MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)
<u>HELD AT KARACHI ON MONDAY, JUNE 15, 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
Mr. Fawad Anwar	Director SBP Board
Mr. Najaf Yawar Khan	Director SBP Board
Mr. Muhammad Ali Latif	Director SBP Board
Dr. S. M. Turab Hussain	External Member
Dr. Hanid Mukhtar	External Member
Dr. Naved Hamid	External Member
Mr. Fayyaz ur Rehman	Corporate Secretary

Review of Current Economic Conditions and Outlook for FY26 and FY27

1. The staff apprised the Committee on global and domestic economic developments since the last MPC meeting held on April 27, 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 FY26 and FY27.

2. Discussing the global trends and developments, the staff apprised the MPC that global economic conditions remain challenging despite some easing in geopolitical tensions since the last MPC meeting. It was apprised that disruptions in transit through the Strait of Hormuz had led to significant supply disruptions in global energy markets, including crude oil, LNG and petroleum products. The staff highlighted that global oil prices as well as LNG and LPG prices remained above pre-conflict levels despite some recent moderation amid supply shortages. These developments have continued to adversely affect Pakistan’s Terms of Trade (ToT) and have increased uncertainty regarding the global growth and inflation outlook. The staff further apprised that an increasing number of central banks have either maintained a cautious stance or started tightening monetary policy in response to growing inflationary pressures arising from higher energy prices.

3. The staff further apprised that the global economic outlook remains uncertain over the near to medium term. Although energy prices have eased somewhat since the last MPC meeting, they are expected to remain elevated relative to pre-conflict levels and continue to exert pressure on inflation across many economies. It was further apprised that supply-chain disruptions, geopolitical uncertainties and elevated commodity prices might weigh on global growth prospects. The staff highlighted that any renewed escalation in geopolitical tensions could lead to further volatility in energy and financial markets with adverse implications for inflation and external demand conditions in emerging market economies. Accordingly, risks to the global outlook remain tilted to the downside. The staff also apprised the MPC on alternative oil price scenarios based on different assumptions regarding the persistence of geopolitical tensions and their implications for global commodity markets.

4. Discussing the external sector, the staff apprised that the current account recorded a deficit of USD 0.3 billion in April 2026, resulting in a cumulative deficit of USD 0.2 billion during July–April FY26. The widening in the trade deficit was primarily driven by a surge in energy imports amid elevated global oil prices. Nevertheless, workers’ remittances continued to remain resilient and financed a significant portion of the trade deficit. On the financial account side,

increase in official inflows provided critical support in meeting external obligations. These inflows, together with ongoing FX purchases by SBP, supported reserve accumulation despite external debt repayments. Consequently, SBP's FX reserves increased to USD 17.2 billion as of June 5, 2026.

5. Discussing the outlook for external account, the staff apprised that the current account deficit is likely to remain close to the lower bound of the previously projected range for FY26 despite the challenging external environment. While elevated energy imports have increased external account pressures, resilient workers' remittances are expected to contain the current account deficit. The staff further apprised that exports are expected to recover gradually in FY27 due to higher prices of key export items as well as availability of exportable surplus particularly in rice. Moreover, the realization of planned official inflows and continued FX purchases are expected to support FX reserve accumulation. In this regard, SBP's FX reserves are projected to reach around USD 18 billion by end-June 2026 and continue increasing thereafter. However, the outlook remains subject to risks from geopolitical developments, global commodity price volatility, uncertainty surrounding external financing flows and downside risks to global growth.

6. Discussing inflation, the staff apprised the Committee that headline inflation increased sharply from 7.3 percent in March to 10.9 percent in April and further to 11.7 percent in May 2026, while core inflation also edged up to 8.7 percent in May 2026. The increase in inflation reflected the direct impact of hike in domestic energy prices as well as indirect impact through the rise in transportation and production costs. Furthermore, it was apprised that higher wheat and wheat-related product prices also contributed to the recent rise in food inflation. However, the staff highlighted that inflation expectations of both consumers and businesses have eased somewhat in the latest surveys, while remaining elevated relative to the pre-conflict levels.

7. Discussing the inflation outlook, the staff briefed the Committee that inflation is expected to remain in double digits over the next few months before gradually easing thereafter. Although the recent moderation in global oil prices provides some relief, inflation is projected to remain above the target range of 5–7 percent over much of FY27. The staff emphasized that the inflation outlook remains subject to considerable uncertainty, particularly regarding geopolitical developments, the extent of pass-through from global commodity prices, magnitude of adjustments in electricity and gas tariffs, potential fiscal slippages and weather-related risks to food prices.

8. The staff then presented the real sector developments using both satellite-based and traditional economic indicators. It was apprised that according to the provisional estimates by PBS, real GDP grew by 3.7 percent in FY26 compared to 3.2 percent in FY25, broadly in line with the staff's earlier assessment. This growth was supported by services and industrial sectors, while agriculture also contributed positively. In particular, large-scale manufacturing recorded a strong recovery during FY26, growing by 6.5 percent during Jul-Mar FY26. However, more recent indicators suggest some moderation in economic momentum, reflecting the impact of the Middle East conflict. The staff highlighted that satellite-based nowcasts point towards a slowdown in real GDP growth during Q4-FY26 compared to earlier assessment. Similarly, high-frequency indicators including automobile sales, domestic cement dispatches, electricity generation, machinery imports and business confidence suggest moderation in economic activity in recent months.

