

**MINUTES OF THE MEETING OF THE MONETARY POLICY COMMITTEE (MPC) HELD AT
KARACHI ON MONDAY, JANUARY 26, 2026 AT 11:00 AM**

PRESENT

Mr. Jameel Ahmad	Chairperson & Governor SBP
Mr. Saleem Ullah	Deputy Governor
Mr. Muhammad Amin Khan Lodhi	Deputy Governor
Dr. Inayat Hussain	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 December 15, 2025. They presented their assessments and analysis of evolving trends in major macroeconomic indicators to the Committee along with key assumptions underlying the baseline projections.

2. On global trends and developments, the staff apprised that global oil, metal and agricultural prices have all increased by more than 3.0 percent since the last MPC meeting due to geopolitical developments and uptick in demand. Similar to the previous MPC review period, headline inflation inched up in Advanced Economies (AEs) but eased in Emerging Markets and Developing Economies (EMDEs) in December 2025. In addition, since the last MPC meeting, while most central banks have held their policy rates constant, a few EMDEs and AEs have cut their policy rates. Furthermore, renewed US threats to impose additional tariffs on multiple European economies is likely to further increase already elevated trade policy uncertainty. The staff then shared the latest IMF projections for global economy including GDP growth and added that trade growth projections have been revised upwards for 2026. While inflation projections remain broadly unchanged from previous forecasts published in October 2025.

3. The staff then presented real-sector developments, apprising that economic activity has gained notable momentum in Q1-FY26. Real GDP growth, led by commodity producing sectors, strengthened to 3.7 percent as per provisional PBS data, against the modest growth of 1.6 percent in Q1-FY25. Moreover, both satellite-based measures and traditional high-frequency indicators (HFIs) showed that current growth momentum continued in Q2-FY26 as well. For instance, both gas emissions and nighttime light intensity, which together act as a proxy for industrial and transport activities, indicated a considerable increase in Q2 compared to same period last year. Sales of automobiles, POL (excluding furnace oil), cement and fertilizer, and imports of machinery and intermediate goods further indicated improved economic momentum in recent months. Importantly, the staff noted that the large-scale manufacturing (LSM) registered higher y/y growth in both October and November 2025, leading to a cumulative 6.0 percent growth in July-November FY26. The major contributions came from food, auto, textile, POL and construction-allied sectors. Similarly, amidst ease in financial conditions and higher development spending by provinces, construction activity has also gathered momentum in recent months, leading to a 13 percent increase in domestic cement sales in H1-FY26 – highest since FY21.

4. Regarding the economic growth outlook, the staff apprised that weather and water conditions continued to remain conducive for Rabi crops. While the vegetation position also showed improvement in recent weeks. Furthermore, Sindh has surpassed its wheat sowing target while Punjab is close to achieving its target. Also, wheat crop yield is expected to increase, in line with previous post-flood cycles, therefore, wheat production is likely to surpass the target set by Federal Committee for Agriculture. Overall, the crop outlook for FY26 has been revised upwards as flood-related damages to major Kharif crops remained subdued. In addition, higher recovery rate of sugarcane compared to last year is likely to have favorable implications for LSM growth. Consistent with the above-mentioned developments, the outlook for the industrial sector growth has been revised up, mainly supported by the higher-than-expected momentum in the LSM and construction sectors. These favorable developments in commodity-producing sectors are expected to provide further impetus to the services sector. In the light of these developments, real GDP growth in FY26 is now projected to remain in the upward revised range of 3.75–4.75 percent. This momentum is likely to gain further traction in FY27.

5. On recent developments in the external sector, the staff apprised the Committee that the current account recorded a deficit of USD 244 million in December 2025, following a surplus in November 2025. Consequently, the current account registered a cumulative deficit of USD 1.2 billion during H1-FY26, in line with earlier expectations. The widening of current account deficit was primarily driven by a substantial increase in imports and a decline in exports. Export weakness mainly reflected a sharp drop in food exports, particularly of rice, while high value-added (HVA) textile exports remained resilient. Simultaneously, sustained growth in workers' remittances and IT services exports helped contain the overall current account deficit at a manageable level. The staff further noted that uptick in financial flows since the last MPC enabled SBP to continue building foreign exchange reserves primarily through interbank purchases.

6. Regarding the external sector outlook, the staff apprised that the assessment for the current account remains broadly unchanged from the previous meeting. The staff highlighted that exports are expected to face pressure from weak rice export earnings, elevated global trade policy uncertainty, and the closure of the western border, while imports are expected to remain elevated due to strong domestic demand, albeit being partially offset by favorable oil prices. Strong workers' remittances and benign global commodity prices are also expected to contain the current account deficit within the projected range of 0 to 1 percent of GDP in FY26, despite challenging export prospects. Based on this outlook and the realization of planned official inflows, SBP's FX reserves are now expected to surpass USD 18.0 billion by June 2026 and improve further in FY27, approaching the benchmark of three months of import cover. Key risks to the external outlook include renewed global tariff uncertainty, geopolitical developments, and non-realization of anticipated external inflows.

7. With respect to fiscal developments, the staff highlighted that fiscal consolidation continued during H1-FY26. FBR tax revenues grew by 9.5 percent (y/y) during the first half of the fiscal year compared to 26 percent growth in the same period last year leading to a shortfall of PKR 329 billion from the target. Despite this revenue shortfall, financing-side indicators suggest an improvement in the overall fiscal balance, supported by relatively contained expenditures and significantly lower interest payments compared to the same period last year. The Committee noted that while fiscal consolidation has played a supportive role in achieving macroeconomic stability, achieving the annual primary surplus target appears challenging for FY26.

