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SBP Releases Monetary Policy Report – August 2026

In line with the State Bank of Pakistan's commitment to bring more transparency to monetary policy decision-making and the Monetary Policy Committee's (MPC) reaction function, the SBP released its bi-annual Monetary Policy Report (MPR) today. The report reviews the macroeconomic developments and outlook that underpinned the MPC's decisions since the January 2026 MPC meeting.

The macroeconomic conditions and outlook during the review period have been significantly influenced by the evolving geopolitical developments. The outbreak of the Middle East conflict in late February led to a sharp increase in global energy prices and freight and insurance costs, and supply chain disruptions. Despite this significant shock, the macroeconomic outcomes in FY26 turned out broadly in line with the projection ranges announced after the January 2026 MPC meeting. In this regard, the Report highlighted that the SBP's prudent monetary policy tightening is helping contain second-round effects of the energy price shock, while keeping inflation expectations of stakeholders anchored. Meanwhile, the government ensured fiscal discipline by timely passing through increases in global prices to domestic prices; and introducing targeted subsidies and austerity measures to conserve energy. These measures helped moderate aggregate demand and ensured that demand-side pressures stayed muted.

Going forward, the Report notes that inflation is assessed to ease and stabilize near the upper bound of the target range towards end-FY27. Economic growth is expected to pick up and remain in the range of 3.5 – 4.5 percent. In the external account, the current account deficit is projected to remain within 0 – 1 percent of GDP. This will support continued FX purchases by the SBP and help achieve the FX reserves target of $20.20 billion by December 2026. SBP's FX reserves are projected to rise further by end-FY27.

The MPR also discusses multiple risks to the macroeconomic outlook. These included the evolving geopolitical developments in the Middle East, which can push up global energy and other commodity prices beyond the assumed levels and therefore impact the macroeconomic outlook. Moreover, the Report highlighted climate-related risks, specifically the evolving El Niño conditions and floods, which could adversely affect the economy. Lastly, delays in implementation of structural reforms could further weaken exports, slow productivity gains, and reduce the economy's capacity to sustain higher growth without generating inflationary and external account pressures.

The MPR also features six box items that discuss key concepts related to inflation and monetary policy. They relate to an update on the monetary policy transmission mechanism; the central banks' reaction function when faced with supply-side driven inflation; the use of different measures of inflation globally and within the SBP; the growing size of open market operations (OMOs) and its implications for monetary policy; and the use of various sentiment surveys to gauge stakeholders' expectations about different aspects of the economy.

For details: https://www.sbp.org.pk/assets/document/publications/MPR-Aug-2026.pdf

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