MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)
HELD AT KARACHI ON MONDAY, JUNE 16, 2025 AT 10:00 AM

P R E S E N T

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
Dr. S.M. Turab Hussain	External Member
Dr. Naved Hamid	External Member
Mr. Fayyaz ur Rehman	Corporate Secretary

Review of Current Economic Conditions and Outlook for FY25 and FY26

1. The staff apprised the Committee of recent global and domestic economic developments since the last MPC meeting held on May 5, 2025. The assessments and analysis of evolving trends in major macroeconomic indicators were also shared with the Committee, including key assumptions used in the baseline projections.

2. On global developments and trends, it was apprised that ongoing US-China trade talks have somewhat eased concerns regarding the global trade related uncertainties. This, combined with the evolving geopolitical situation in the Middle East, has put significant upward pressure on global oil prices. In addition, agricultural prices have also inched up since the last MPC meeting. It was apprised that headline inflation in Advanced Economies (AEs) eased slightly towards their targets, while core inflation increased slightly in April 2025. While both headline and core inflation in Emerging Market Economies (EMEs) remained within their respective target ranges. The staff apprised that in light of the recent tariff related developments and uncertainties surrounding the Middle East and implications on oil prices, many central banks have adopted a cautious approach and have decided to keep their policy rate unchanged. The staff informed that the leading indicators of global economic activity have declined in April 2025.

3. The staff apprised that the provisional growth estimate by the Pakistan Bureau of Statistics (PBS) for FY25 was 2.7 percent, which remained broadly in line with SBP's projection albeit with some compositional differences. The staff continued that the real GDP growth accelerated to 3.9 percent in H2-FY25 from 1.4 percent in H1-FY25. This growth was primarily driven by the industry and services sector, while agriculture sector underperformed. On the demand side, consumption and investment drove the growth in FY25, signalling a recovery in domestic demand. High-frequency indicators also suggested that economic activity maintained its broad-based momentum. Moreover, elevated gas emissions and increased night-time light intensities during H2-FY25 as compared to H1-FY25, continued to indicate strengthened industrial and services-related activities in almost all the major cities. This was also supported by relatively improved employment-related sentiments and a gradual upward trend in job postings. On the other hand, the staff informed that the recent satellite data and initial information showed a relatively weaker vegetation position for cotton in the ongoing Kharif season amidst unfavourable weather and soil moisture conditions. Based on this, the outlook for the upcoming Kharif crops so far appeared subdued.

4. Real GDP growth is expected to increase further during FY26, with both the industry and services sectors anticipated to drive the growth. The continued momentum in high-frequency indicators, such as imports of machinery and intermediate goods, credit to private sector and business sentiments, supports this assessment. The prospects for the agriculture sector seem subdued. Nevertheless, this outlook remains subject to risks, particularly due to global uncertainties surrounding commodity prices, and adverse weather conditions during the Kharif season.

5. Discussing the recent developments in external sector, the staff informed that the current account, after showing a large surplus in March, remained almost balanced during April 2025. Consequently, the cumulative surplus stood at USD 1.9 billion during Jul–Apr FY25. It was apprised that a slowdown in exports during April led to a moderation in overall goods exports growth, which grew by 6.8 percent during Jul–Apr FY25, compared to 10 percent growth during the same period last year. This export growth was mainly driven by higher volumes of High Value-Added (HVA) textiles. However, despite higher volumes, rice exports continue to weigh negatively, due to moderation in international rice prices; which was partially offset by increased sugar exports. Regarding imports, the staff shared that the cumulative imports grew by 11.8 percent during Jul–Apr FY25, in contrast to a 4.9 percent decline recorded in the same period of FY24. It was observed that non-oil import volumes continued to rise significantly indicating a pickup in economic activity. Despite the rise in non-oil imports, the overall import bill remained moderate, due to a decline in the unit value of oil imports. Nonetheless, it was noted that the trade deficit has widened, reflecting strong import demand relative to export growth. Workers' remittances continued to remain strong and recorded an inflow of USD 3.7 billion in May 2025, largely driven by the seasonal increase related to Eid-ul-Adha. It was further informed that the number of workers going abroad is expected to remain encouraging. Moreover, the difference between interbank exchange rate and open market rate remained low and stable. On the financial account side, net inflows remained weak, mainly due to shortfall in planned official inflows and debt-related outflows pertaining to the private sector.

6. Regarding the external sector outlook, it was noted that the current account is expected to remain in surplus for FY25, supported by strong remittances and moderate export growth. With the expected realization of official inflows in the remaining days of FY25, SBP's foreign exchange reserves are expected to reach USD 14 billion by end-June 2025. Import demand and global trade uncertainties are expected to contribute to a moderate current account deficit in FY26. The Committee also reviewed potential risks to the external outlook for FY25 and FY26 including risks from geopolitical tensions, volatile oil prices, potential import pressures from FY26 budgetary measures, and delays in planned financial inflows.

7. Discussing fiscal developments, the staff informed that based on the revised budget estimates for FY25, fiscal indicators showed further improvement during FY25. The primary balance increased to 2.2 percent of GDP from 0.9 percent last year, while fiscal deficit reduced to 5.6 percent of GDP compared to 6.9 percent last year. It was conveyed that this progress was mainly due to a notable rise in both tax and non-tax revenues (mainly SBP profit), along with relatively contained expenditures (particularly Public Sector Development Programme spending). It was stated that FBR revenues collection showed a significant growth of around 26 percent during the first 11 months of FY25, however, it fell short of the target by a significant amount. For FY26, the government has set a revenue target of PKR 14.1 trillion which is aimed to be achieved through autonomous growth, administrative measures and new tax initiatives. The staff also briefed the Committee on the headline features of the Annual Federal Budget for FY26. The staff apprised that fiscal consolidation was expected to continue during FY26.

