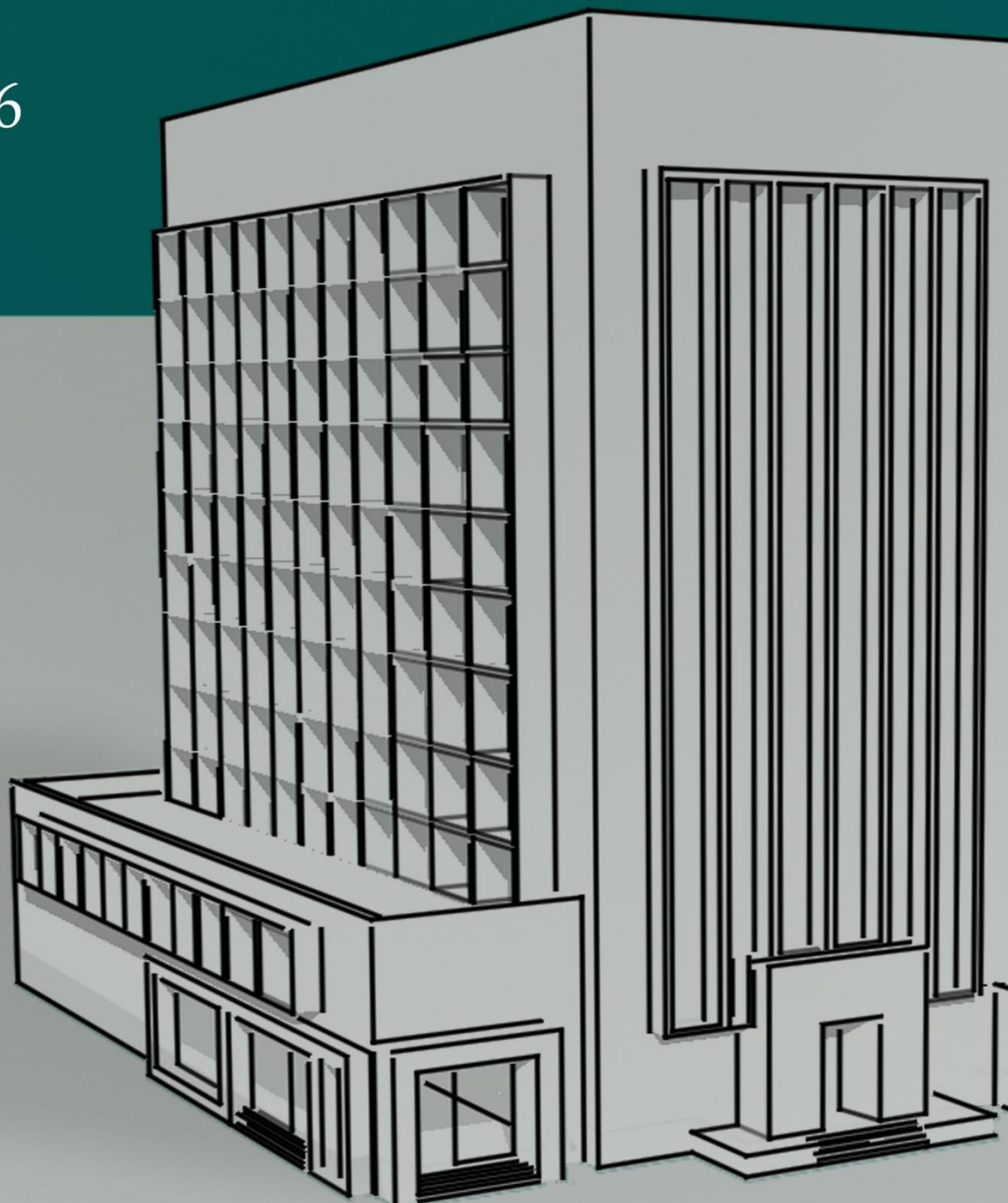


Monetary Policy Report

Navigating Uncertainty

August 2026





State Bank of Pakistan

Monetary Policy Report

August 2026

Monetary Policy Committee

Mr. Jameel Ahmad (Chairperson)	Governor, SBP
Mr. Saleem Ullah	Deputy Governor, SBP
Mr. Muhammad Amin Khan Lodhi	Deputy Governor, SBP
Dr. Inayat Hussain	Executive Director, SBP
Mr. Fawad Anwar	Non-Executive Director, SBP Board
Mr. Muhammad Ali Latif	Non-Executive Director, SBP Board
Mr. Najaf Yawar Khan	Non-Executive Director, SBP Board
Dr. Hanid Mukhtar	External Member
Dr. Naved Hamid	External Member
Dr. S. M. Turab Hussain	External Member

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Preface

The conduct of monetary policy in Pakistan is governed under the State Bank of Pakistan Act, 1956, as amended up to 2022. The Act provides the Monetary Policy Committee of the State Bank of Pakistan (SBP) with the authority to independently formulate and implement monetary policy, aimed at fulfilling statutory objectives. The Act outlines the governance structure for monetary policy decisions.

SBP's Objectives

Article 4B of the SBP Act states that:

- (1) The primary objective of the Bank shall be to achieve and maintain domestic price stability.
- (2) Without prejudice to the Bank's primary objective, the Bank shall contribute to the stability of the financial system of Pakistan.
- (3) Subject to sub-sections (1) and (2), the Bank shall support the government's general economic policies with a view to contributing to fostering the development and fuller utilization of Pakistan's productive resources.

Monetary Policy Formulation Process at SBP

The Monetary Policy Committee (MPC) is a statutory body formed and responsible for formulating the monetary policy under Sections 9D and 9E of the SBP Act. It consists of 10 members:

- The Governor SBP (Chairperson)
- Three senior executives of the Bank, nominated by the Governor
- Three members of the SBP Board, nominated by the Board
- Three external members appointed by the federal government, upon the recommendation of the SBP Board

The MPC meets eight times a year and assesses domestic and global economic and financial developments, reviews the outlook for major macroeconomic variables, and takes the appropriate monetary policy decision. The decisions are made by majority vote, with the Chairperson having a casting vote, and the outcome is communicated publicly via the Monetary Policy Statement along with voting pattern to ensure transparency.

Monetary Policy Report

As part of efforts under the Bank's Strategic Plan 2028 to transition towards an inflation targeting regime, and to better anchor stakeholders' inflation expectations, SBP publishes Monetary Policy Reports (MPR) on a biannual basis, within two weeks of the January and July MPC meetings. The MPR provides a detailed and analytical review of the macroeconomic conditions and outlook, assessment of risks to the outlook, and recent considerations in the formulation of monetary policy.

The analysis in the Monetary Policy Report – August 2026 is as of July 24, 2026. The report and projections in it were reviewed by the MPC and approved for publication by the Chairperson MPC on August 10, 2026.

Executive Summary and Recent Monetary Policy Considerations

Since the January 2026 Monetary Policy Committee (MPC) meeting, both the prevailing macroeconomic conditions and outlook have been significantly influenced by the evolving global economic and geopolitical developments. In particular, the outbreak of the Middle East conflict in late February 2026 led to a sharp increase in global energy prices and freight and insurance costs, and created supply chain disruptions. Despite this significant shock, macroeconomic outcomes in FY26 turned out broadly in line with the projection ranges announced in the January 2026 MPC meeting (**Table 1**).¹

The proactive monetary policy response and better initial macroeconomic conditions have helped limit the impact of the substantial supply shock on inflation and the country's external account as compared to assessment at the start of the conflict, and also relative to the global energy price shock of 2022. SBP's prudent monetary policy tightening is helping contain second-round effects of the energy price shock, while keeping inflation expectations of stakeholders broadly anchored. Meanwhile, the government passed on increases in global prices to domestic prices in a timely manner, and introduced temporary and targeted subsidies to support the most vulnerable population and business segments. The government also introduced austerity measures to conserve energy. These measures helped maintain fiscal discipline and moderate aggregate demand. Nonetheless, the global shock, coupled with the policy response, weakened the growth momentum that had been picking up pace before the outbreak of the Middle East conflict.

Table 1: Key Macroeconomic Projections

	FY26			FY27
	SBP Projections		Actual	SBP Projections
	Jul-2025 MPC	Jan-2026 MPC		Jul-2026 MPC
CPI inflation, avg. %	5 to 7	5 to 7	7.1	5.5 to 7.5
Real GDP growth, %	3.25 to 4.25	3.75 to 4.75	3.7	3.5 to 4.5
CAB, % of GDP	-1 to 0	-1 to 0	-0.03	-1 to 0
SBP FX reserves, end-June, billion \$	17.0	18.0	18.4	21.1 ¹

1/ SBP is targeting its FX reserves at \$20.20 billion by December 2026.

Sources: PBS, SBP, MoF, SBP staff estimates

Headline inflation was well within the target range of 5–7 percent before the start of the Middle East conflict, averaging 5.5 percent during July – February FY26. It was projected to increase temporarily above the target range in Q4-FY26, primarily reflecting unfavorable base effect. However, due to the conflict, inflation increased significantly and averaged 10.2 percent during March – June FY26. This resulted in average annual inflation of 7.1 percent in FY26, close to the upper bound of the medium-term target range. Going forward, inflation is projected to remain elevated during H1-FY27 amidst higher global commodity prices, possibility of domestic food price pressures, and some pass-through

¹ SBP provides projections for the ongoing fiscal year after its MPC meetings in July and January, in the Monetary Policy Statements and the Monetary Policy Reports. In the interim period between these two meetings, qualitative information regarding changes in the outlook relative to these projections are provided in the decision statements and the MPC minutes.

of the recent surge in energy prices to core inflation. Nonetheless, owing to moderate domestic demand, contained inflation expectations and expected normalization in global fuel prices, inflation is projected to ease gradually and stabilize near the upper bound of the 5 – 7 percent target range by the end of FY27.

Economic activity had been picking up pace during most of FY26, with real GDP growth averaging 4.0 percent y/y during July – March FY26, on the back of improving macroeconomic conditions and lagged impact of the earlier substantial reduction in the policy rate. However, following the start of the Middle East conflict and the surge in energy prices, supply chain disruptions and austerity measures by the government, the growth momentum moderated during Q4-FY26. Provisional estimates by the Pakistan Bureau of Statistics (PBS) indicate that real GDP grew by 3.7 percent in FY26, close to the lower bound of the forecast range shared after the January 2026 MPC meeting. Growth is expected to recover gradually and is projected to remain between 3.5 – 4.5 percent in FY27, supported by budgetary incentives and continued macroeconomic stability.

The country's external current account remained broadly balanced in FY26 – better than projected in March and April, with the deficit remaining close to the lower bound of the range of 0 – 1 percent of GDP projected at the start of the year. This, together with a financial account surplus, allowed SBP to continue its interbank FX purchases, helping the SBP to surpass its end-June 2026 FX reserves target of \$18 billion and close the year at \$18.4 billion.² Going forward, the current account deficit is projected to widen in FY27, in line with the expected pickup in economic activity and higher global commodity prices. Nonetheless, it is assessed to remain in the range of 0 to 1 percent of GDP, supported by resilient workers' remittances and expected pickup in exports of goods and services. This, together with the realization of planned official inflows, is expected to increase SBP's FX reserves to the targeted \$20.20 billion by end-December 2026. The FX reserves are projected to improve further by June 2027.

The above macroeconomic outlook remains susceptible to multiple risks. In particular, the evolving geopolitical developments in the Middle East, including a more prolonged and wider conflict in the region, can push up global energy and other commodity prices beyond the levels assumed in the July 2026 MPC meeting. These developments may have adverse implications for the outlook for inflation, economic activity and external sector of many regional economies, including Pakistan. At the same time, climate-related risks, specifically the expected worsening in El Niño conditions and floods, could adversely affect agricultural production, food prices, economic activity and the current account deficit, while potentially necessitating additional fiscal spending. Lastly, delays in the implementation of structural reforms could further weaken exports, slow productivity gains, and reduce the economy's capacity to sustain higher growth without generating excessive inflationary and external account pressures.

