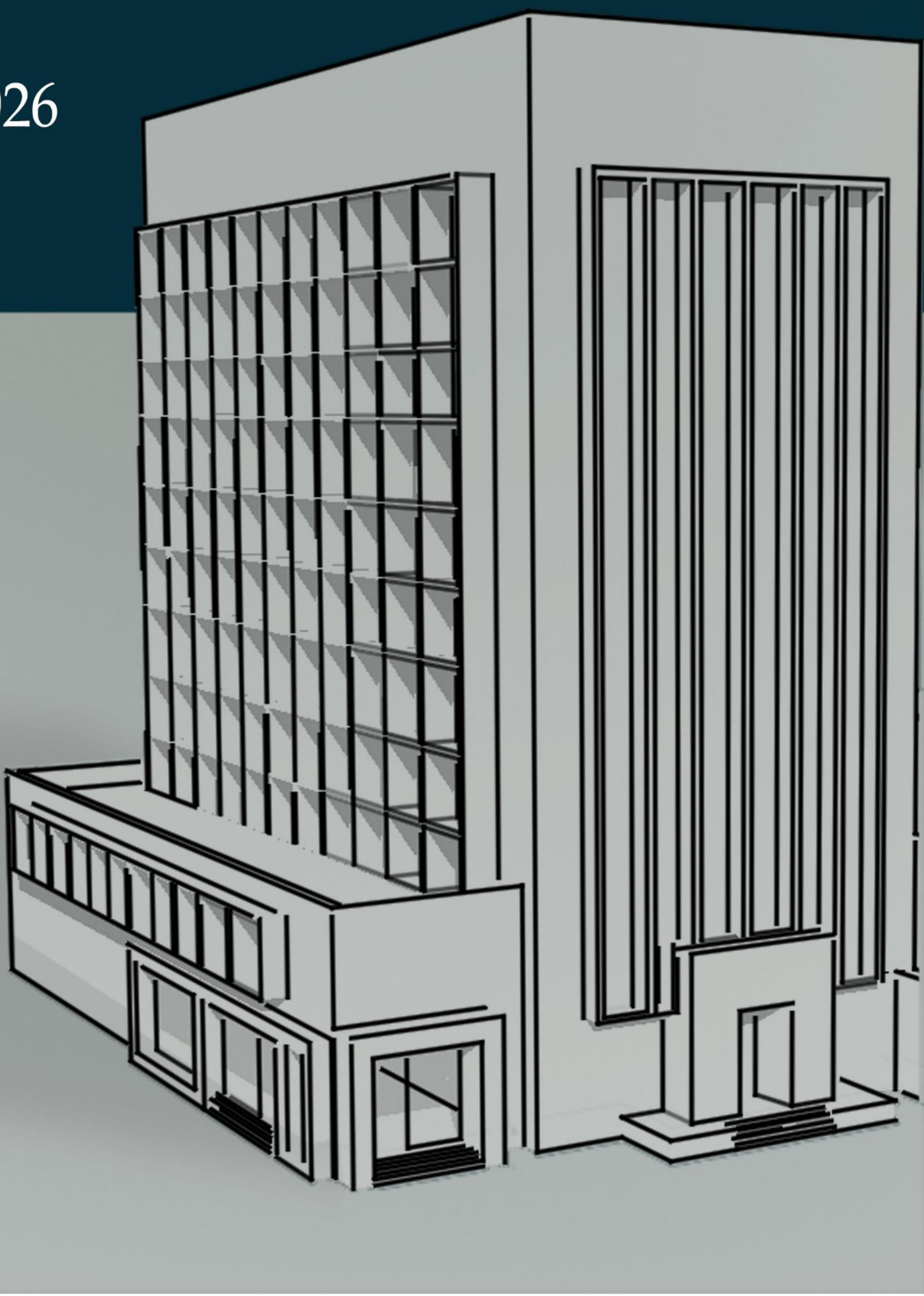
Monetary Policy Report

Continued Policy Prudence

February 2026



State Bank of Pakistan

Monetary Policy Report

February 2026

Monetary Policy Committee

Mr. Jameel Ahmad (Chairperson)	Governor, SBP
Mr. Saleem Ullah	Deputy Governor, SBP
Mr. Muhammad Amin Khan Lodhi	Deputy Governor, SBP
Dr. Inayat Hussain	Executive Director, SBP
Mr. Fawad Anwar	Non-Executive Director, SBP Board
Mr. Muhammad Ali Latif	Non-Executive Director, SBP Board
Mr. Najaf Yawar Khan	Non-Executive Director, SBP Board
Dr. Hanid Mukhtar	External Member
Dr. Naved Hamid	External Member
Dr. S. M. Turab Hussain	External Member

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Preface

The conduct of monetary policy in Pakistan is governed under the State Bank of Pakistan Act, 1956, as amended up to 2022. The Act provides the Monetary Policy Committee of the State Bank of Pakistan (SBP) with the authority to independently formulate and implement monetary policy, aimed at fulfilling statutory objectives. The Act outlines the governance structure for the monetary policy decisions.