8. Regarding monetary aggregates, the staff informed the Committee that broad money (M2) growth accelerated to 16.3 percent (y/y) by January 9, 2026. This expansion was driven primarily by strong growth in net domestic assets (NDA), reflecting higher borrowing by both public and private sectors. On the liability side, increase in currency in circulation was modest, while bank deposits recorded a sharp increase, leading to a decline in the currency-to-deposit ratio. Reserve money growth also picked up during the same period, largely reflecting higher contribution of

net foreign assets (NFA) following the buildup in FX reserves and moderate contribution of NDA mainly due to Government borrowing from commercial banks.

9. The staff further apprised that private sector credit (PSC) growth recovered on a year-on-year basis in December 2025, reflecting seasonal credit offtake and the fading impact of the advance-to-deposit ratio related surge observed last year. In absolute terms, cumulative credit offtake in FY26 so far amounted to PKR 578 billion, mainly driven by working capital loans to textiles, wholesale and retail trade, chemicals, and telecommunications sectors. Consumer financing also continued to expand, particularly for auto loans, supported by easing financial conditions.

10. On inflation, the staff briefed the Committee that headline inflation has remained within its medium-term target range over the past four months. In December 2025, it eased to 5.6 percent from 6.1 percent in November 2025, broadly in line with expectations. This moderation was mainly driven by a sharp decline in perishable food prices, which more than offset higher non-perishable food inflation stemming from rising wheat and allied products prices. At the same time, energy inflation increased due to the fading of favorable base effects in electricity, and increase in prices of LPG and solid fuels. Core inflation, after declining steadily during FY25, has persisted at around 7.4 percent in recent months. This largely reflects elevated education fees, health charges and house rents. Nonetheless, inflation expectations of both consumers and businesses as well as professional forecasters continued to ease and remain well-anchored.

11. Discussing inflation outlook, it was apprised that inflation is projected to stabilize within the 5–7 percent target range over FY26 and FY27, although it may temporarily exceed the upper bound for few months in the near term. However, this outlook remains susceptible to various risks emanating from volatile international commodity prices, rising domestic wheat prices and any unanticipated adjustments in administrative energy prices.

Financial Markets and Reserve Management

12. Regarding monetary policy implementation, the staff reported that the overnight repo rate averaged 10.85 percent during the review period, which was 35 bps above the policy rate of 10.5 percent. The SBP's average liquidity support, predominantly extended to conventional banks, increased by PKR 811 billion to PKR 13.75 trillion during the review period, reflecting higher currency demand and increased liquidity needs toward end-December 2025.

13. Following the reduction in the policy rate in December 2025, secondary market yields declined by more than 50 bps across most tenors, reflecting expectations of further reduction in the policy rate. It was also noted that there was net retirement in Market Treasury Bills (MTBs) as the government accepted amount in aggregate lower than the maturing amount and the combined target during the review period.

14. Acceptance was more substantial for fixed-rate PIBs, signaling a continued preference for longer-term fixed-rate borrowing by the Government. It was also apprised that the debt maturity profile of outstanding government securities remained largely unchanged since the last MPC meeting. Around 53 percent of the government securities have maturities of more than three years, while the outstanding stock of government securities increased slightly in January 2026 due to higher budgetary needs.

15. The staff informed the Committee that sovereign yields and spreads continued to ease during the review period, reflecting further improvement in the country's external position. However, the benchmark yield (10-year USD Bond) inched up since the last MPC meeting.

16. In the foreign exchange market, the PKR appreciated by 0.2 percent against the US dollar, while the USD strengthened by 0.1 percent against major currencies during the review period.

Model-Based Assessment

17. The staff apprised the Committee about the inflation projections based on an unchanged baseline and alternate paths of policy rate, as well as other policy and external variables. The staff also discussed the uncertainty surrounding the baseline inflation projections illustrated through fan chart.

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

Results of SBP Surveys for Monetary Policy

19. The staff presented the Economic Agents Network (EAN) insights pertaining to the general economic outlook. The general perception is of gradual improvement in economic activity with concerns in some sectors. As highlighted earlier, broad based improvement was recorded in agriculture outlook; however, some issues pertaining to potential water shortages and limited informal agriculture credit were highlighted by the farmers. With regards to manufacturing, positive perception owing to improved domestic demand prevailed, led by construction and its allied industries. However, some concerns arose due to the revised solar tariff policy and shutdowns reported in the ginning and spinning sectors reflecting shrinking local supply chain in textiles. Concerning exporters, the staff reported that there has been an uptick in demand for HVA textiles. However, a global supply glut in rice has led to depressed prices. Furthermore, chemicals, fast-moving consumer goods, cement, and pharmaceuticals may face subdued demand due to the Pak-Afghan border situation.

20. The staff apprised the Committee on the results of various SBP surveys conducted in January 2026. There has been a gradual decline in inflation expectations of consumers and businesses; currently both are at their lowest levels. Consumer confidence has improved in January 2026 as compared to the last survey findings in December 2025. It currently stands around its long-term average across all the provinces. On the other hand, business confidence continued to show improvement in January 2026. Capacity utilization remained the same as in the last survey iteration, and close to its long-run average level.

21. The staff shared the survey results of professional forecasters, which were conducted in January 2026. Forecasters have increased their short- and medium-term projections for economic growth over the last survey iteration. Furthermore, their short- and medium-term inflation projections both remain within the target range of 5-7 percent.

Monetary Policy Deliberations and Decision Vote

22. The MPC decided to keep the policy rate unchanged with majority decision of six out of nine members. Three members voted to decrease the policy rate by 50 bps.

DECISIONS:

- *The policy rate remained unchanged.*
- *The Monetary Policy Statement – January 2026 is approved.*