To sum up, Pakistan's economy is navigating through the uncertain global environment with macroeconomic stability remaining intact and economic momentum of the past three years continuing. The overall policy stance remains prudent, amidst consistent efforts to shore up fiscal and external buffers. These buffers have helped the country withstand the ongoing shock better than assessed immediately after the start of the conflict, and also as compared to previous global energy

² SBP's FX reserves subsequently declined to \$17.0 billion as of July 31, amidst sizable debt repayments.

price shocks. These developments facilitated the country's re-entry into international capital markets in recent months as well.³ These improvements were also recognized by global rating agencies, with Standard & Poor's recently upgrading Pakistan's sovereign credit rating to "B" from "B-". Going forward, continued strengthening of buffers and timely implementation of structural reforms remain essential to strengthen the economy's resilience to recurring adverse supply shocks, enhance productivity, and create conditions for higher and more sustainable economic growth.

Monetary policy considerations since the January 2026 Monetary Policy Committee Meeting

Before the conflict, the MPC had, in its January meeting, assessed inflation to remain within the target range during FY26, while temporarily crossing the upper bound towards the end of the year amidst unfavourable base effect. This was despite that economic growth was assessed to be rising faster than anticipated at the beginning of the year, and the MPC had improved its real GDP growth outlook for both FY26 and FY27. Meanwhile, external sector pressures were assessed to remain moderate, with the current account deficit expected to fall within the projected range of 0 – 1 percent of GDP. Overall, the MPC assessed monetary policy stance to be appropriate to ensure price stability while supporting sustainable growth momentum.

The monetary policy settings became particularly challenging during Q4-FY26. The Middle East conflict-related disruptions, coupled with continued global tariff-related uncertainty, weighed on inflation and high frequency economic indicators from March 2026 onwards. Given the prevalent uncertainty at that time and emerging risks to the macroeconomic outlook, the MPC decided to analyze the incoming data before potentially changing its policy stance. By the time of the April meeting, the conflict had prolonged and the shock to energy prices turned out to be higher than anticipated earlier. This had adverse implications for price and overall macroeconomic stability and required a tightening in the monetary policy stance. Accordingly, the MPC decided to raise the policy rate by 100 bps to contain the second-round impact of the supply shock, keep inflation expectations anchored, and to bring inflation within the target range over the medium term.

By the time of the two subsequent meetings in June and July, energy prices had moderated from their recent peak levels while remaining volatile, and supply chain disruptions also relatively eased. This, along with moderate demand pressures amidst continued prudent monetary policy stance and fiscal discipline, led to some improvement in the outlook for inflation. Inflation was assessed to remain lower as compared to earlier anticipation, and was expected to stabilize near the upper bound of the target range during FY27. Given these developments and outlook, the MPC decided to keep the policy rate steady at 11.5 percent in its June and July meetings. It also assessed the real policy rate to be adequately positive to guide inflation towards the target range of 5 – 7 percent over the medium term.

³ Pakistan successfully issued Eurobonds amounting to \$750 million in April 2026, followed by Panda bonds of around \$250 million in May 2026.

Chapter 1 – Macroeconomic Developments and Outlook

The Middle East conflict has pushed up energy prices to multi-year highs, with adverse economic implications particularly for energy-importing economies

Since the January 2026 MPC meeting, global energy prices have risen significantly following the start of the Middle East conflict and the subsequent blockade of the Strait of Hormuz (**Figure 1 & 2**) – a key supply route for around 20 percent of global energy flows. The blockade disrupted energy supplies from the Gulf to the rest of the world, particularly the emerging economies of Asia. Some key energy infrastructure, like ports, refineries and storage facilities in the region were also damaged. Moreover, the conflict has led to a surge in shipping insurance premiums and freight charges.

Figure 1: Crude Oil Price¹
(\$/bbl.)

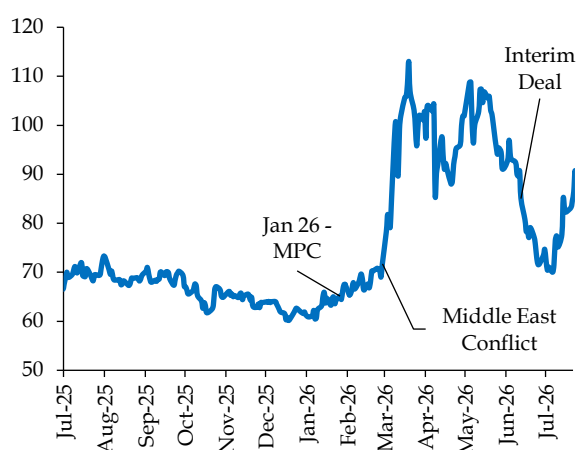
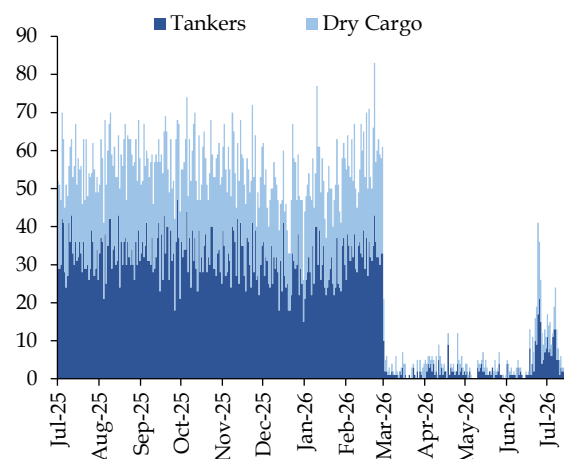


Figure 2: Transit through Strait of Hormuz²
(West to East, vessels)



1) Weighted average of Dubai Fateh and Saudi Light, based on Pakistan's import composition of crude oil and petroleum products.

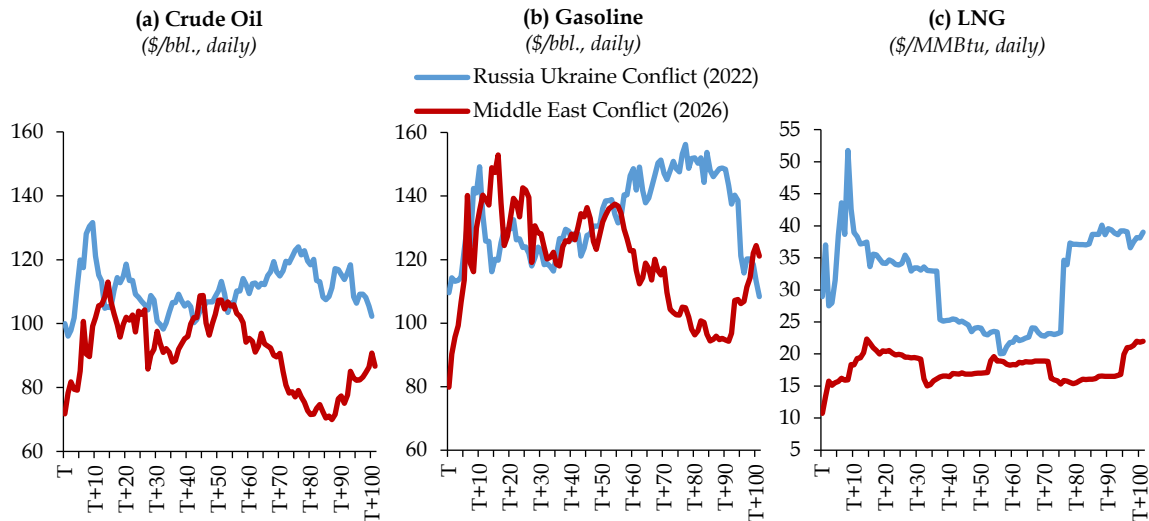
2) Tankers include crude oil, petroleum products, LNG and LPG vessels, while dry cargo includes containers, general ships, and bulk cargoes.

Source: Bloomberg

Meanwhile, prices of refined oil products, like gasoline and diesel, have recorded higher volatility and their spread over crude oil prices have also widened significantly (**Figure 3a, 3b, & 3c**). In fact, the increase in prices of crude oil and products was sharper than the aftermath of the 2022 Russia-Ukraine conflict. The crisis also impacted the global gas market, as supply from Qatar, which accounts for around 19 percent of global LNG exports, was disrupted. This resulted in a spike in fertilizer prices, which, in turn, led to an increase in the prices of agricultural commodities.

An interim deal was announced and later signed in June 2026, leading to temporary normalization of trade flows through the Strait, which helped to ease supply disruptions. As a result, crude oil and POL product prices fell sharply by the first week of July, though they remained above the levels at the time of the January MPC meeting. Subsequently, the re-escalation in the conflict in July 2026 led to the resurgence in energy prices. In addition, agriculture product prices continued to increase (**Figure 4**), driven by a spike in fertilizer prices and prospects of a stronger El Niño this year.

Figure 3: Global Energy Prices

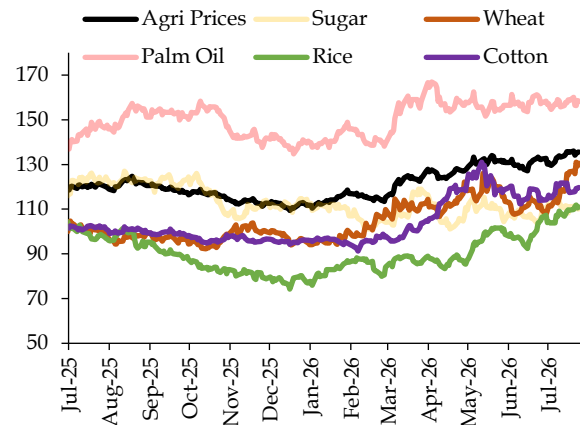


Note: “T” represents trading days. For Russia-Ukraine Conflict (2022), “T” starts from February 23, 2022, while for the Middle East Conflict (2026), it starts from February 27, 2026. Data till July 24, 2026.

Source: Bloomberg

The global commodity price developments since the January MPC meeting resulted in higher than assumed deterioration in Pakistan’s terms of trade. Going forward, the outlook for energy prices is quite uncertain and will depend on the intensity and duration of the ongoing conflict in the Middle East. Based on the current trend in spot and futures prices, the assumed oil price for FY27 has been revised significantly upward as compared to the January MPC meeting (**Table 2**). The prices of agricultural commodities may also remain elevated, led by the unfolding impact of higher gas prices and risk of El Niño during the first half of FY27, which may lead to a more than expected increase in global food inflation.

These developments in global commodity prices have implications for the inflation trajectory in both advanced economies (AEs)

Figure 4: Agricultural Price Indices
(index, 2019=100)

Source: Bloomberg

Table 2: Assumptions for Baseline Outlook

	MPC	FY27
Global Oil Prices ⁴ (\$/bbl.)	Jul-2026	80
	Jan-2026	67
Global Food Inflation ⁵ (percent)	Jul-2026	1.6
	Jan-2026	0.7
Global GDP Growth ⁶ (percent)	Jul-2026	3.1
	Jan-2026	3.3

⁴ The oil price assumption is the weighted average price of Dubai Fateh (around 70 percent) and Saudi Light (around 30 percent). Moreover, the assumption incorporates movements in futures of Dubai Fateh, forecasts by international forecasters, and other relevant global oil market developments.

⁵ Global food inflation is computed using the food price index, which is a monthly composite index published in the World Bank Commodity Price Data (The Pink Sheet - July 2026). This index is based on prices of key food grains, sugar, edible oils and meats.

⁶ Yearly global growth forecast (adjusted for FY terms) by the IMF’s World Economic Outlook – July 2026 is taken as the assumption for global growth.

and emerging economies (EMs). Headline inflation in AEs rose sharply from April 2026 onwards, mainly driven by high global energy prices. Many AEs, including the US and Eurozone countries, recorded their highest headline inflation since CY23. Concurrently, core inflation also rose, mainly due to persistent services inflation. EMs also recorded similar trends, with both headline and core inflation posting steep increases compared to relatively stable trends observed during CY24 and CY25.

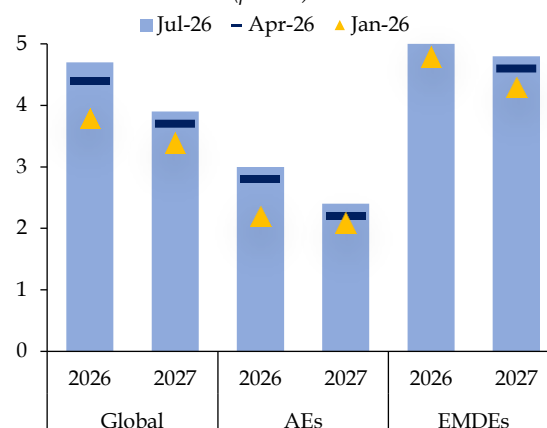
Reflecting these trends, the IMF increased its projections for global inflation in both updates of its World Economic Outlook (WEO) released since January, in April and July (**Figure 5**). In particular, the IMF projects inflation to remain above the target range in most AEs, including the US and the EU, and in many EMs.

