Monetary Policy Statement

September 14, 2026

1. The Monetary Policy Committee (MPC) decided to keep the policy rate unchanged at 11.5% in its meeting today, with the majority decision of seven out of ten members. The Committee noted that the recent intensification of the prolonged Middle East conflict has led to further increase in already elevated global commodity prices, while supply chain disruptions have persisted. However, recent domestic macroeconomic data turned out broadly in line with the MPC's expectations. Headline inflation increased to 11.1 percent y/y in August from 9.2 percent in July, while core inflation was slightly lower than expectations. External account pressures remained contained, supported by robust workers' remittances and higher financial inflows. Meanwhile, economic activity, after witnessing a slowdown in Q4-FY26, started to pick up gradually, as reflected by recent high-frequency indicators. In this context, the MPC assessed that the current monetary policy stance remains appropriate to guide inflation towards the target range of 5-7 percent over the medium term. However, uncertainty regarding the outlook has increased, particularly from the worsening geopolitical environment.

2. The Committee noted the following key developments since its last meeting. First, Pakistan's sovereign credit rating was upgraded to B3 by Moody's with a stable outlook. Second, the country successfully tapped international capital markets to raise $3 billion through Eurobonds, which, along with continued FX purchases, helped increase SBP's FX reserves to over $21 billion. Third, inflation expectations of both businesses and consumers increased in September, while their confidence weakened. Fourth, large-scale manufacturing output declined by 3.5 percent in June, bringing cumulative FY26 growth to 5.0 percent. Fifth, fiscal consolidation turned out higher than the budgetary target during FY26. Moreover, FBR tax collection remained on-target during July-August FY27 while SBP transferred higher profit of Rs1.9 trillion than budgeted amount of Rs1.4 trillion to the government. Lastly, central banks have become more cautious amidst challenging global economic conditions.

3. While noting these developments and evolving risks, the MPC reiterated its commitment to achieve price stability with close monitoring of incoming data and ongoing situation in the Middle East. The Committee also noted that shocks such as adverse geopolitical events and weather-related disruptions have become more frequent and continue to pose risks to the macroeconomic outlook. Against this backdrop, the MPC emphasized the need to maintain prudent monetary and fiscal policy mix and further buildup of buffers to absorb supply shocks. This, along with timely implementation of structural reforms, is essential to enhance resilience, raise productivity, and support higher and sustainable growth.

Real Sector

4. Economic activity, after moderating in Q4-FY26 amidst conflict-related disruptions, appears to be gradually picking up in the subsequent period. High frequency indicators – including POL sales, private sector credit, textile exports, business sentiments, and satellite imagery of both nighttime lights and gas emissions – suggest recovery in economic activity in July. Furthermore, increased acreage for rice and sugarcane, along with encouraging initial reports on cotton arrivals, have improved prospects for the agriculture sector. The expected improvement in the commodity-producing sectors also bodes well for the outlook of the services sector. In this backdrop, the MPC expects real GDP growth to remain within the earlier projected range of 3.5 to 4.5 percent during FY27.

External Sector

5. The current account deficit in July was largely in line with the MPC's expectations, as the growth in imports of goods and services outpaced the increase in exports and robust workers' remittances. Meanwhile, the issuance of Eurobonds in September, along with significant FX purchases by SBP, helped SBP's FX reserves to increase to $21.4 billion. Going forward, resilient workers' remittances and higher ICT exports are expected to contain the current account deficit within 0 to 1 percent of GDP in FY27. Meanwhile, the realization of planned financial inflows and SBP's continued FX purchases are assessed to meet the external financing requirements and support FX reserves, which are projected to approach the 3-month import cover by end-June 2027. This outlook, however, remains susceptible to elevated global commodity prices and supply constraints amidst the unfolding developments in the Middle East.

Fiscal Sector

6. During FY26, fiscal consolidation turned out higher than the budgetary targets. This consolidation was led by contained current expenditures, especially lower interest payments. In the first two months of FY27, tax collection was in line with the FBR's targets, though its growth decelerated from last year. At the same time, the transfer of significantly higher than budgeted SBP profit of Rs1.9 trillion has improved the fiscal outlook for FY27. Nonetheless, achieving the tax revenue target is essential and will require sustained efforts amidst an uncertain domestic and global environment. In this regard, the MPC re-emphasized the importance of picking up the pace of fiscal reforms, particularly broadening of tax base and curtailing PSEs losses, to support high and sustainable economic growth.

Money and Credit

7. Broad money growth decelerated to 11.6 percent y/y as of August 28 from 13.2 percent at the time of the last MPC meeting due to lower contributions from both NDA and NFA of the banking system. Meanwhile, private sector credit (PSC) grew by 13.4 percent y/y, supported by reduced net budgetary borrowing from the banking system and recovery in economic activity. The increase in PSC was broad-based across working capital, fixed investment and consumer financing; with wholesale and retail trade, agriculture and sugar being the major borrowing sectors. Going forward, PSC growth is expected to strengthen further alongside the ongoing pickup in economic activity.

Inflation

8. Headline inflation turned out at 9.2 percent y/y in July and 11.1 percent in August. Recent inflation outturns are driven largely by food inflation in the wake of elevated prices of wheat and allied products, and perishable items. At the same time, intensification of the conflict in the Middle East has kept energy inflation at elevated levels. Increased fuel prices translated into higher transport costs, which pushed core inflation to 8.7 percent. Inflation expectations of consumers and businesses also increased in the latest surveys. However, the MPC noted that the recent change in the HSD pricing mechanism led to a sharp reduction in its prices in August and has partially offset the impact of higher global prices on domestic inflation. Meanwhile, real positive interest rate on forward-looking basis is likely to keep demand-side pressures in check and contain the second-round impacts emanating from food and energy inflation. On balance, the inflation outlook for FY27 remains broadly unchanged from the previous assessment, and inflation is expected to gradually ease towards the upper bound of 5-7 percent target range by June 2027; though the risks to the outlook have increased significantly. The key risks include volatility in global commodity prices, magnitude of adjustments in electricity and gas tariffs, supply disruptions, and unexpected movements in food prices amidst the worsening El Niño conditions.