MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)
<u>HELD AT KARACHI ON MONDAY, JULY 27, 2026 AT 11:30 AM</u>

<u>P R E S E N T</u>

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. Hanid Mukhtar	External Member
Dr. Naved Hamid	External Member
Mr. Fayyaz ur Rehman	Corporate Secretary

Review of Current Economic Conditions and Outlook for FY27

1. The staff apprised the Committee on global and domestic economic developments since the last MPC meeting held on June 15, 2026. They presented assessment and analysis of evolving trends in major macroeconomic indicators to the Committee along with key assumptions underlying the baseline projections for FY27.

2. Discussing the global trends and developments, the staff apprised the MPC that since the last MPC meeting, global economic conditions were on the path towards normalization with the expected opening of the Strait of Hormuz. Subsequently, due to reescalation of conflict in the Middle East, energy prices started to increase from the first week of July 2026. However, global oil prices have not jumped as high as per expectations due to initial additional oil supplies after de-escalation and subdued global demand. Meanwhile, LNG prices remained elevated as one of the main LNG producers extended Force Majeure. The staff stated that the probability of occurrence of Super El-Nino has risen since the last MPC meeting, which has contributed to elevated global agricultural commodity prices. Furthermore, the slight downward revision in energy price assumptions and improved prices outlook of the country’s key export items have limited the deterioration in the Terms of Trade (ToT) compared to the last MPC meeting.

3. The staff apprised that headline inflation in the Advanced Economies and Emerging Markets eased in June 2026 with larger number of central banks continuing to maintain status quo since the last MPC meeting. In addition, the IMF in its latest World Economic Outlook update has revised the global GDP growth projections lower and higher for CY26 and CY27, respectively; while inflation forecasts have been revised higher for both years. The staff also briefed the Committee on the energy price assumptions for the macroeconomic projections.

4. Discussing the external sector, the staff stated that the current account deficit remained close to the lower bound of the projected range of 0-1 percent of GDP in FY26. The impact of widening trade deficit on the current account balance was largely offset by record inflow of workers’ remittances, which increased by 8.6 percent on a year-on-year basis (y/y) in FY26. Exports decreased by 4.6 percent on a y/y basis in FY26 due to decrease in rice and oilseed exports, closure of the Western border, and disruption stemming from the Middle East conflict. During the same period, imports increased by 9 percent y/y due to pickup in economic activity, higher commodity prices, and reduction in tariffs. The staff noted that financial account remained in surplus in FY26.

5. On the outlook for external sector, the staff apprised that the current account deficit is likely to remain in the range of 0-1 percent of GDP for FY27 with exports, imports and workers' remittances all projected to increase. This, together with projected financial account surplus is expected to help in further strengthening of FX reserves. However, the outlook remained subject to risks from geopolitical developments, global commodity price volatility, impact of adverse climate conditions on crops, and uncertainty surrounding external financing flows and remittances.

6. Regarding inflation, the staff apprised the Committee that consumer prices declined in June 2026 primarily due to downward revisions in administered energy prices amid initial de-escalation in the Middle East conflict. Headline inflation eased to 11.1 percent in June 2026 from 11.7 percent recorded in May 2026. Core inflation also moderated slightly to 8.4 percent from 8.7 percent a month earlier. The average inflation in FY26 was recorded at 7.1 percent, close to the upper bound of the medium-term target range. The staff informed that headline inflation is expected to remain volatile in the near-term due to the uncertainty surrounding the Middle East conflict. Energy inflation is expected to ease going forward on the back of relatively lower international oil prices and a favorable base-effect. However, unexpected increases in prices of wheat and its allied products as well as higher volatility in perishable food items may push food inflation higher in the near-term. The Committee noted that inflation expectations of professional forecasters remain well anchored, close to the target range for the medium-term.

7. On inflation outlook, the staff apprised that projections for FY27 have been revised lower compared to the last MPC meeting. However, headline inflation is likely to remain elevated in the next few months, before gradually easing and stabilizing close to the upper-bound of the target range by end of FY27. The staff also apprised the Committee that this assessment reflects the impact of elevated commodity prices, intermittent supply chain disruptions and associated uncertainty, along with domestic food price pressures. The staff emphasized that the inflation outlook remained subject to significant geopolitical uncertainty and risks including from global commodity prices volatility, unanticipated adjustments in administered energy prices, unfavorable climate conditions and potential fiscal slippages.

8. The staff then presented the real sector developments using both satellite-based and traditional economic activity indicators. The staff apprised the Committee about earlier anticipated signs of slowdown in economic activity during Q4-FY26. Large-Scale Manufacturing (LSM) output declined by 1 percent y/y in May 2026, amid the war-induced surge in input costs and austerity measures. On cumulative basis, LSM output increased by 5.8 percent during July-May FY26. This growth remained broad-based, with major contributions coming from consumer durables, food and export-oriented sectors. In June 2026, high-frequency indicators showed moderate improvement in economic activity. This partly reflected the temporary pause in the Middle East conflict. Satellite-based indicators have also improved since the last MPC meeting. Gas emissions in major industrial centers recovered gradually, suggesting a pickup in transport and industrial activity. Similarly, nighttime lights intensity improved across major cities, signaling sustained momentum in urban commercial activity. In agriculture, improved vegetation conditions for Kharif crops support improving outlook. Initial reports of increased sugarcane cultivation also support this assessment.

9. Overall, the real GDP growth forecast for FY27 has been revised higher – compared with assessment in June, amidst some ease in global energy prices and an improved agriculture outlook. Real GDP growth is projected to range between 3.50 to 4.50 percent in FY27. The staff also apprised the Committee about the upside and downside risks to FY27 growth outlook. These risks mainly stem from geopolitical developments, and the potential impact of El-Nino on major crops.