In response to the evolving inflation developments and worsening outlooks, central banks in many AEs, like the Eurozone, Australia, New Zealand, Norway, South Korea and others increased their policy rates (**Figure 6**). Meanwhile, the US Federal Reserve maintained its policy rate, despite earlier market expectations of a resumption in its easing cycle. Some emerging markets also hiked their policy rates since January, while most of them continued to hold their rates steady. Collectively, the rate hikes announced by central banks since the start of the Middle East conflict remain the highest since the synchronized policy rate tightening during 2022.

The global growth outlook has also become more uncertain since January, with the IMF revising down its global real GDP growth projection for CY26 (**Figure 7, Table 2**). This revision is largely driven by the weak growth prospects of energy-importing countries due to reduced real incomes following the energy price shock. However, the growth outlook for CY27 was revised upwards, as the surge in AI-related investments is expected to partially offset the negative effect of higher energy prices.

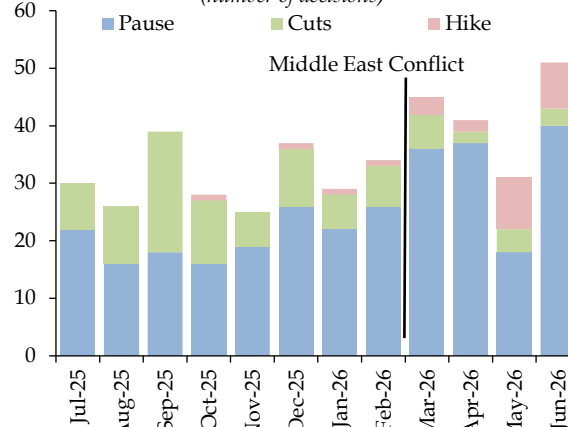
Regarding global financial conditions, the normalization observed prior to the January MPC

Figure 5: IMF Global Inflation Projections
(percent)



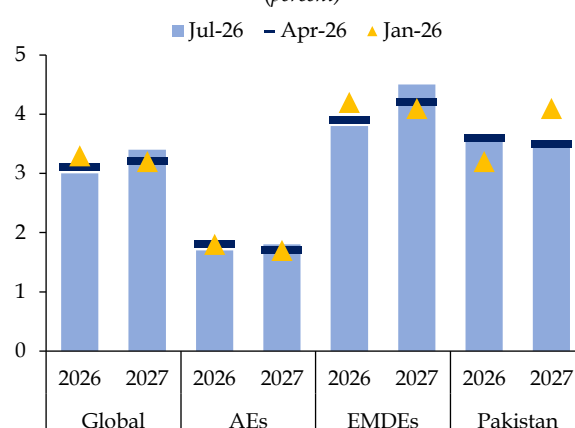
Source: IMF, WEO July 2026

Figure 6: Global Central Bank Policy Rate Decisions
(number of decisions)



Source: Central banks' websites

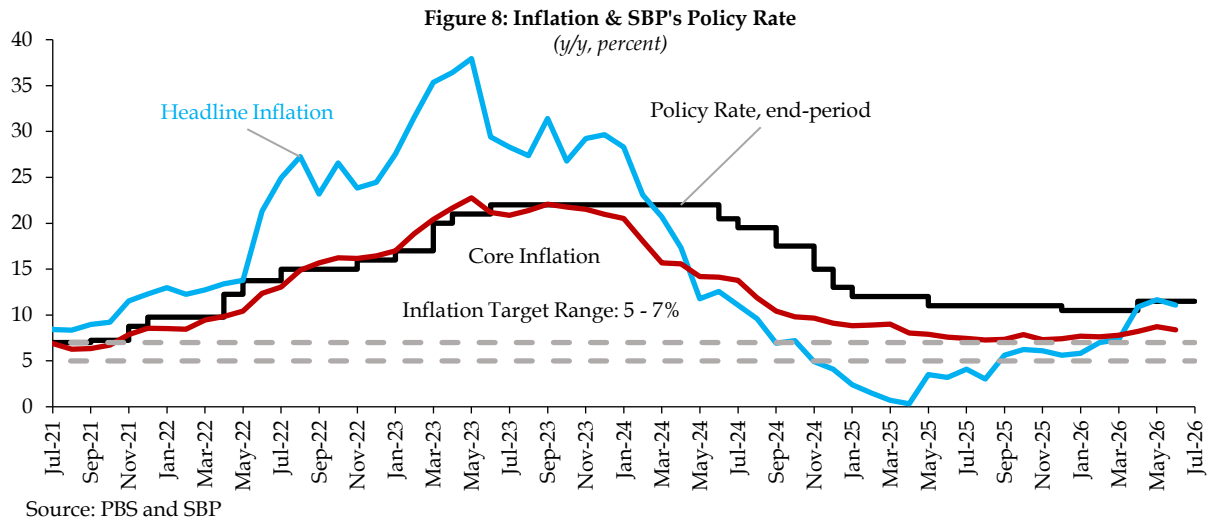
Figure 7: IMF Global GDP Growth Projections
(percent)



Source: IMF, WEO July 2026

meeting has since reversed, with market yields moving higher. However, Pakistan re-entered the global capital markets through successful issuance of Eurobonds in April 2026 and inaugural issuance of Panda bonds in May 2026. More recently, Pakistan's sovereign credit rating was upgraded by Standard & Poor's, while the 5-year CDS spread also remains below the last 5-year average.

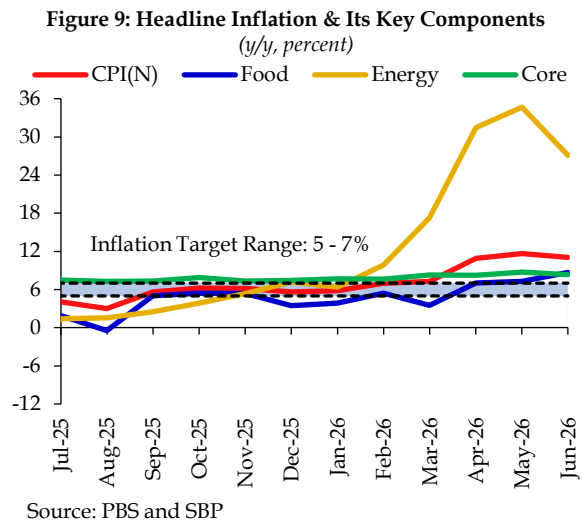
Inflation is projected to ease gradually towards the target range over the medium term, though it is expected to remain above the target range in the coming months



Headline inflation began to increase from March onwards, reflecting the expected impact of the phasing out of low base effect as well as the unexpected surge in global energy prices and their pass-through to domestic prices, and unanticipated trends in food prices. These factors pushed inflation to over 11 percent in May and June 2026 (**Figure 8 & 9**).⁷

Energy inflation began to rise significantly from March onwards following the conflict-related rise in global crude oil and POL product prices and their pass-through to domestic prices. However, the temporary de-escalation in the conflict in June led to a decline in global energy prices and the same was passed onto domestic prices by the government. More recently, the renewed escalation of the conflict has contributed to rising uncertainty and increased volatility in global fuel prices, leading to a rise in domestic petroleum prices again in July.

Food inflation has turned out higher in recent months than anticipated earlier, reflecting unexpected trends in prices of wheat and allied products and volatility in perishable food prices (**Figure 10**). The higher wheat prices can be partly attributed to issues stemming from wheat



⁷ Inflation declined to 9.2 percent y/y in July 2026.

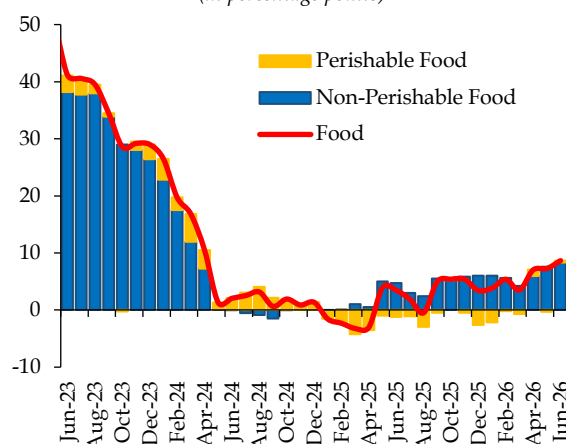
procurement and price deregulation reforms since last year, as well as market frictions that have contributed to lower-than-seasonal market supplies. However, going forward, these pressures are expected to somewhat ease as the government is considering wheat imports to plug supply gaps. In case of perishables, while prices remain volatile, these pressures are likely to be short-lived as fresh domestic supplies enter the market, thereby containing upside pressures on food inflation.

Core inflation has remained around 8 percent since the January MPC meeting (**Figure 11**). The rise in core inflation from March onwards can be partly attributed to the post-conflict rise in transport fares (**Table 3**), which has begun to seep into prices of some core goods and services. Some of this pass-through is visible in core goods such as clothing and footwear, and in services like hospitality, house rents and education.

Nonetheless, it is important to note that inflation expectations of a broad range of stakeholders – after expectedly rising immediately following the conflict-induced surge in domestic energy prices in March and April – have since trended down in recent months (**Figures 12a, 12b, & 12c**). This may have favorable implications for the inflation outlook.

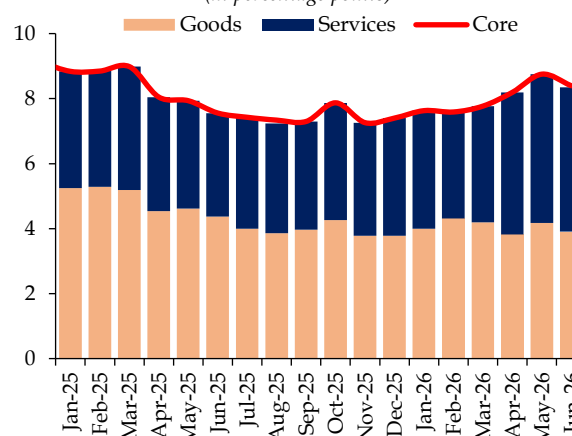
Going forward, inflation is projected to remain elevated in the near term, mainly due to the direct and indirect impact of the elevated energy prices. It is then projected to ease gradually towards the upper bound of the target range in the second half of FY27. This assessment is based on the following factors. First, global energy prices are expected to begin normalizing from H2-FY27 onwards, which, coupled with favorable base effect in Q4-FY27, are expected to contain energy and overall inflation. Second, medium-term (2-year ahead) inflation expectations of stakeholders are firmly anchored – providing some comfort regarding potential second-round

Figure 10: Contribution to Food Inflation (National)
(in percentage points)



Source: PBS

Figure 11: Contribution to Core Inflation (National)
(in percentage points)



Source: PBS

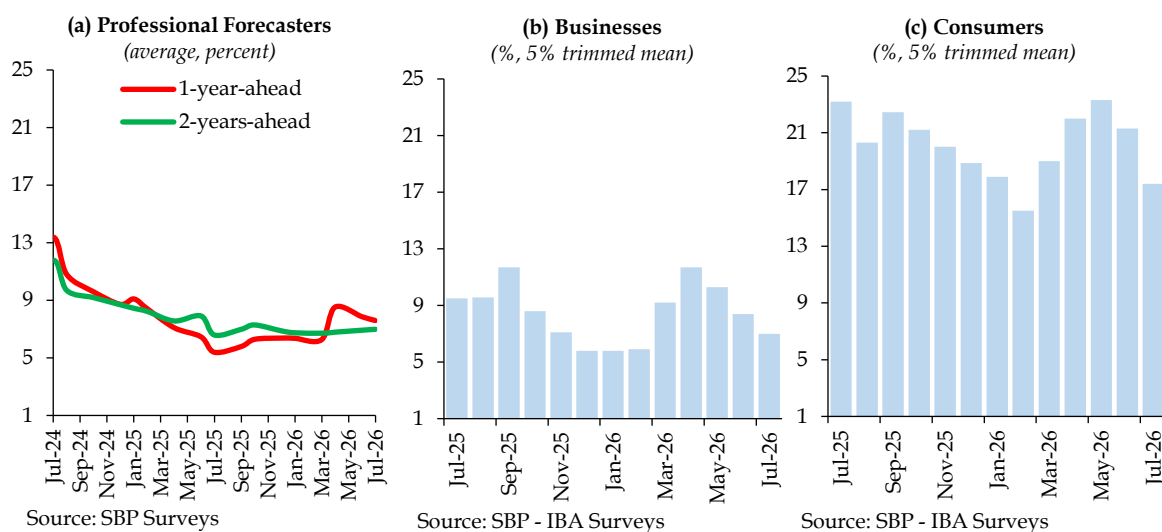
Table 3: Transport Fares vs. HSD Price-Trend in CPI Data
(m/m % change)

