**MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)**
**HELD AT KARACHI ON WEDNESDAY, JULY 30, 2025 AT 10:00 AM**

**P R E S E N T**

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| Mr. Jameel Ahmad | Chairperson & Governor SBP |
| Mr. Saleem Ullah | Deputy Governor |
| Dr. Inayat Hussain | Executive Director |
| Mr. Muhammad Ali Malik | 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 FY26

1. The staff apprised the Committee on global and domestic economic developments since the last MPC meeting held on June 16, 2025. The assessments and analysis of evolving trends in major macroeconomic indicators were shared with the Committee including key assumptions used in the baseline projections.

2. On global developments and trends, it was apprised that despite ongoing trade tariff negotiations, trade-related uncertainties resurged that had eased in June 2025. This was due to anticipated implementation of additional tariffs from August 1, 2025. The revised tariffs, until July 2025, remain comparable to April 2, 2025 levels for some countries. In certain cases, the tariffs have decreased, while in others they have exceeded previous levels. The staff briefed that the global oil prices have come down by 5.2 percent since the last MPC meeting. However, due to developments in the last few days including potential imposition of US sanctions on Russia, there was a slight uptick in prices. Metal prices have picked up due to increased demand particularly from China, while agricultural prices have slightly inched down since the last MPC meeting. Pakistan's Terms of Trade (ToT) worsened due to decrease in export prices since the last MPC meeting, while import prices broadly remained unchanged. It was apprised that the headline inflation in both Advanced Economies (AEs) and Emerging Market Economies (EMEs) increased slightly in June 2025. The staff apprised that in light of the recent tariff-related developments and uncertainties, many central banks have adopted a cautious approach and have decided to keep their policy rates unchanged. Moreover, the future trajectory of Federal Reserve and European Central Bank (ECB) rates, as anticipated by markets' participants, also remained unchanged. The staff informed that the global economic and trade activity recovered in June 2025, though trade growth is expected to decelerate in FY26. The latest IMF forecasts indicate a slight upward revision in GDP growth for 2025 and 2026, particularly for Emerging Markets. Inflation projections broadly remained the same, while trade growth outlook showed a mixed picture. While trade growth projections for 2025 have been revised upward, the outlook for 2026 has been lowered due to higher than anticipated pre-tariffs front-loading of trade activity in H2-FY25.

3. Discussing trends in the real sector, the staff presented the updated nowcast for Q4-FY25 economic growth estimated through machine learning models using high-frequency satellite indicators. While the latest nowcast indicated some moderation from previous nowcast - based on

incomplete data, the staff apprised that FY25 real GDP growth assessment remained broadly unchanged with acceleration in H2 compared to H1. This acceleration in growth during H2 was also depicted by elevated gas emissions and increased night time light intensities, indicating a continued strengthening in underlying industrial and services-related activities. Moreover, in line with improved employment-related sentiments, job postings data also showed a notable increase in the past couple of months. In addition, other High-Frequency Economic Indicators (HFIs) – such as imports of machinery and intermediate goods, automobile sales, fertilizer offtake, Purchasing Manager's Index (PMI), credit to private sector and business sentiments, also showed improvement in H2-FY25 on y/y basis. The upward momentum in HFIs is now also being reflected in Large-Scale Manufacturing (LSM), which recorded positive y/y growth in both April and May 2025, following five consecutive months of contraction.

4. Discussing the real sector outlook, the staff informed that recent satellite data showed relatively weaker vegetation position for cotton in the ongoing Kharif season, reflecting lower cultivation area – especially in Sindh. For other Kharif crops, however, weather and soil moisture conditions have relatively improved following recent rainfalls, which also improved water availability. Barring flood-related risks, these developments have moderately improved the agriculture sector outlook for FY26. Furthermore, the staff apprised that the recent trend in the HFIs amidst easing financial conditions along with supportive budgetary measures – including reduction in import duties and reduced sales tax on imported raw materials and machinery, bodes well for the manufacturing sector outlook. The projected recovery in commodity-producing sectors is expected to generate positive spillovers for the services sector. Considering these trends along with unfolding impact of earlier policy rate cuts, real GDP growth is projected to range between 3.25 to 4.25 percent in FY26, up from the provisional estimate of 2.7 percent in FY25. Nevertheless, this growth trajectory remains subject to risks, particularly emanating from uncertain global trade dynamics and evolving flood-related risks.