9. Keeping in view the updated information, the staff assessed that the spillovers from the Middle East conflict may continue to affect the economic momentum in coming months. In particular, weaker prospects for agriculture amid weather-related challenges may moderate the growth outlook in FY27. However, the staff also apprised about the upside risks to FY27 growth outlook in case of favorable geopolitical developments.

10. Discussing the fiscal sector, the staff highlighted that fiscal consolidation efforts remained broadly on track during FY26. It was apprised that expenditure restraint continued to support fiscal adjustment, although revenue growth moderated relative to the same period last year. Consequently, the FBR revised its FY26 tax collection target to around PKR 13 trillion. Despite the downward revision in revenues, the government expects to achieve a primary surplus of 2.5 percent of GDP in FY26 through continued expenditure rationalization, while targeting a primary surplus of 2.0 percent of GDP in FY27. The staff emphasized that sustained fiscal consolidation and timely implementation of structural reforms remain critical for preserving macroeconomic stability.

11. On monetary aggregates, the staff informed the Committee that Broad Money (M2) growth moderated to 14.3 percent y/y as on May 29, 2026 from 14.5 percent as on April 10, 2026. This moderation was driven by a slowdown in Net Domestic Assets (NDA), mainly reflecting lower net budgetary borrowing from the banking system. In contrast, improvement in the external position contributed to faster growth in Net Foreign Assets (NFA). On the liability side, growth in currency in circulation increased partly due to seasonal Eid-related cash withdrawals, resulting in a rise in the currency-to-deposit ratio to 38.9 percent from 37 percent in April 2026. Furthermore, it was also apprised that reserve money grew by 16.7 percent in May 2026 on y/y basis primarily due to higher NFA contribution.

12. The staff also stated that Private Sector Credit (PSC) continued to expand at around 13 percent, reflecting improving economic activity and financing needs of businesses. Credit growth remained broad-based, with increases observed in working capital financing, fixed investment and consumer financing. The staff highlighted that the continued expansion in consumer and business credit is indicative of strengthening private sector activity despite emerging moderation in aggregate demand conditions. The monetary sector outlook remains broadly consistent with the projected path of economic activity and inflation over the forecast horizon.

Model-Based Assessment

13. The staff presented the inflation projections conditional on unchanged policy rate path, and compared these inflation projections with earlier assessments. The staff apprised that inflation path has shifted upward slightly, primarily due to higher than anticipated food and energy prices. Nevertheless, inflation is projected to remain elevated in near term, reflecting higher energy prices and their associated second-round effects. The staff also discussed inflation projections under alternate scenarios based on different assumptions regarding global oil prices and exchange rate. It was apprised that while inflation is expected to gradually ease over the medium term, it remains sensitive to developments in global commodity markets and geopolitical conditions. The staff further presented inflation projections conditional on alternate policy rate paths and highlighted their implications for the pace of disinflation over the forecast horizon.

Financial Markets and Reserve Management

14. Regarding monetary policy implementation, the staff reported that the overnight repo rate averaged 11.87 percent during the review period, marginally above the policy rate of 11.5 percent. The SBP’s average liquidity support, predominantly extended to conventional banks, decreased marginally from PKR 15.20 trillion in the last MPC review period to PKR 15.18 trillion during the current review period, reflecting continued elevated liquidity requirements in the banking system.

15. Discussing the benchmark yield curve, it was apprised that the secondary market yield curve shifted upward by 28-93 bps since the last MPC and 121-215 bps since the onset of the conflict. In line with secondary market yields, the cutoff rates in primary auctions also increased

during the review period. The staff apprised that there was net retirement in Market Treasury Bills (MTBs) during the review period.

16. The staff conveyed that the Government has continued to accept higher amounts in long-term fixed rate PIBs, while maintaining limited acceptance in floating rate PIB auctions. It was further apprised that one auction of fixed-rate PIBs was rejected during the review period, however, the government subsequently accepted amounts at higher cut-off rates. Furthermore, the Government also conducted a buyback auction of MTBs during the review period. However, the overall stock of government securities continued to increase due to higher budgetary needs.

17. The staff informed the Committee that sovereign yields improved further during the review period, reflecting strengthening external sector fundamentals, higher foreign exchange reserves and successful completion of IMF reviews.

18. 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 1.5 percent against a basket of major currencies over the same period.

Results of SBP Surveys for Monetary Policy

19. The staff presented the Economic Agents Network (EAN) insights pertaining to the general economic outlook. It was apprised that economic activity remained mixed, with respondents highlighting increased uncertainty following the recent geopolitical developments and the associated rise in energy prices. While the wheat harvest was largely completed, concerns were expressed regarding the outlook for Kharif crops, amidst challenging weather conditions, water shortage risks in some areas, and elevated input costs, particularly for energy related items, which may adversely affect agricultural output and profitability, going forward. Meanwhile, respondents from the industry reported margin pressures arising from elevated transportation and production costs, although most firms continued to operate at normal capacity levels. In contrast, consumer facing retail sectors reported subdued activity amid weaker purchasing power and reduced business hours. Overall, industry participants remained cautiously optimistic, with the outlook contingent on geopolitical developments.

20. The staff apprised the Committee of the results of various SBP surveys conducted during the latest survey round. Staff highlighted that the confidence of both consumers and businesses remained around the level of last MPC meeting, while inflation expectations eased, reflecting the moderation in global oil prices. Staff apprised that the Purchasing Managers' Index (PMI) remained around the 50 benchmark, and capacity utilization remained broadly around its long-run average level.

Monetary Policy Deliberations and Decision Vote

21. The MPC decided to keep the policy rate unchanged with majority decision of eight out of nine members. One member voted to increase the policy rate by 50 bps.

DECISIONS:

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