	Weight	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Increase since the Conflict
Transport Fares	1.8	-7.9	7.1	18.6	2.3	-0.5	29.9
HSD	0.02	5.8	19.4	26.1	-1.2	-12.3	30.5
Petrol	2.3	1	21.3	20.8	8.1	-13.9	36.4
LPG	0.6	0.9	14	35.4	-11.3	6.1	45.6
Kerosene	0.1	0.4	7.1	39.5	-6	-3.5	35.6

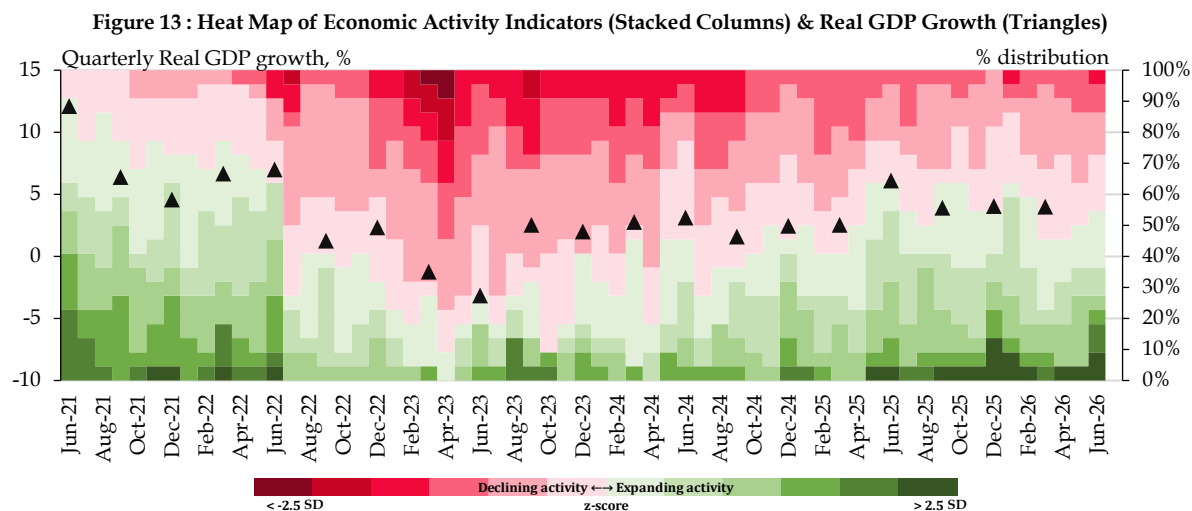
Source: PBS

impact of ongoing higher inflation. Third, food inflation is projected to ease following the expected wheat imports and subsequently the arrival of the fresh wheat crop in the second half of FY27. Fourth, aggregate demand remains moderate amidst the expected continuation of fiscal consolidation and the lagged impact of the 100 bps increase in the policy rate in April 2026.

Figure 12: Survey Results of Inflation Expectations



Economic growth maintained relatively strong momentum during most of FY26, with the Middle East conflict weighing on near-term growth outcomes

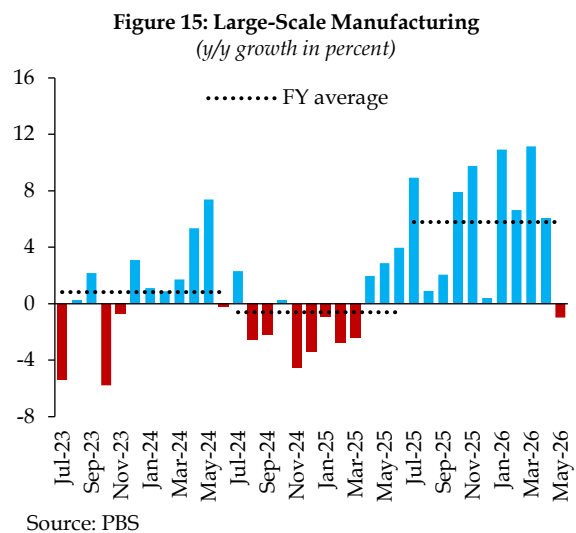
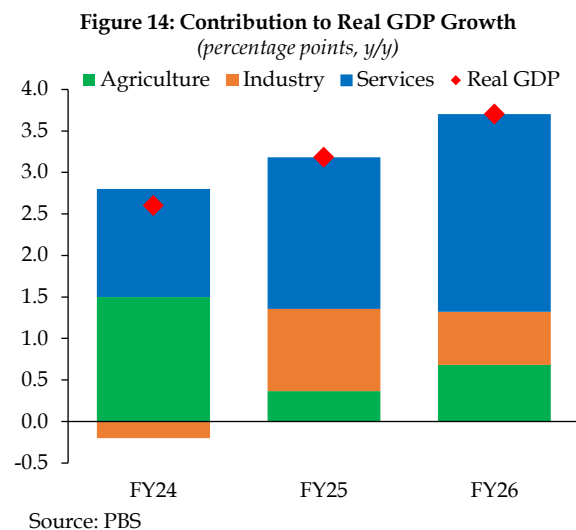


Source: PBS, SBP, NFDC, APCMA, PAMA, FBR, NEPRA, OCAC, PSX, and SBP staff estimates

As per provisional PBS estimates, economic activity grew by 3.7 percent in FY26, which is close to the lower bound of the range given in the January Monetary Policy Statement (MPS), and higher than 3.2 percent recorded in FY25. The broad-based growth momentum was picking up during the first three quarters, amidst pickup in domestic and external demand, easing financial conditions and stable

inflation, as captured by both national income accounts data and high frequency economic indicators (Figure 13 & 14).⁸

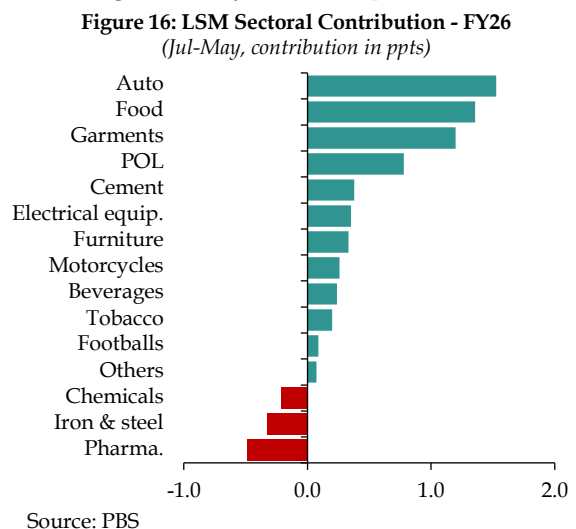
The growth momentum slowed in the fourth quarter following the start and continuation of the Middle East conflict, which had led to a sharp rise in energy prices and supply chain disruptions. These developments particularly impacted industrial activity in Q4-FY26. After slowing down in April, large-scale manufacturing (LSM) witnessed one percent contraction in May 2026 (Figure 15). The growth in construction-allied sectors and consumer durables, including pharmaceutical products, food products, and beverages, deteriorated notably in April-May.



The austerity-led cut in PSDP spending dampened construction-allied LSM sectors, as well as value addition in the construction sector. Moreover, imports of iron and steel were adversely impacted by shipping disruptions in the Strait of Hormuz, with implications for both the manufacturing and construction sectors. These developments, along with declining electricity sector output amidst lower y/y subsidy disbursements, dragged industrial sector growth in the fourth quarter of FY26.

That said, on cumulative basis, industrial activity still expanded on the back of strong performance in the first three quarters. Both inward-oriented sectors (like auto, food, cement, and POL) and export-oriented sectors (like garments, furniture, and footballs) contributed to the manufacturing growth (Figure 16).

Unlike industry, the agriculture sector remained largely unaffected by the Middle East conflict. The



⁸ In the heat map in Figure 13, 22 high frequency indicators. Each indicator is standardized relative to its historical average to ensure comparability across series. The standardized indicators are then presented using a color-coded scale, where shades of red indicate weaker-than-average economic activity, and shades of green reflect stronger-than-average growth. The color's intensity indicates the strength of the signal.

crop sector rebounded, led by wheat, sugarcane and rice. Wheat performed well despite the conflict-induced fears of unavailability of diesel for harvesting, as well as rising energy prices that made it difficult for small farmers to ensure completion of the crop cycle. The government's measures to ensure uninterrupted supply of diesel (among other fuels) at subsidized prices provided some cushion to small farmers against the rising diesel prices. Meanwhile, the livestock sector recorded higher growth than last year, resulting in a higher agriculture growth on overall basis.

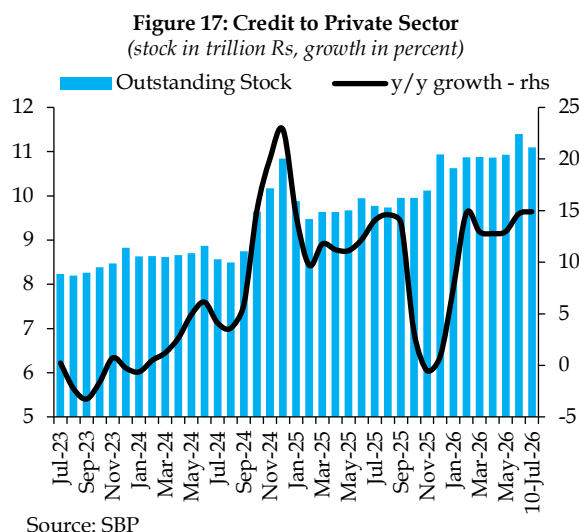
Pronounced activity in the manufacturing and agriculture sectors reflected in higher growth in wholesale & retail trade (WRT) and in transport and storage segments of the services sector. However, weaker manufacturing output in the fourth quarter slowed WRT growth; though the information and communications sector lifted overall services growth amidst strong ICT exports.

Going forward, economic activity is expected to pick up in FY27, though at a slower pace than anticipated in January, amidst the ongoing elevated energy costs and supply disruptions. This assessment is based on multiple factors. First, favorable tax measures, including rationalization of super tax for certain sectors and incentives for exporters, are expected to support manufacturing and services activity. Second, under the National Tariff Policy 2025-30, the government has further reduced tariffs across a broad range of tariff lines, which is likely to support import-dependent manufacturing sectors, like automobiles, textiles, pharmaceuticals and edible oil. Third, notably higher expected sugarcane production is likely to boost sugar production, which will, in turn, strengthen WRT services. Fourth, there has been a strong and broad-based pickup in private sector credit in FY26, which will support economic activity in FY27. Fifth, sentiment surveys indicate a rise in business confidence and purchasing managers index in June and July 2026, with favorable implications for economic outlook. Moreover, after showing moderation in the wake of the conflict, the high frequency indicators have recovered in June. This recovery is expected to continue into FY27 as well. Under these circumstances, real GDP growth is expected to range between 3.5 – 4.5 percent in FY27.

Ongoing pickup in private sector credit is expected to continue, amidst curtailed budgetary borrowing from the banks

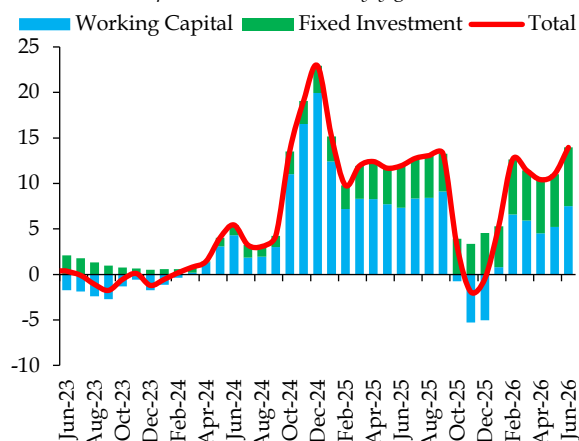
Private sector credit continued its upward trajectory in FY26 (**Figure 17**), driven by continued macroeconomic stability, the ongoing lagged transmission of earlier monetary easing, and enhanced banking sector liquidity following the reduction in the average Cash Reserve Requirement. Credit expansion remained well-distributed across working capital, fixed investment and consumer financing (**Figure 18 & 19**).