5. On the recent developments in the external sector, the staff informed that the current account posted a surplus in June 2025. Consequently, the cumulative current account surplus stood at USD 2.1 billion during FY25 against a deficit of USD 2.1 billion in FY24. This surplus was largely attributed to strong growth in workers' remittances and higher export earnings. It was apprised that exports grew by 4.2 percent during FY25, compared to a growth of 11.1 percent during FY24, with most of the increase in export earnings occurring during Q2-FY25. This increase was led by rice and sugar exports, while High Value-Added (HVA) textiles also contributed. Regarding imports, the staff shared that cumulative imports grew by 11.1 percent during FY25. This increase was mainly driven by non-oil imports. While oil import volumes were picking up, the overall oil import bill remained moderate, due to a decline in its prices. Workers' remittances continued to remain strong reaching USD 38.3 billion and more than offsetting the trade deficit of goods and services in FY25. On the financial account side, it was apprised that with the realization of planned official inflows in June 2025, SBP's foreign exchange reserves exceeded USD 14 billion.

6. Regarding the external sector outlook, it was noted that the trade deficit is expected to widen due to increased import demand; in line with the improving domestic economic activity, and exports are projected to decline slightly due to slowdown in global demand and softening of export prices. Workers' remittances are expected to grow at a slower pace in FY26 relative to FY25 amidst high base effect and recent rationalization of Home Remittances Incentive Schemes (HRIS). Overall, the current account deficit is projected in the range of 0 to 1 percent of GDP in FY26. While, net financial account inflows are expected to pick-up in FY26 on the back of higher expected private inflows following the recent upgrade in the sovereign credit rating. In this regard, SBP FX reserves are projected to exceed USD 15.5 billion by end-December 2025. The Committee also reviewed potential

risks to the external outlook for FY26 including risks from the impact of floods, increased tariff rates, phasing out of HRIS and non-realization of planned financial inflows.

7. For the fiscal sector developments, the staff informed the Committee that based on the financing side estimates, fiscal indicators showed further improvement during FY25. The primary balance surplus increased to 2.4 percent of GDP from 0.9 percent last year, while fiscal deficit reduced to 5.4 percent of GDP compared to 6.9 percent last year. For FY26, further fiscal consolidation is expected as the fiscal deficit and primary balance surplus are targeted at 3.9 percent and 2.4 percent, respectively. The staff informed that despite a growth of around 26 percent during FY25, FBR tax collection was still slightly short of the revised target. For FY26, the government has set a FBR tax collection target of PKR 14.1 trillion, which is aimed to be achieved through new tax measures and administrative efforts. It was also apprised that government has set a higher target for Public Sector Development Programme (PSDP), which bodes well for the growth potential of the economy in the medium term. The staff added that higher budgetary reliance on domestic sources might have negative implications for the Private Sector Credit (PSC) growth due to a possible element of credit crowding out.

8. Explaining monetary sector developments, the staff shared that the Broad Money (M2) growth increased to 14.0 percent (y/y) as of July 11, 2025 from 12.6 percent (y/y) since the last MPC meeting. This increase was primarily attributed to increase in Net Foreign Assets (NFA) due to higher foreign exchange reserves. Regarding the liability side of M2, it was shared that Currency in Circulation (CiC) remained elevated primarily due to monetary easing as witnessed since the past few meetings. Notably, CiC showed more than a seasonal uptick during the recent occasion of Eid al Adha. Resultantly, Currency to Deposit ratio increased to 38.4 percent as of July 11, 2025. Therefore, SBP increased liquidity injections in order to keep the overnight repo rate close to the policy rate. That led to an increase in the Reserve Money growth to 17.0 percent (y/y) as of July 11, 2025.

9. The staff also shared that increase in banks' credit disbursements to the private sector reflected easing financial conditions and better economic outlook, thus supporting private sector activity. Despite witnessing the tapering impact due to the removal of advances-to-deposits tax-related threshold by end-December 2024, PSC y/y growth still turned out to be 12.8 percent as of July 11, 2025. Further, the overall cumulative credit disbursements of around PKR 1 trillion in FY25 was higher than last year as well as the average of the last five years. With regards to contribution of various PSC components, it was apprised that both working capital and fixed investment loans contributed to the broad-based increase in PSC that was led by textiles, telecommunications and wholesales & retail sectors. Easing financial conditions also facilitated a pick-up in consumer financing, most notably in auto financing and credit cards.

