MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC)
HELD AT KARACHI ON MONDAY, OCTOBER 27, 2025 AT 11:00 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. Najaf Yawar Khan	Director SBP Board
Mr. Fawad Anwar	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 September 15, 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 trends and developments, the staff highlighted that though most of the trade tariff related uncertainties have subsided, there is risk of resurgence of trade tensions amid the US-China trade negotiations. The staff briefed that global oil prices have come down by 4.1 percent; metal prices remain relatively unchanged; while agricultural prices have inched down by 3.0 percent since the last MPC meeting. While headline inflation in Advanced Economies (AEs) slightly eased, it increased in Emerging Market and Developing Economies (EMDEs) in September 2025. About half of the central banks decided to cut policy rates in September 2025, while in October 2025 they again adopted a cautious approach, and most decided to keep their policy rates unchanged. The staff shared the recent changes in global GDP growth and inflation outlook by IMF for 2025 and 2026 in its recent World Economic Outlook (October 2025). Specifically, both global growth and inflation projections broadly remain unchanged for 2026. However, it was apprised that trade outlook has improved for both EMDEs and AEs. Despite facing higher US tariffs, Chinese exports remained resilient, as exports to other destinations, aside from the US, have increased. The staff also apprised that Pakistan's sovereign risk premium has also moderated significantly, reopening the opportunity to access global capital markets once global interest rates start moderating.

3. The staff then presented the trends in the real sector using both satellite and other traditional high-frequency economic activity indicators (HFIs). The staff apprised that the flood extent has receded significantly since the last MPC meeting, while official assessments confirm that crop damages remained substantially lower than those reported in 2022 floods. Furthermore, the Federal Committee on Agriculture's first estimate for major Kharif crops turned out better than earlier expectations. Discussing the trends in HFIs, the staff highlighted that the night-time light intensity and gas emission data point to favourable trends in consumption and manufacturing activity during Q1-FY26. Similarly, in the same period, the other HFIs, including private sector credit, sales of automobile, cement and Petroleum, Oil, and Lubricants (POL) also showed robust growth. Reflecting these trends, large-scale manufacturing expanded by 4.4 percent (y/y) in the first two months of FY26, driven by strong growth in major sub-sectors. These developments in commodity-producing sectors are also expected to further bolster activity in the services sector.

4. Discussing the outlook for the real sector, the staff apprised that the less than earlier anticipated impact of recent floods has improved overall growth prospects for FY26. In particular, the agriculture sector outlook has improved due to improving prospects for Rabi crops on account of better initial conditions and lower damages to the Kharif crops from the recent floods. In light of higher expected agriculture growth and its knock-on impact on other sectors of the economy, the real GDP growth is now assessed to be in the upper half of the earlier projected range of 3.25 percent to 4.25 percent. The staff then highlighted the risks to this outlook, which are broadly coming from uncertain global economic environment and commodity prices outlook.

5. On the recent developments in the external sector, the staff apprised the MPC that the current account posted a surplus of USD 110 million in September 2025, containing the cumulative current account deficit during Q1-FY26 to USD 594 million. The Q1-FY26 deficit was broadly in line with the MPC's expectations. While exports continued to grow moderately, imports rose at a relatively faster pace, resulting in a widening trade deficit. At the same time, workers' remittances remained resilient. Cumulatively, exports grew by 6.5 percent (y/y) in Q1-FY26. This was mainly due to high-value added (HVA) textiles and other exports (non-HVA textile and non-Rice). While rice contributed negatively to exports' growth due to significant decline in rice export volumes and unit prices. In line with improving economic activity, imports grew by 8.3 percent (y/y) in Q1-FY26 as compared to 15.9 percent growth in Q1-FY25. The growth in imports was mainly driven by non-oil import growth as the contribution of oil import growth remained negative due to decrease in LNG imports and favourable international oil prices. Workers' remittances continued to remain strong during Q1-FY26, with 8.4 percent (y/y) growth, and are expected to remain resilient. On the financial account side, it was apprised that it weakened in Q1-FY26 due to the repayment of maturing Eurobond.