Within working capital, sugar, wholesale and retail trade, and rice processing firms were the major borrowers, whereas agriculture and fertilizer dominated fixed investment. Within



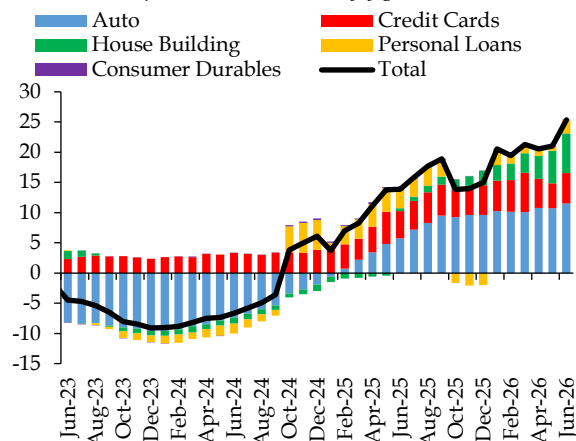
consumer finance, demand remained strong for auto, housing and personal loan segments, in the wake of easing financial conditions, pickup in economic activity and relatively upbeat business and consumer sentiments.

Figure 18: Component-wise Loans to Businesses
(percent contribution in y/y growth)



Source: SBP

Figure 19: Consumer Financing
(percent contribution in y/y growth)

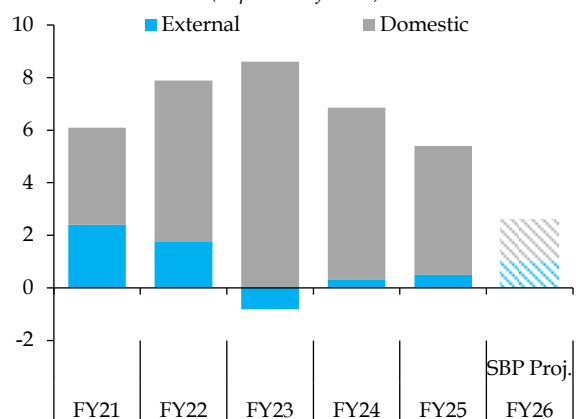


Source: SBP

Going forward, private sector credit growth is projected close to last year's level in FY27, supported by the continued macroeconomic stability and the projected pickup in economic activity.

Alongside improving macroeconomic and financial conditions, the relatively lower reliance of budget financing on domestic sources also supported private sector credit growth in FY26 (Figure 20) and is expected to continue to do so in FY27.

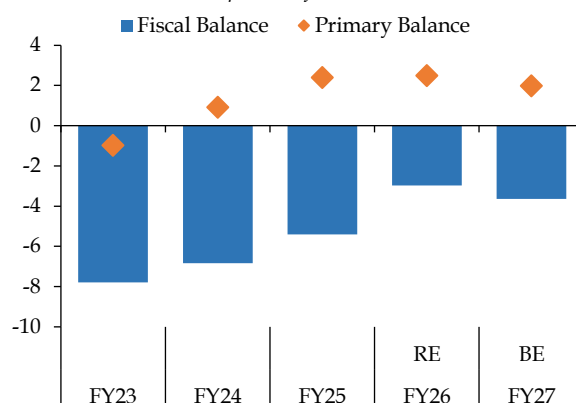
Figure 20: Deficit Financing Composition
(as percent of GDP)



Source: MoF, SBP staff projections

Fiscal consolidation, which had started in FY23, continued in FY26 as well. Specifically, FY26 delivered the strongest fiscal outcome in recent years, with an expected primary surplus of 2.5 percent of GDP and a significantly lower fiscal deficit of 3.0 percent of GDP (Figure 21). Importantly, this consolidation was achieved despite around Rs1.0 trillion shortfall in FBR revenue collection from the budget. This fiscal performance was driven by improved fiscal management, lower debt-servicing costs, and expenditure restraint. The government is aiming to continue the fiscal discipline in FY27 by targeting a primary balance surplus of 2.0 percent of GDP.

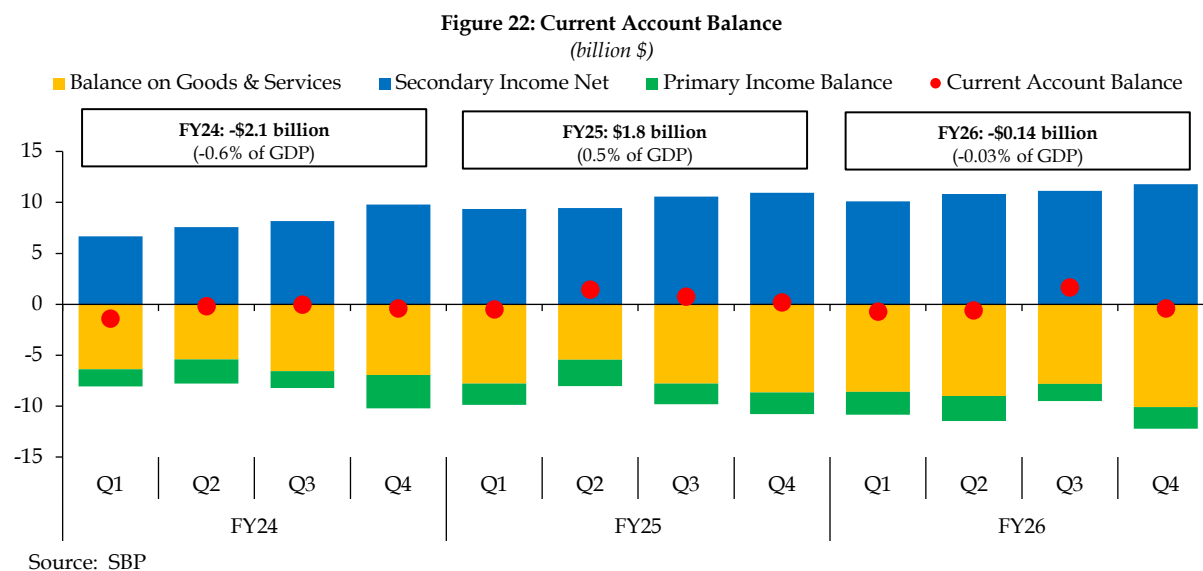
Figure 21: Fiscal & Primary Balances
(percent of GDP)



Note: RE: Revised estimates. BE: Budget estimates
Source: MoF

SBP's FX buffers continue to strengthen, despite the challenging global environment

SBP's FX reserves surpassed the end-June 2026 target of \$18 billion by \$0.4 billion and reached \$18.4 billion.⁹ This was mainly due to a lower than anticipated current account deficit of \$0.14 billion in FY26 (**Figure 22**), despite the substantial energy price shock from March onwards. Record-high workers' remittances, robust ICT exports and lower LNG imports helped contain the current account deficit towards the lower bound of the projected range of 0 – 1 percent of GDP. This supported SBP's foreign exchange purchases from the interbank market to build its FX reserves and reduce its forward liabilities.¹⁰



Exports of goods and services recorded marginal growth in FY26 on the back of ICT and high value added (HVA) textiles exports, which helped to absorb the sharp decline recorded in food exports. Excluding food, exports of goods and services grew by 4.8 percent in FY26. The drag in food exports was mainly driven by a sharp decline in rice exports owing to imposition of import restrictions by key importers in East Asia and a reduction in unit values amidst intense competition from India. Meanwhile, growth in imports of goods and services decelerated to 8.5 percent in FY26 from the preceding year despite the surge in energy imports in Q4-FY26. Moderate pace of economic activity, coupled with austerity measures introduced by the government during Q4, helped cushion the impact of the surge in oil prices in the quarter.

Meanwhile, the capital and financial accounts recorded a net inflow of \$1.3 billion in FY26. Strong official inflows in Q4-FY26 reflected the materialization of the government's planned external financing. Specifically, an additional deposit from Saudi Arabia, along with fresh Eurobond and Panda bond issuances, helped meet the country's external financing requirements including repayment of UAE deposits of around \$3.5 billion and a Eurobond repayment of around \$1.3 billion.

Going into FY27, the exports outlook has turned somewhat favorable as compared to the assessment

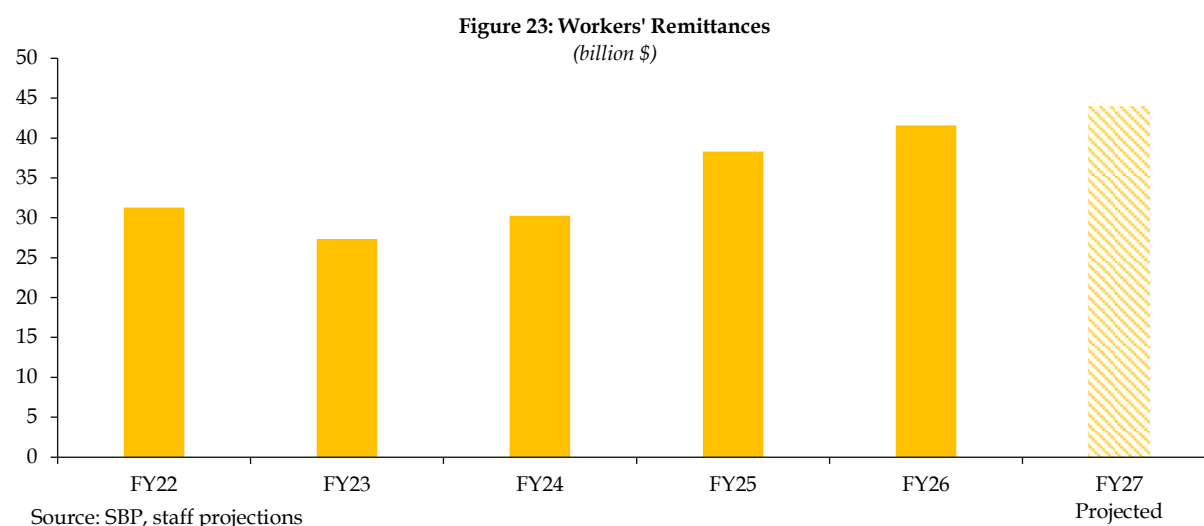
⁹ The FX reserves subsequently declined to \$17.0 billion by July 31 following substantial debt repayments.

¹⁰ SBP's net FX purchases amounted to around \$3 billion during January – April 2026. During January – June 2026, SBP's forward liabilities reduced by around \$1 billion.

at the time of the January MPC meeting. Uptick in international prices of rice and cotton is expected to increase Pakistan's export earnings from the food and textile segments. Meanwhile, relatively improved economic growth prospects for key export destinations in CY27, as indicated in the IMF's latest WEO update, could improve prospects for HVA-textile exports. In case of rice, the El Niño-induced potential global shortage could result in higher demand, which Pakistan could meet in the presence of sufficient carry-over stock from last year and this year's production estimates.

On the import side, the upward trajectory is expected to continue, driven by strengthening domestic demand amidst recovery in LSM, higher international energy and non-energy prices, and tariff rationalization under the National Tariff Policy (2025-30). The elevated energy prices could keep the energy imports at a higher level, particularly in the near term. While the tariff reforms introduced over the past two years are expected to gradually improve export competitiveness over the medium term, they are also likely to contribute more towards import growth in the near term. Consequently, the trade deficit is projected to widen in FY27 compared to FY26, which is slightly higher than the assessment in January.

Workers' remittances are expected to continue to finance the projected widening in trade deficit and are expected to rise to \$44.0 billion in FY27 (**Figure 23**). This would mark a slower growth (5.9 percent) against last year (8.6 percent) amidst global labor market headwinds and regional constraints on emigration. The outlook assumes a gradual recovery in emigration as regional conditions stabilize, and reconstruction-related labor demand in the Middle East gains momentum.