10. On the broader picture on inflation, the staff briefed the Committee that after remaining above the target range in the last five years, average inflation remained close to the target range during FY25. Prudent monetary management and favourable supply-side dynamics mainly contributed to this sharp disinflation. Presenting recent inflation trends and developments, the staff apprised the Committee that inflation declined to 3.2 percent in June 2025 from 3.5 percent in May 2025. This slight deceleration owed to moderation in food inflation and continual ease in core inflation. Energy inflation on y/y basis remained negative, despite upward adjustments in motor fuel prices and electricity tariffs.

11. Regarding the inflation outlook, the Committee was informed that projections for FY26 have been revised upward incorporating the impact of adjustment in gas tariffs. However, despite the revised assessments, inflation is expected to stabilize within the 5 to 7 percent target range in FY26,

though it may cross the upper bound in some months. This outlook, however, remained subject to multiple risks emanating from imposition of global trade tariffs, volatility in oil and other commodity prices, more than the anticipated impact of floods particularly on perishable food items and the timing and magnitude of domestic energy price adjustments.

**Financial Markets and Reserve Management**

12. With regards to monetary policy implementation, the staff stated that the overnight repo rate averaged 11.07 percent during the review period, compared to the target of 11.0 percent. The SBP's average liquidity support, mainly provided to conventional banks, increased to PKR 13.67 trillion during the current monetary policy review period from PKR 13.40 trillion during the last MPC review period.

13. The staff apprised that a downward shift in the yield curve was observed since the last MPC meeting, despite no change in the policy rate. The decline was more pronounced for maturities ranging from 3-month to 5-year tenors. In the primary market, there was net retirement in MTBs, despite aggressive market participation as the government accepted slightly less than target amount. Furthermore, during the review period, a special auction was held to build up short-term cash reserves.

14. The staff stated that the government accepted less than the announced targets for floating rate PIBs, while acceptance was more pronounced in case of fixed rate PIBs. This indicates a shift towards borrowing at favourable fixed rates for longer maturities. The outstanding stock of government securities increased further along with lengthening of the maturity profile. Around 55 percent of the government securities have maturities of more than 3-years; however, approximately 50 percent of the securities remained concentrated in floating rate PIBs.

15. The staff informed the Committee that Pakistan Eurobond yields and Credit Default Swap (CDS) spreads recorded marked improvement in the recent weeks, reflecting further improvement in the country's credit ratings and external sector position.

16. In the FX market, the PKR slightly depreciated by 0.01 percent against the USD since the last MPC meeting. In addition, the USD Index has appreciated by 0.9 percent against other major currencies during the review period.

**Model-Based Assessment**

17. The staff apprised the Committee about the inflation projections conditional on different policy rate paths. The staff also presented alternate scenarios based on different assumptions of global oil prices and exchange rate. In the light of recent heavy rains and flash floods affecting some parts of the country, the staff briefed the Committee on the potential impact of flood-related shocks on the inflation projections.

18. Keeping in view the above developments, the MPC discussed the current monetary policy stance for keeping inflation within the target range under various scenarios.

**Result of SBP Surveys for Monetary Policy**

19. The staff apprised about market insights related to the agriculture sector as collected through the newly established Economic Agents Network (EAN). It was apprised that facing a liquidity crunch

triggered by the sharp decline in wheat prices along with high input prices, farmers are altering cropping decisions away from cotton and are now tilted towards rice, sugarcane and maize. Furthermore, livestock farmers have increasing interest towards corporate farming due to meat export potential. The staff also briefed on various SBP surveys conducted during July 2025. Inflation expectations of consumers increased while expectations of businesses remained anchored. It was informed that the latest readings of consumer confidence showed an increase of 8 percent on y/y basis while business confidence increased by 6 percent on y/y basis and remained above the benchmark level of 50 since October 2024. However, after ongoing improvement during the previous six months, the PMI decreased on m/m basis in July 2025. This decline may be driven by the cautious behaviour of firms amid uncertainty of tariffs on imports and exports.

20. The staff also apprised about the survey results of professional forecasters conducted during July 2025. It was apprised that forecasters have revised down their inflation forecasts for both the short-term and the medium-term and now expect the inflation to remain within the target range of 5 to 7 percent. These forecasters have also revised downwards their annual GDP growth forecasts for FY26.

**Monetary Policy Deliberations and Decision Vote**

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

**DECISIONS:**

- *The policy rate remains unchanged.*
- *The Monetary Policy Statement – July 2025 is approved.*