6. Regarding the external sector outlook, it was noted that the current account deficit is expected to improve due to more muted impact of floods on exports and imports than earlier assessment. Exports are projected to decline slightly in FY26 on the back of a drop in rice export earnings and moderation in HVA textile export volumes due to increased competition. Furthermore, imports' growth in FY26 is also projected to decline due to lower than anticipated impact of floods. Overall, trade deficit is expected to be lower than the earlier assessment. Remittances are expected to increase marginally compared to the earlier assessment in line with pick-up witnessed in previous episodes of natural disasters. On balance, the current account deficit is likely to remain in the earlier projected range of 0 to 1 percent of GDP in FY26. With the expected realization of planned official inflows, SBP's FX reserves are projected to reach around USD 15.5 billion by December 2025 and around USD 17.8 billion by June 2026. The Committee also reviewed potential risks to the external sector outlook for FY26 including change in oil prices, higher than baseline workers' remittances inflow, and non-realization of planned financial inflows.

7. With regards to fiscal developments, the staff highlighted that the fiscal balance posted a surplus of 1.6 percent of GDP in Q1-FY26, slightly lower than 1.7 percent surplus of GDP in the corresponding period last year. Similarly, primary balance also recorded a surplus of 2.7 percent of GDP in Q1-FY26 compared to 2.8 percent of GDP in Q1- FY25. The strong fiscal performance was supported by transfer of a sizeable SBP profit to the government. The staff highlighted that, after adjusting SBP profit, fiscal balances turn out to be better than last year. FBR missed its revenue collection target in Q1-FY26 by PKR 198 billion, where the entire shortfall came from direct tax and sales tax. On the fiscal sector outlook, the staff apprised that fiscal consolidation is expected to continue and, compared to last MPC assessment, primary and fiscal balances are expected to improve in FY26 despite flood related disruptions. Further, the provision of emergency funds allocated in the budget would be utilised for flood relief efforts. The Committee also reviewed potential risks to the fiscal

sector outlook for FY26 including higher than expected developmental spending and increase in circular debt related subsidies.

8. Regarding monetary sector developments, it was apprised that the Broad Money (M2) growth decelerated to 12.3 percent (y/y) as of October 10, 2025 from 13.4 percent as of August 29, 2025. While Net Foreign Assets' (NFA) contribution to M2 growth remained stable, the growth contribution of Net Domestic Assets (NDA) in M2 declined as growth in banks' credit to non-bank financial institutions declined substantially and net budgetary borrowing remained contained. Discussing the liability side of M2, it was apprised that currency in circulation (CiC) increased from outstanding stock of PKR 10.5 trillion in the last monetary policy review period to PKR 10.8 trillion during the current period. This, along with the decrease in deposits, increased currency-to-deposit ratio to 37.6 percent as of October 10, 2025 from 36.1 percent as of August 29, 2025 partly reflecting the unfolding impact of earlier policy rate cuts. Reserve Money growth decreased to 15.3 percent (y/y) as of October 10, 2025 from 17.5 percent as of August 29, 2025 despite remaining elevated in recent months. This decrease was due to the decline in NDA while NFA contribution remained high, primarily, on account of gold revaluation gains.

9. It was also apprised that the private sector credit (PSC) growth accelerated to 17 percent (y/y) as of October 10, 2025, from 13.5 percent as of August 29, 2025 reflecting easing financial conditions, ongoing fiscal consolidation and pickup in economic activity. However, credit growth is expected to moderate going forward in the month of December 2025 reflecting higher than usual credit uptick last year owing to ADR-related tax policy compliance. So far, both working capital and fixed investment loans are contributing to the broad-based increase in PSC. The key borrowing sectors were textile, wholesale and retail trade, chemicals, and telecommunication. Furthermore, easing financial conditions also facilitated a pick-up in consumer financing, notably in auto financing and credit cards.