Under these conditions, the current account deficit is projected to widen in FY27, though it is expected to remain within the range of 0 – 1 percent of GDP in FY27.

The financial account is projected to remain in surplus in FY27, supported primarily by projected public sector inflows, including planned issuance of international bonds. Private inflows, including FDI and FPI, are expected to moderately increase in FY27 as compared to FY26. In this regard, SBP's FX reserves are projected to increase to \$20.20 billion by end December 2026 and to rise further by June 2027.

Chapter 2 – Risks to the Macroeconomic Outlook

Pakistan's macroeconomic outlook for FY27 has improved relative to the MPC's earlier assessment immediately following the outbreak of the Middle East conflict. Inflation is projected to be lower than previously anticipated; economic activity is expected to recover gradually; and the external account pressures are assessed to remain moderate, with SBP's FX reserves targeted to increase further. The continued implementation of prudent monetary and fiscal policies has improved the economy's resilience to shocks relative to previous years. Nonetheless, the baseline outlook remains subject to multiple evolving short- and medium-term risks, emanating from both external and domestic sources. In particular, uncertainty regarding the duration and intensity of the ongoing Middle East conflict, adverse climate events, global tariff policies, and delays in the implementation of structural reforms, are major risks that the MPC has evaluated in its recent macroeconomic assessment and policy settings.

Geopolitical developments present the most important near-term external risk

Although the temporary de-escalation in the conflict in June led to a sharp decline in global oil prices and a relative ease in supply chain disruptions, the subsequent resurgence in the conflict has renewed the uncertainty around global commodity prices, international trade and freight costs. As such, the duration and intensity of the conflict remain the key determinants of its impact on the global and domestic economy. While the baseline projections assume a gradual normalization of conflict-related disruptions during the second half of FY27, the assumption remains subject to the evolving events in the region.

Climate-related risks, including from El Niño, warrant careful monitoring

Climate-related shocks continue to present an important risk for Pakistan's macroeconomic outlook. Current meteorological assessments indicate higher probability of El Niño-related weather disturbances during the forecast horizon.¹¹ Although the timing and severity of these developments remain uncertain, adverse weather conditions, marked by anomalies in temperature and rainfall, could affect agricultural production and food inflation. Moreover, lower domestic production of agricultural crops may necessitate higher imports and lead to lower food exports, placing additional pressure on the external account.

Global tariff uncertainty persists, with implications for export outlook

As highlighted in the February 2026 MPR, the evolving global tariff policies, first announced by the US in early 2025, continue to pose a risk to the macroeconomic outlook. The process of global trade realignment remains underway, with implications for global supply chains, trade patterns, and export competitiveness across countries. For Pakistan, these developments present both opportunities and challenges. While trade diversion may create opportunities for some export sectors to expand market share in destination markets, Pakistan already operates in a challenging export environment

¹¹ "El Niño continues and will strengthen through the end of the year; with a 97% chance it will persist through early spring 2027." National Oceanic and Atmospheric Administration (NOAA), issued by Climate Prediction Center (CPC) of the US government.

https://www.cpc.ncep.noaa.gov/products/analysis_monitoring/enso_advisory/ensodisc.shtml

characterized by intense competition from regional peers, particularly in textiles and food products. Consequently, weaker global demand and intensifying competition from regional exporters could limit these gains. The net impact will depend on the pace of global trade normalization, the relative tariff treatment of Pakistan's exports, and the ability of domestic firms to respond to evolving global market conditions and improve competitiveness.

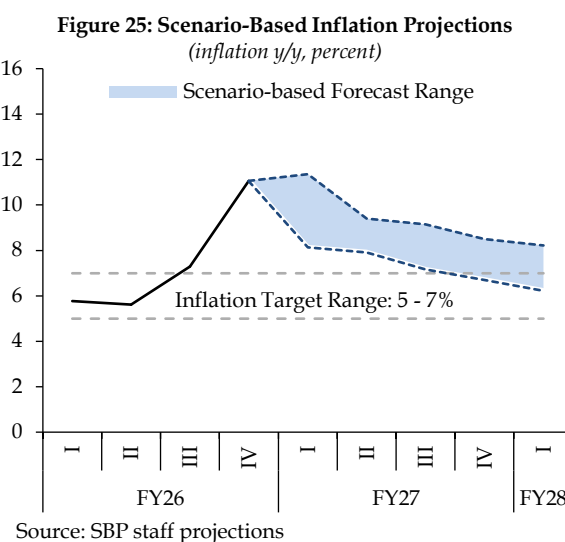
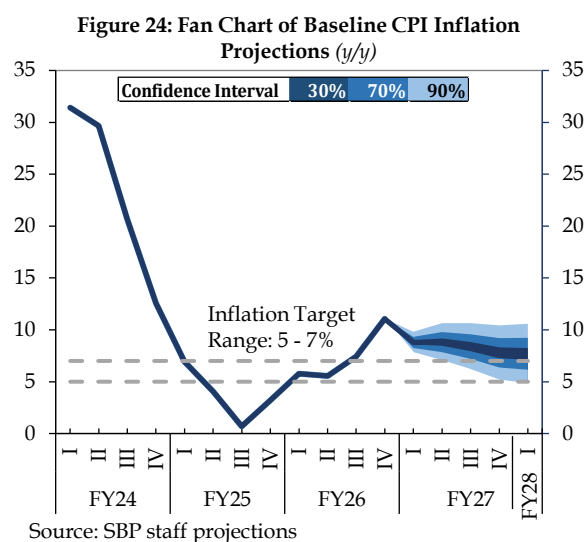
Delays in structural reforms amidst recurring supply shocks pose risks to macroeconomic stability

The improvement in Pakistan's macroeconomic stability over the past two years provides an opportunity to accelerate structural reforms needed to sustain higher economic growth and reduce macroeconomic vulnerabilities. This has become even more important in the wake of recurring supply shocks over the past few years.

In particular, continued fiscal reforms remain essential to broaden the tax base, improve revenue mobilization and support the government's objective of maintaining primary fiscal surpluses over the medium term. Given Pakistan's relatively low tax-to-GDP ratio compared to many peer economies, expanding the tax base while reducing distortions and providing greater incentives for productive and export-oriented sectors would help strengthen fiscal sustainability.

At the same time, Pakistan's exports remain low relative to the size of the economy, leaving the external sector susceptible to adverse movements in global commodity prices and tariff developments in key destinations. In this regard, the government is taking measures to support export-oriented sectors, including performance-based rebates and other incentives for exporters. However, for a sustainable pickup in exports, structural reforms aimed at improving the business environment and reducing reliance on imported energy are essential to enhance firm productivity and export competitiveness, which will support a more sustainable export-led growth model.

The medium-term risk profile for inflation is reflected in the probabilistic uncertainty around the baseline forecast in the fan chart (Figure 24). Moreover, the MPC assessed the potential impact on inflation of a wide range of scenarios (Figure 25). These included favorable and unfavorable trends in global energy and food prices, including those stemming from the Middle East conflict and El Niño's possible impact on agricultural prices and the external account. In addition, the MPC's risk analysis

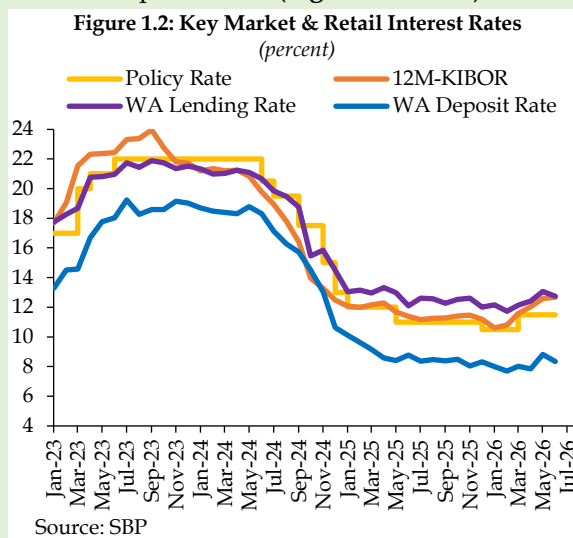
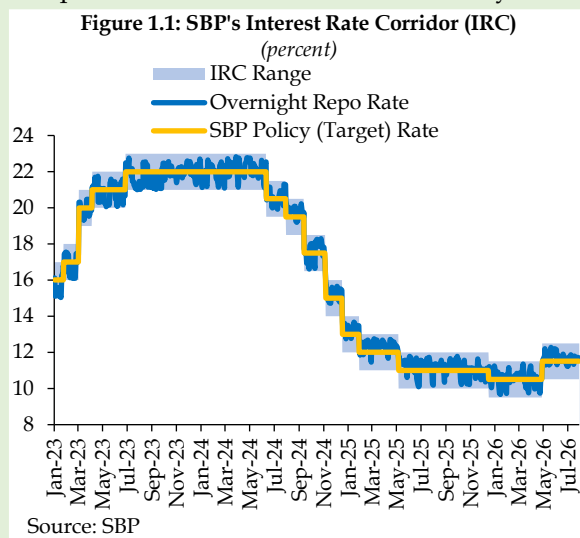


tried to incorporate possible impact on inflation of unanticipated adjustments in administered energy prices and potential fiscal slippages.

In sum, managing these risks will require prudent macroeconomic policies. The current policy mix – characterized by fiscal prudence, positive forward-looking real interest rates, and improved FX reserves – has enhanced the economy’s resilience to near-term macroeconomic vulnerabilities. At the same time, this will need to be complemented by expediting structural reforms aimed at enhancing productivity, expanding and diversifying exports as well as export markets, and broadening the tax base. Continued progress in these areas will be essential for further strengthening resilience and creating conditions for higher and sustainable economic growth.

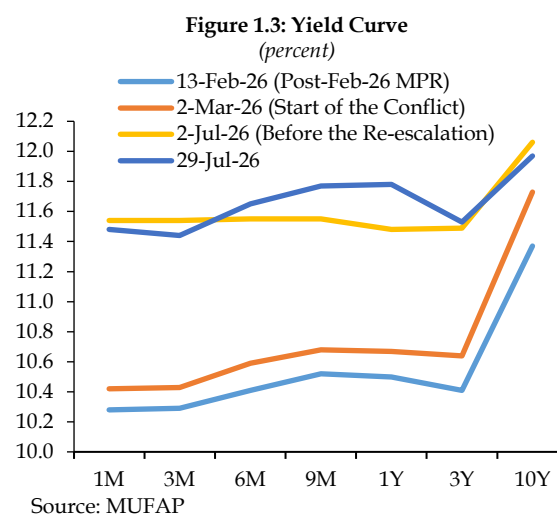
Box 1: Update on the Transmission of Monetary Policy to Market Interest Rates

The monetary easing cycle that began in June 2024 resulted in a substantial reduction in the policy rate, from a recent high of 22 percent to 10.5 percent by December 2025. The cumulative reduction of 1,150 bps over one and a half years has been transmitted to market interest rates. The short-term money-market rates adjusted broadly in line with the policy rate, and the weighted-average lending and deposit rates have declined considerably from their recent peak levels (**Figure 1.1 & 1.2**).



However, the emergence of the Middle East conflict-driven supply shock significantly impacted the inflation outlook. In response, the MPC increased the policy rate by 100 bps to 11.5 percent in late April 2026 to keep inflation expectations anchored, contain potential second-round effects and ensure that inflation returns to its medium-term target range. The initial transmission of this policy adjustment is already evident in financial market rates. The overnight repo rate, on average, increased to 11.7 percent since the increase in the policy rate. Meanwhile, its standard deviation declined to 0.25 from 0.39 during February–April 2026, indicating reduced volatility and more stable alignment of short-term market rates with the policy rate. Other market rates also adjusted upward in line with the policy rate. KIBOR increased to 12.6 percent from 11.5 percent, while the weighted average lending rate rose to an average of 12.9 percent during May–June 2026, compared with 12.1 percent during February–April 2026. However, the broader effects of the increase in policy rate on financing conditions, credit demand, output and inflation will be visible with the usual lag of about 6 to 8 quarters.