8. Explaining monetary sector developments, it was reported that Broad Money (M2) growth moderated to 12.6 percent (y/y) from 13.1 percent (y/y) since the last MPC meeting. It was noted that the deceleration in Net Domestic Assets (NDA) was due to lower growth in net budgetary borrowing, whereas the Net Foreign Assets' (NFA) contribution to M2 growth increased over recent months. This rise in NFA was linked to the settlement of external liabilities by commercial banks, increase in the FX reserves following IMF tranche, and gold revaluation gains.

9. Regarding the liability side of M2, it was shared that the Currency in Circulation (CiC) saw a notable rise during the entire fiscal year, in sharp contrast to contraction in the corresponding period last year, primarily due to monetary easing. On the other hand, deposits growth decelerated substantially, particularly interest sensitive deposits, due to easy monetary policy stance. Reserve Money (RM) rose to 14.4 percent as of May 2025, up from 13.1 percent in the previous MPC meeting which may be attributed to SBP's NFA contribution on the back of FX reserves and gold revaluation. On PSC, it was conveyed that while credit growth has moderated from its peak, banks' lending to the private sector remained strong at around 11 percent, reflecting easing financial conditions and better economic outlook. Major borrowing sectors included textiles, telecommunications, wholesale & retail while consumer financing (particularly auto finance and credit cards) also picked up. On the monetary outlook, it was apprised that the forecasts for M2 and RM remained broadly unchanged for FY25 and FY26, while the PSC growth outlook was revised upwards for FY26, reflecting, the rate cut in the last monetary policy meeting.

10. Discussing the inflation trends and recent developments, the staff briefed the Committee that, as anticipated, headline inflation (y/y) rose to 3.5 percent in May 2025 from 0.3 percent in April 2025. This increase was primarily attributed to the phasing out of a favourable base effect, particularly in food prices. On the other hand, energy prices fell by 9.7 percent on a year-on-year basis mainly due to a reduction in electricity tariffs. This also helped in moderating inflation expectations of both households and businesses. Further, core inflation eased slightly to 7.9 percent in May 2025 from 8.0 percent in April 2025 (y/y), mainly due to subdued domestic demand.

11. Discussing the inflation outlook, the Committee was informed that projections for FY25 and FY26 remained unchanged. Barring some near-term volatility, inflation is expected to gradually inch up and stabilize within the 5 – 7 percent target range. This outlook, however, remains subject to multiple risks emanating from potential supply-chain disruptions from regional geopolitical conflicts, volatility in oil and other commodity prices, and the timing and magnitude of domestic energy price adjustments.

Financial Market and Reserve Management

12. With regards to monetary policy implementation, the staff stated that the overnight repo rate averaged 11.23 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 13.39 trillion during the current monetary policy review period from PKR 12.7 trillion during the last MPC review period.

13. It was apprised that a downward shift in the yield curve was observed following the last MPC meeting, in response to the policy rate cut bringing the short-term rates closer to the policy rate. However, there was net retirement in MTBs, despite aggressive market participation as the government accepted slightly less than target amount.

14. The staff stated that market participants offered higher amounts in PIB auctions than the announced targets. It was informed that more pronounced participation was observed for floating rate PIBs with the offered amounts significantly higher than the announced targets. However, similar to MTBs, the accepted amount was slightly less than the targets. The outstanding stock of government securities increased further along with lengthening of the maturity profile. Specifically, around half of the government securities have maturity of more than 3-years, while approximately 50 percent of the total debt remains concentrated in floating rate PIBs.

15. The staff informed the Committee that Pakistan Eurobond yields and CDS recorded improvement in the recent weeks, indicating improvement in the country's external position and some reduction in the uncertainties in the global economy.

16. In the FX market, the PKR slightly depreciated by 0.6 percent against the USD since the last MPC meeting. In addition, the USD Index has depreciated by 1.2 percent against other major currencies during the review period.

Model-Based Assessment

17. The staff apprised the Committee about the projected inflation trajectory conditional on different policy rate paths. The staff also presented alternate scenarios based on different assumptions of global oil prices and exchange rate.

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

Result of SBP Surveys for Monetary Policy

19. The staff apprised the Committee on the various SBP surveys conducted during May 2025. Both the consumer and business confidence continued to show improvements over the last few months. It was apprised that the latest readings of consumer confidence and business confidence depicted an increase of 7 percent on y/y basis for both. Inflation expectations for consumers declined by about 20 percent on a y/y basis while the expectations of businesses, although declined by 4.5 percent on an m/m basis, remained largely unchanged when compared to the same period last year. Furthermore, Purchasing Managers Index (PMI) increased, reaching close to its highest level recorded in October 2017. On a y/y basis, PMI increased by 7 percent and remained above the benchmark level of 50.

20. The findings of the SBP's Economic Agents Network (EAN) indicated that exporters' perceptions are of concern related to increase in the international freight and shipping charges. The staff also apprised about the survey results of professional forecasters, conducted during June 2025. It was apprised that forecasters have revised down their inflation forecasts for the short-term, however, they are anticipating some uptick in inflation in the medium term. At the same time, the forecasters have slightly revised downward their annual GDP growth forecast for the upcoming fiscal year.

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 – June 2025 is approved.*