10. Discussing the fiscal sector, the staff highlighted that financing side estimates indicate that government's fiscal consolidation efforts remained firmly on track in FY26. Overall fiscal deficit narrowed sharply to 3.0 percent of GDP, while the primary surplus also improved to 2.5 percent of GDP - both showing improvement from FY25. FBR tax collection for FY26 also reached the revised target of PKR 13.0 trillion (10.2 percent of GDP). On the financing front, overall financing needs declined in FY26 with an improved financing mix reducing reliance on domestic borrowing. Looking ahead to FY27, the staff apprised the Committee that the government targets a primary surplus of 2.0 percent of GDP and a consolidated fiscal deficit of 3.6 percent of GDP. The Committee reiterated the need for structural reforms to support high and sustainable economic growth.

11. On monetary aggregates, the staff apprised that Broad Money (M2) growth decelerated to 13.2 percent y/y as of July 10, 2026, lower than 15.2 percent at the time of the last MPC meeting. This moderation was primarily driven by lower Net Domestic Assets (NDA) expansion, reflecting reduced net budgetary borrowing from commercial banks. While Net Foreign Assets (NFA) made a relatively low contribution. Meanwhile, deposit growth and declining currency-in-circulation have continued to lower the currency-to-deposit ratio since May 2026. Reserve money growth moderated to 9.1 percent y/y in early July (from 16.7 percent at the time of last MPC), reflecting base effects and lower NDA contributions.

12. The staff apprised that private sector credit registered broad-based growth in working capital and fixed investment in FY26. Working capital was concentrated in sugar, wholesale and retail trade, and rice processing. While fixed investment surged notably in agriculture, fertilizer manufacturing, and wholesale and retail trade. The main drivers in growth of consumer financing were auto and house building finance. The monetary sector outlook for FY27 remains broadly consistent with the projected path of economic recovery.

Model-Based Assessment

13. The staff apprised the Committee of the assumptions underlying the model-based assessment. The staff presented the inflation projections conditional on an unchanged policy rate path and compared those with the inflation projections discussed in the previous MPC meeting. The staff explained that the inflation path has shifted lower and is expected to converge to the target range by the end of the forecast horizon. The staff highlighted that the lower-than-anticipated inflation outturn in June and easing of global oil prices since the last MPC meeting have contributed to the decline in the inflation projections.

14. The staff also discussed the uncertainty around the baseline projections for inflation and GDP growth. The staff also discussed inflation projections under alternate scenarios based on different assumptions and conditional on alternate policy rate paths.

Financial Markets and Reserve Management

15. Regarding monetary policy implementation, the staff reported that the overnight repo rate averaged 11.86 percent during the review period, remaining marginally above the policy rate of 11.5 percent. The SBP's average liquidity support, predominantly extended to conventional banks, increased from PKR 15.23 trillion in the last MPC review period to PKR 16.02 trillion during the current review period, reflecting continued elevated liquidity requirements in the banking system.

16. On developments in the domestic debt markets, the Committee was apprised that the secondary market yield curve shifted downward by 26-47 bps since the last MPC meeting and by

51-128 bps since the onset of the conflict. In line with decline in secondary market yields, the cutoff rates in primary auctions also softened during the review period.

17. The staff informed that the auctions of floating-rate PIBs were discontinued from July 2026. It was apprised that the Government accepted higher amounts in longer term fixed rate instruments, leading to some improvement in debt portfolio's re-pricing and maturity profile. Furthermore, it was informed that the overall stock of government securities continued to increase due to higher budgetary needs.

18. The staff informed the Committee that the sovereign yields remained range bound despite uncertain regional geo-political situation.

19. In the foreign exchange market, the PKR appreciated by 0.2 percent against the US dollar since the last MPC meeting, while the US dollar strengthened by 1.9 percent against a basket of major currencies over the same period.

Results of SBP Surveys for Monetary Policy

20. The staff presented the Economic Agents Network (EAN) insights pertaining to the general economic outlook. Regarding the agricultural sector, farmers remained broadly optimistic about the current conditions of the major Kharif crops, though concerns were expressed that persistently high temperatures and climate-related risks could adversely affect crop yields. The staff also apprised that elevated price of DAP fertilizer had reduced its offtake, with some farmers substituting towards relatively cheaper alternatives, which may have implications for crop yields.

21. Respondents from some industries reported improved sentiment following the budget, supported by tax rationalization measures and lower import duties. Nevertheless, business activity remained subdued in a few sectors. Respondents continued to cite weak purchasing power, elevated energy costs, lingering effects of the Western border closure on some businesses and heightened geopolitical uncertainty as key factors weighing on economic activity and business decisions.

22. On the external sector, staff informed that high value-added textile exports broadly remained stable, while IT and digital services exports continued to improve. Further, the staff apprised that as per some contacts, strong remittance inflows from the Middle East were partly supported by precautionary transfers amid heightened regional uncertainty.

23. The staff apprised the Committee of the results of latest SBP surveys. Inflation expectations of consumers and businesses eased since the last iteration of surveys. The staff further apprised that the Purchasing Managers' Index (PMI) improved marginally, while capacity utilization remained broadly around its long-run average level. The staff also highlighted that professional forecasters had marginally revised their GDP growth expectations upwards for FY27.

Monetary Policy Deliberations and Decision Vote

24. The MPC unanimously decided to keep the policy rate unchanged.

DECISIONS:

- *The policy rate remained unchanged.*
- *The Monetary Policy Statement – July 2026 is approved.*