While these movements indicate the initial transmission of the monetary policy decision through short-term market and lending rates, longer-term yields capture the market's evolving assessment of inflation risks, interest rates and the prospective monetary policy path. In this regard, movements in the yield curve during the period under review reflected considerable uncertainty surrounding the rapidly changing geopolitical situation (**Figure 1.3**). Consequently, the yield curve shifted both upward and downward as market



participants repeatedly reassessed the likely duration and intensity of the supply shock and its implications for inflation and monetary policy. Following the announcement of the ceasefire in mid-June 2026, yields declined across maturities as geopolitical risks and uncertainty receded. However, the subsequent re-escalation of the conflict in early July 2026 shifted the yield curve upward, indicating a renewed reassessment of inflationary pressures, associated risk premia, and the expected path of monetary policy.

Box 2: Why Do Central Banks Respond to Supply Shocks When Monetary Policy is Primarily a Demand Management Tool?

Recurring supply shocks – such as increase in global energy prices, supply chain disruptions, and adverse climate conditions – simultaneously fuel inflation and weaken economic growth, posing difficult trade-offs for monetary policymakers. While monetary policy is primarily a demand-management tool, central banks' response to supply shocks largely depends on their potential implications for the medium-term inflation outlook.

Supply shocks affect inflation directly through higher prices of affected goods and services. They can also influence inflation indirectly by increasing inflation expectations and input costs across a wider range of goods and services. The direct impact of a supply shock typically dissipates as the shock subsides. However, elevated inflation expectations and strong second-round effects can keep inflation higher for a prolonged period. This makes it more difficult and costly for central banks to rein in inflationary pressures.

Central banks can afford to look through transitory supply-driven price movements to avoid unnecessary volatility in output and employment (Mishkin, 2007; Bandera et al., 2023). However, the key concern for monetary policymakers is to prevent supply shocks from de-anchoring inflation expectations and triggering strong second-round effects. A tighter policy stance is warranted when supply shocks threaten to keep inflation above target for a prolonged period or when inflation expectations begin to drift away from the central bank's objective (Beaudry et al., 2026; Minesso et al., 2025).

While responding to supply shocks, central banks place particular emphasis on keeping inflation expectations well anchored. This helps prevent temporary inflation from becoming entrenched through wage-price dynamics and second-round effects. When households expect higher inflation, they may demand higher wages to protect their purchasing power. At the same time, firms may pass on higher labor and input costs by raising the prices of their goods and services. This interaction can generate a wage-price spiral, broadening inflationary pressures beyond the sectors initially affected by the shock.

To assess inflation expectations and second-round effects of supply shocks, central banks closely monitor medium to long-term inflation expectations, wage developments, momentum in core inflation, firms' pricing behavior, state of the business cycle, and labor market conditions.

The standard response of central banks to such supply shocks can be illustrated by the post-pandemic period of high inflation. Initially, inflation was concentrated in a few sectors and was widely perceived to be transitory. However, the shock evolved into a larger and more persistent episode, and resulted in a broad-based increase in prices (Borio et al., 2023). Accordingly, forceful tightening was required to re-anchor inflation expectations.

More recently, the Middle East conflict-induced surge in global commodity prices, supply chain disruptions and increased freight charges have posed significant risks to the inflation outlook. As the conflict persisted and signs emerged that higher energy prices were beginning to seep into the core inflation basket, SBP's Monetary Policy Committee increased the policy rate by 100 basis points in

April 2026. This proactive action was needed to keep the inflation expectations anchored and contain the second-round impact of the shock. As inflation expectations of households, firms and professional forecasters moderated and the inflation outlook improved in the following months, the Committee kept the policy rate unchanged at its meetings in June and July.

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Box 3: Which Measure of Inflation does the SBP Target, and Why?

There is a common debate amongst financial circles across the world, including in Pakistan, regarding the measure of inflation that a central bank targets as part of its price stability mandate. The question arises due to two different yet related viewpoints – which measure of inflation is the most relevant for the general public; and which price index can be effectively targeted by a central bank.

In Pakistan’s case, the government sets the medium-term target for headline Consumer Price Index (CPI) inflation, which is currently 5 – 7 percent. This target serves as the nominal anchor of monetary policy set by the SBP’s Monetary Policy Committee. The discussion below centers on the following two main points: (i) the importance of headline inflation for monetary policymaking; and (ii) the relevance of alternative measures of inflation that are also regularly tracked by the MPC.

(i) Relevance of Headline Inflation

Headline CPI’s choice as the policy target is due to the following three key characteristics.

First, headline CPI is the mainstream measure of inflation which is widely reported, understood and tracked by consumers and businesses (Bernanke et al., 1999). It tracks price changes over time in the total consumption basket of a typical individual, instead of a few goods or services items. It is also simple and relatively easy to understand by stakeholders. This is why a majority of global central banks target headline inflation to achieve their price stability mandate (**Table 3.1**).

Second, headline CPI inflation is also more closely linked to the setting of inflation expectations. Consumers’ inflation expectations are highly influenced by changes in food and energy prices (Coibion et al., 2015). Due to its broad-based coverage of prices, headline CPI is therefore the optimal measure to anchor consumers’ inflation expectations (Knight, 2007; Anand et al., 2015).

Third, headline CPI inflation is a key input variable used across economic policies, including fiscal, investment and trade policies etc. This increases the measure’s importance for central banks as they try to assess the impact of these economic policies on the inflation outlook.

(ii) The Importance of Alternative Measures of Inflation

Targeting headline inflation does not mean that central banks, including the SBP, ignore trends depicted in other price measures. The MPC deliberates on trends and developments of multiple other price measures, including core inflation, wholesale price index (WPI) inflation, food inflation, and energy inflation, among others, to assess their implications for the medium-term headline inflation outlook.

Table 3.1: Inflation Measure as Target in Key Inflation Targeting/Flexible IT Economies

Countries (year of adoption)	Target Measure	Target Type	Target Horizon
A. Emerging Market Developing Economies			
Armenia (2006)	CPI	Point with tolerance band	Medium term
Brazil (1999)	IPCA	Point with tolerance band	Annual target
Chile (1990)	CPI	Point with tolerance band	Around two years
Colombia (1999)	CPI	Range	Medium term
Czech Republic (1998)	CPI	Point with tolerance band	Medium term (12-18 months)
Ghana (2002)	CPI	Point with tolerance band	18-24 months
Guatemala (2002)	CPI	Point with tolerance band	End of Year
Hungary (2001)	CPI	Point	Medium term
Indonesia (1999)	CPI	Point with tolerance band	Annual target
Israel (1991)	CPI	Range	Within two years
Mexico (2001)	CPI	Point with tolerance band	Medium term
Peru (2002)	CPI	Point with tolerance band	At all times
Philippines (2002)	CPI	Point with tolerance band	Medium term
Poland (1999)	CPI	Point with tolerance band	Medium term
Romania (2005)	CPI	Point with tolerance band	Medium term
Serbia (2009)	CPI	Point with tolerance band	Medium term
South Africa (2000)	CPI	Range	On a continuous basis
Thailand (2000)	CCPI	Range	Eight quarters
Turkey (2006)	CPI	Point	Medium term (3 years)
B. Advanced Economies			
Australia (1993)	CPI	Range	Medium term average
Canada (1991)	CPI	Point with tolerance band	Medium term (Six-eight quarters)
Iceland (2001)	CPI	Point with tolerance band	On average
Japan (2012)	CCPI	Point	Within two years
New Zealand (1990)	CPI	Range	Medium term
Norway (2001)	CPI	Point	Medium term
South Korea (1998)	CPI	Point with tolerance band	Mid-term horizon
Sweden (1993)	CPI	Point	Annual
United Kingdom (1992)	CPI	Point	At all times

Note: CPI = Consumer Price Index; CCPI = Core Consumer Price Index

Source: Hammond (2012), and Mahajan, Saha and Singh (2014)

Core inflation, which strips out volatile food and energy components from headline inflation, helps the MPC determine whether a given headline outturn reflects a transitory supply shock or a more persistent, demand-driven trend requiring a policy response (Mishkin, 2007). Meanwhile, WPI and sensitive price indices function as leading indicators of price pressures that are likely to feed into future headline outturns. In practice, the MPC regularly discusses the trends in these alternative measures of inflation and their implications for the forecasted trajectory of headline inflation. The MPC also regularly refers to outturns of core inflation in its monetary policy statements, even as headline CPI remains the sole formal target and policy anchor.

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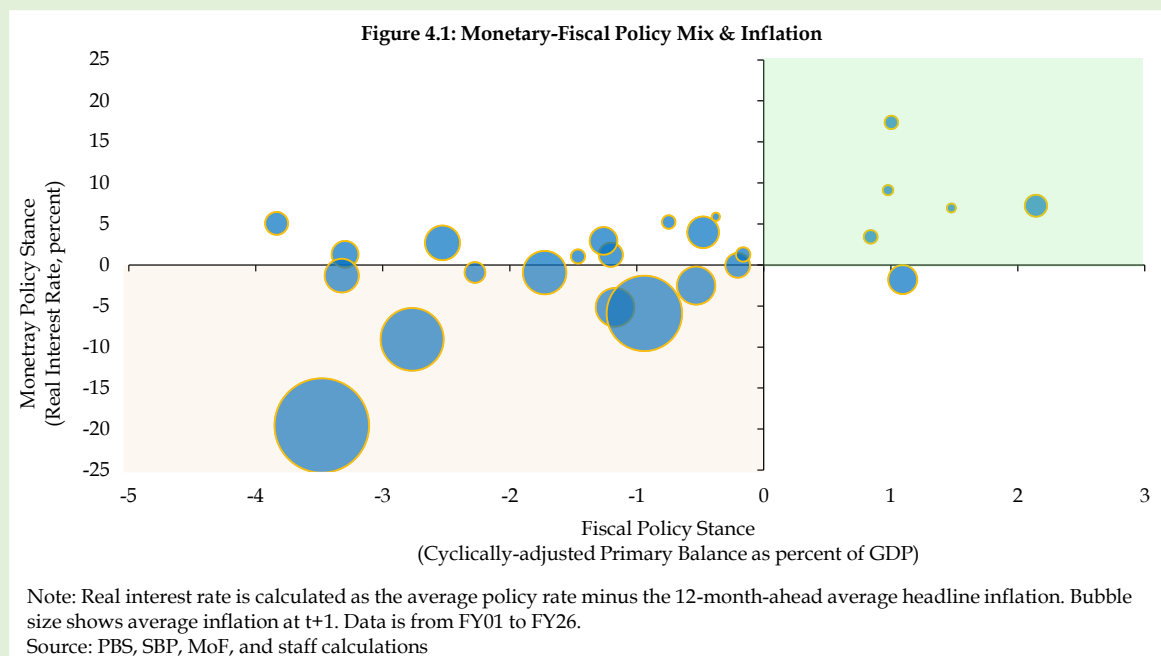
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Box 4: Monetary-Fiscal Policy Mix and Implications for Price Stability

Economic literature widely recognizes that a prudent mix of monetary and fiscal policies helps to achieve overall macroeconomic stability and sustainable economic growth (Woodford, 2001). While monetary policy primarily focusses on price stability and anchoring inflation expectations, its effectiveness is enhanced when it is complemented by supportive fiscal policy. This well-calibrated policy mix is effective in containing inflationary pressures, limiting the output costs of macroeconomic adjustment, and supporting sustainable growth.



An analysis of Pakistan's last 26 years (FY01-FY26) shows that fiscal discipline helps strengthen the disinflationary impact of monetary tightening, while an expansionary fiscal stance can dilute its effectiveness. **Figure 4.1** provides a historical perspective on Pakistan's monetary-fiscal policy mix and inflation outcomes. Monetary policy stance is measured by real policy rate, which reflects the inflation-adjusted cost of borrowing. Meanwhile, the fiscal policy stance is measured by the cyclically adjusted primary balance, which captures discretionary fiscal actions by adjusting for the impact of economic cycles and interest payments on public debt. Positive values on the horizontal and vertical axes indicate relatively tighter fiscal and monetary policy stances, while the negative values show expansionary policy stances. The size of each bubble represents average inflation in the subsequent fiscal years, to reflect the transmission lag of both policies.

The historical analysis suggests that the efforts to reduce inflation are more successful when monetary policy tightening is accompanied by restrictive fiscal policy (top right quadrant of **Figure 4.1**). Inflation averaged around 4.6 percent during this episode. However, the disinflationary impact of monetary tightening is weakened in the absence of a supportive fiscal policy (top left quadrant of **Figure 4.1**), where average inflation increased to around 7.1 percent.

