pakistan's exports. While the outlook for the textile sector was promising due to recent capacity additions that are expected to effectively meet emerging demand, rice exporters viewed the situation to have little impact due to small market size and high competition in the USA. The staff also presented the information gathered on the potential implications of floods on the agriculture sector particularly major crops in Punjab.

20. The staff briefed on the various SBP surveys conducted during August and September 2025. After moderating in August, inflation expectations of both consumers and businesses increased in September 2025 due to floods. It was informed that the latest readings of consumer confidence showed a decrease in light of the current and expected economic conditions. However, business confidence levels remained largely unaffected during the September 2025 iteration. In addition, average capacity utilization remained stable.

21. The staff also apprised about the survey results of professional forecasters, conducted during September 2025. The MPC was apprised that largely driven by the anticipated impact of flood, forecasters have revised upward their inflation forecasts. At the same time, the forecasters have slightly revised downward their annual GDP growth forecasts for both the short- and long-term.

Monetary Policy Deliberations and Decision Vote

22. The MPC decided to keep the policy rate unchanged with majority decision of six out of seven members. One member voted to increase the policy rate by 50 bps.

DECISIONS:

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