10. Discussing the recent inflation trends and developments, the staff briefed the Committee that inflation increased to 5.6 percent in September 2025 (y/y) from 3.0 percent in August 2025. The staff attributed this spike in inflation to increase in prices of food items and energy prices. Wheat and its allied products' prices witnessed a sharp increase in September 2025. However, the wheat prices reported in CPI basket are significantly lower than those reported in the SPI basket that pose upside risk to inflation outlook. Despite the surge in prices of perishable food items, which increased in part due to supply disruptions, they generally turned out to be lower than anticipated owing to less than anticipated impact of floods. Nonetheless, high frequency SPI data showed that prices of some of the perishable food items resurged toward the end of October amid supply chain disruptions. Further, energy prices increased due to rise in fuel cost adjustments in energy tariff, upward adjustment in fuel prices and low base effect. Furthermore, core inflation remained sticky at the last month's level of 7.3 percent in September 2025.

11. About the inflation outlook, the Committee was informed that lower than anticipated impact of floods and favourable global commodity prices have improved the near-term inflation outlook. Inflation is now projected to cross the upper band of the 5–7 percent target range for fewer months of H2-FY26 compared to earlier assessment, before reverting to target range in FY27. This outlook remained subject to multiple risks emanating from volatility in the international commodity prices, unanticipated adjustments in administered energy prices and increase in food inflation most notably wheat and perishable food items.

Financial Markets and Reserve Management

12. With regards to monetary policy implementation, the staff stated that the overnight repo rate averaged 11.28 percent during the review period, which is slightly higher than the target of 11.0 percent. The SBP's average liquidity support, mainly provided to conventional banks, decreased to PKR 12.80 trillion during the current monetary policy review period from PKR 13.25 trillion during the last MPC review period.

13. The staff apprised that following no change in the policy rate, a slight upward shift of 10-20 bps in the shorter end of yield curve was observed since the last MPC meeting. However, for higher maturities of the yield curve, there was a marginal decrease. It was also apprised that there was net retirement in MTBs as the Government accepted less than the target amount despite aggressive market participation.

14. Elaborating further, 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 continued to signal a shift towards borrowing at fixed rates for longer maturities. Discussing the debt profile of the government, it was apprised that the maturity profile of outstanding debt remained close to the level witnessed during the last monetary policy review. Around 54 percent of the government securities have maturities of more than 3-years, while outstanding stock of government securities inched up in October 2025 following net retirement in the month of September 2025 due to transfer of SBP profits.

15. The staff informed the Committee that sovereign yields and spreads continued to ease, reflecting further improvement in the country's external position.

16. In the FX market, the PKR appreciated by 0.2 percent against the USD since the last MPC meeting. In addition, the USD Index has strengthened by 1.7 percent against other major currencies during the review period. Furthermore, Pakistan repaid USD 500 million Eurobond while its FX reserves continued to improve.

Model-Based Assessment

17. The staff apprised the Committee about the inflation projections based on alternate paths of policy rates. In addition, the staff also presented the inflation projections conditional on different assumptions of global oil prices and exchange rate.

18. Keeping in view the economic 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 MPC about insights from the Economic Agents Network (EAN) related to current economic conditions and outlook. The staff discussed that the impact of floods on agriculture sector was less severe as compared to earlier assessments. Specifically, flood damages were less severe in case of cotton, rice and sugarcane and farmers were optimistic about better yields. It was also apprised that the outlook of agriculture for the Rabi season has improved. Price uptick is positively supporting the outlook for wheat sowing; however, farmers were wary if indicative pricing announced by the government would hold at the time of harvest. In addition, farmers' interest increased in sugarcane and maize cultivation as well. Furthermore, the outlook for industry continued to improve while exporting firms held an optimistic outlook for FY26.

20. The staff also briefed on the various SBP surveys conducted during October 2025. It was apprised that inflation expectations of both consumers and businesses decreased in October 2025 despite the impact of floods. It was informed that the latest readings of consumer confidence showed an improvement in line with outcomes of the inflation expectations survey. Furthermore, after witnessing moderation in September 2025, business confidence levels improved in October 2025.

21. The staff also briefed about the survey results of professional forecasters conducted during October 2025. The MPC was apprised that largely due to the impact of flood, forecasters have slightly revised their short and medium term inflation forecast upwards, while their view on growth has also improved relative to the last survey iteration.

Monetary Policy Deliberations and Decision Vote

22. The MPC decided to keep the policy rate unchanged with majority decision of seven out of eight members. One member voted to decrease the policy rate by 50 bps.

DECISIONS:

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