To sum up, prudent monetary and fiscal policy mix is essential to achieve price stability. Importantly, this policy mix appears to continue amidst new challenges arising from the evolving Middle East

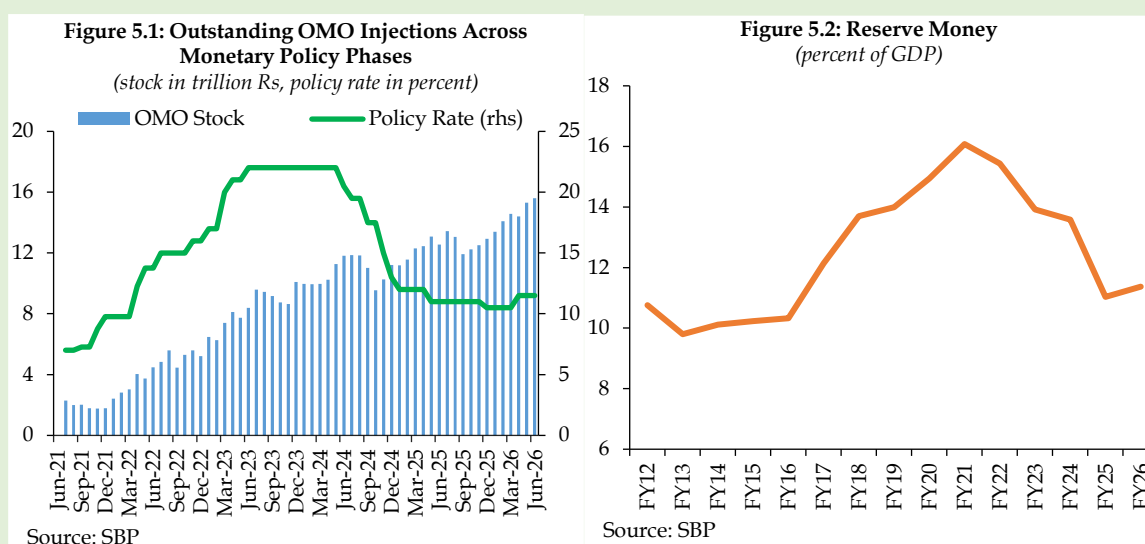
situation. While the MPC has hiked the policy rate to contain the seepage of the sharp increase in energy prices to prices of a broader set of goods and services, fiscal discipline was maintained by quick pass-through of changes in global energy prices to domestic prices, and by providing targeted support to the most vulnerable segments of society. Going forward, continued policy prudence is expected to safeguard the hard-earned macroeconomic stability amidst renewed global challenges.

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Box 5: Size of OMOs - Is it consistent with the Monetary Policy Stance?

Open Market Operations (OMOs) have played an increasingly important role in liquidity management in recent years, with the outstanding stock of liquidity injections exceeding Rs15 trillion by end-June 2026, from around Rs3 trillion as of end-June 2021 (**Figure 5.1**). The substantial increase in OMO volumes usually raises questions about whether it signals a more accommodative monetary policy stance, or if these liquidity injection operations are consistent with the monetary policy stance. This Box explains that the monetary policy stance is determined by the policy rate, with monetary policy decisions remaining forward-looking and based on the inflation outlook and the balance of risks over the forecast horizon. OMOs, in contrast, are short-term liquidity management tools that are used to implement that stance by keeping the overnight interbank repo rate closely aligned with the policy rate.

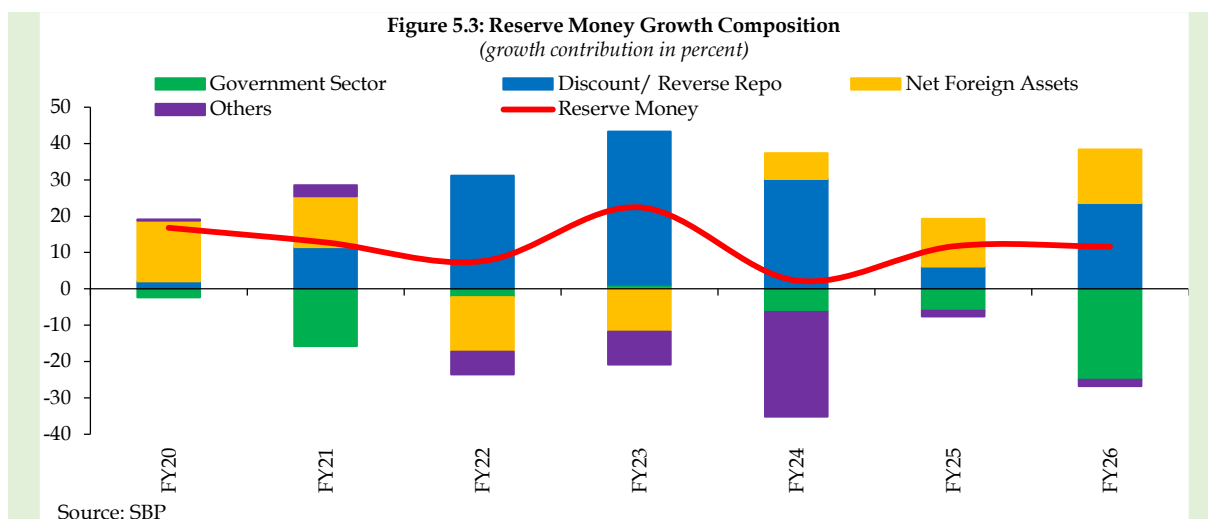


While the large outstanding stock of OMOs is an important consideration for the MPC because of its implications for monetary conditions and the inflation outlook, it should not be assessed in isolation. Rather, OMO holdings represent only one component of reserve money and need to be viewed in the context of its overall level, growth and composition. It is worth highlighting that the trend and composition of reserve money have evolved favorably in recent years.

First, this is reflected in the evolution of reserve money relative to the size of the economy. Despite the higher OMO injections, reserve money as a percent of GDP, in fact, has declined since FY21 (**Figure 5.2**). With reserve money growing at a lower pace than nominal GDP, the rise in OMO holdings has not generated excess monetary expansion that could fuel inflationary pressures.

Second, the contribution of net foreign assets (NFA) to reserve money has increased, reflecting strong external buffers that bode well for the inflation outlook (**Figure 5.3**).

The SBP has also strengthened the operational framework through enhanced collateral valuation, collateral haircuts and eligibility criteria, and counterparty risk management. These refinements have reinforced the effectiveness and resilience of liquidity management operations.



To sum up, the expansion in OMO volumes reflects the evolving liquidity management framework and market liquidity conditions. Within the current interest rate targeting framework, OMOs serve as an operational tool to implement monetary policy by maintaining the overnight interbank repo rate close to the policy rate, while the monetary policy stance continues to be determined by the policy rate.

Box 6: Measuring Inflation Expectations through Sentiment Surveys

Inflation expectations play a crucial role in influencing the economic decisions of households and firms (D'Acunto et al., 2024; Baumann et al., 2024). Consequently, obtaining robust, credible, and timely measures of inflation expectations is critical for the formulation and conduct of monetary policy. Central banks with price stability mandates tend to monitor and manage inflation expectations of economic agents in line with inflation targets (**Table 6.1**).

Central banks generally use multiple indicators to gauge inflation expectations of key stakeholders. These include yield curves to infer inflation expectations of financial market participants and sentiment surveys for households and businesses. The survey-based measures provide broad-based insights into inflation expectations, as their coverage extends to households and businesses across multiple strata and sectors of the economy. They also avoid distortions, such as liquidity and credit risk, and institutional distortions that may affect market-based measures (Cunningham et al., 2010).

The SBP established a dedicated Center for Survey Research (CSR) in 2012, where the Consumer Confidence Survey (CCS) and Business Confidence Survey (BCS) have been regularly conducted since 2012 and 2017 respectively. The sample size of CCS and BCS are 1,500 households and 500 business entities respectively.

These surveys capture households' and firms' inflation expectations along with their assessments of current and expected economic conditions, and their confidence about the economy. Inflation expectations are measured through a question asking respondents to report their expected inflation rate over the next 12 months.¹² Consumer and business confidence are measured using various indicators that are used to gauge perceptions and expectations of general economic conditions and other specific items (for details, please visit [our website](#)). The MPC also analyzes inflation expectations and market confidence of stakeholders from these sentiment surveys.

¹² Previously, inflation expectations were measured through a Rs100 question, which has been changed to percentage question from July 2025.

Table 6.1: Use of Survey-Based Measures to Gauge Market Sentiments

Central Bank	Expectation Surveys/Information Used
Federal Reserve Bank of New York	Monitors market-based inflation expectations. Also refers to the University of Michigan Survey of Consumer Expectations
European Central Bank	Use surveys and market-based measures to assess inflation dynamics and risks to price stability.
Bank of England	Monitors inflation expectations through multiple surveys from households, businesses and professional forecasters
Reserve Bank of Australia	Utilizes Survey of Consumer Inflationary and Wage Expectations and Quarterly Business Survey
Bank Indonesia	Uses inflation expectations of businesses and households.
Reserve Bank of India	Conducts the Inflation Expectations Survey of Households.
South African Reserve Bank	Uses inflation expectations provided by firms, analysts, and other surveys, alongside market measures, to assess inflation risks and second-round effects.
Central Bank of Kenya	Uses Market Perceptions Survey and Agriculture Sector Survey.
State Bank of Pakistan	Uses CCS, BCS, and SPF (Survey of Professional Forecasters) to assess inflation expectations and consumer/business confidence.

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Baumann, U., Ferrando, A., Georgarakos, D., Gorodnichenko, Y., & Reinelt, T. (2024). *SAFE to update inflation expectations? New survey evidence on euro area firms* (NBER Working Paper).

Cunningham, R., Desroches, B., & Santor, E. (2010). *Inflation expectations and the conduct of monetary policy: A review of recent evidence and experience*. Bank of Canada Review.

List of Abbreviations**A**

AEs	Advanced Economies
AI	Artificial Intelligence
APCMA	All Pakistan Cement Manufacturers Association

B

bbl	Barrel
BCS	Business Confidence Survey
BE	Budget Estimates

C

CAB	Current Account Balance
CCPI	Core Consumer Price Index
CCS	Consumer Confidence Survey
CDS	Credit Default Swap
CPI	Consumer Price Index
CPC	Climate Prediction Center
CSR	Center for Survey Research
CY	Calendar Year

E

EMDEs	Emerging Market and Developing Economies
EMs	Emerging Markets
EU	European Union

F

FBR	Federal Board of Revenue
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
FX	Foreign Exchange
FY	Fiscal Year

G

GDP	Gross Domestic Product
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H

H1	First Half
HSD	High-Speed Diesel
HVA	High-value-added

I

IBA	Institute of Business Administration
ICT	Information and Communication Technology
IMF	International Monetary Fund
IPCA	Extended National Consumer Price Index (Brazil)
IRC	Interest Rate Corridor
IT	Inflation Targeting

K

KIBOR Karachi Interbank Offered Rate

L

LNG Liquefied Natural Gas

LPG Liquefied Petroleum Gas

LSM Large-scale Manufacturing

M

MA Moving Average

MMBtu Million Metric British Thermal Unit

MoF Ministry of Finance

MPC Monetary Policy Committee

MPR Monetary Policy Report

MPS Monetary Policy Statement

m/m month-on-month

MUFAP Mutual Funds Association of Pakistan

N

NEPRA National Electric Power Regulatory Authority

NFA Net Foreign Assets

NFDC National Fertilizer Development Centre

NOAA National Oceanic and Atmospheric Administration

O

OCAC Oil Companies Advisory Council

OMO Open Market Operations

P

PAMA Pakistan Automotive Manufacturers Association

PBS Pakistan Bureau of Statistics

POL Petroleum, Oil, and Lubricants

PSDP Public Sector Development Program

Q

Q1 First Quarter

Q2 Second Quarter

Q3 Third Quarter

Q4 Fourth Quarter

R

RE Revised Estimates

S

SBP State Bank of Pakistan

SPF Survey of Professional Forecasters

U

UAE United Arab Emirates

US United States of America

W

WA	Weighted Average
WEO	World Economic Outlook
WPI	Wholesale Price Index
WRT	Wholesale and Retail Trade

Y

y/y	year-on-year
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