SBP's Objectives

Article 4B of the SBP Act states that:
(1) The primary objective of the Bank shall be to achieve and maintain domestic price stability.
(2) Without prejudice to the Bank's primary objective, the Bank shall contribute to the stability of the financial system of Pakistan.
(3) Subject to sub-sections (1) and (2), the Bank shall support the Government's general economic policies with a view to contributing to fostering the development and fuller utilization of Pakistan's productive resources.

Monetary Policy Formulation Process at SBP

The Monetary Policy Committee (MPC) is a statutory body formed and responsible for formulating the monetary policy under Sections 9D and 9E of the SBP Act. It consists of 10 members:

- The Governor SBP (Chairperson)
- Three senior executives of the Bank, nominated by the Governor
- Three members of the SBP Board, nominated by the Board
- Three external members appointed by the federal government, upon the recommendation of the SBP Board

The MPC meets eight times a year and assesses domestic and global economic and financial developments, reviews the outlook for major macroeconomic variables, and takes the appropriate monetary policy decision. The decisions are made by majority vote, with the Chairperson having a casting vote, and the outcome is communicated publicly via the Monetary Policy Statement to ensure transparency.

Monetary Policy Report

As part of efforts under the Bank's Strategic Plan 2028 to transition towards an inflation targeting regime, and to better anchor stakeholders' inflation expectations, SBP's Monetary Policy Reports (MPR) are to be published on a biannual basis, within two weeks of every January and July MPC meeting. The MPR provides a detailed and analytical review of the macroeconomic conditions and outlook, assessment of risks to the outlook, and recent considerations in the formulation of monetary policy.

The data and analysis in the Monetary Policy Report – February 2026 are as of January 23, 2026. The report and projections in it were reviewed by the MPC, and approved for publication by the Chairperson MPC on February 9, 2026.

Executive Summary and Recent Monetary Policy Considerations

Table 1: Key Macroeconomic Projections

	Actual	SBP Projections		
	FY25	FY26		FY27
		Aug-MPR	Feb-MPR	Feb-MPR[1]
CPI inflation, avg. %	4.5	5 - 7	5 – 7	5 – 7
Real GDP growth, %	3.1	3.25 - 4.25	3.75 - 4.75	↑
CAD, % of GDP	-0.5	0 - 1	0 - 1	-
SBP FX Reserves, end-June, billion $	14.5	17.0	18.0	↑

1/ Up arrow indicates an increase in the indicator's projection relative to the latest projection for FY26

Sources: PBS, SBP, MoF, SBP estimates

Since the August 2025 Monetary Policy Report (MPR), macroeconomic conditions and outlook have improved, supported by the continuation of the prudent monetary policy stance and ongoing fiscal consolidation. Inflation is projected to remain within the target range of 5 – 7 percent during most of FY26 and FY27 (**Table 1**), despite some near-term volatility, on the back of expected favorable supply dynamics, an adequately positive real policy rate and continued overall macroeconomic stability. The current account deficit is projected to remain in the range of 0 to 1 percent of GDP. While the trade deficit is expected to widen further, it is assessed to be partly offset by the continued robust trend in workers' remittances. This, coupled with planned official inflows, is expected to increase SBP's FX reserves to $18 billion by June 2026 and further in FY27 towards the 3-month import coverage level.

Economic growth has also picked up noticeably, as reflected by higher y/y growth in Q1-FY26; continued momentum in high frequency indicators; and improving trends in agriculture and industry production, with positive spillover expected on services sector activity. Based on this, the growth outlook for FY26 has improved by 0.5 percentage points relative to the previous report, and real GDP growth is now projected in the range of 3.75 – 4.75 percent in FY26, and is expected to rise further in FY27. As such, the economy is showing signs of pivoting towards higher growth amidst the ongoing macroeconomic stability. The cumulative 1,150 bps reduction in the policy rate from June 2024 onwards has led to an ease in financial conditions and an uptick in credit to the private sector, which is supporting the ongoing economic recovery. SBP's decision to reduce the average Cash Reserve Requirement (CRR) from 6 to 5 percent will further facilitate banks to extend higher credit to private sector.

At the same time, the profile of risks to the macroeconomic outlook has changed from the previous assessment. While the risk of widespread impact from the recent floods has dissipated, that from global tariff-related uncertainty persists, notwithstanding the relatively lower rates on Pakistan's exports to the US. Global commodity prices have remained broadly favorable for inflation, yet they remain volatile and highly susceptible to geopolitical developments, leading to implications for inflation and the external account. Pakistan's export earnings are also expected to remain susceptible to multiple headwinds, including multi-year low rice prices; closure of Pakistan's western border; and trade friction-induced realignment of global trade flows. Domestically, meeting the primary balance surplus target seems challenging mainly due to shortfall in tax collection from the revised target. In this regard, faster progress on structural reforms will support the outlook for economic growth, inflation and external sector. Lastly, climate-related risks remain a key source of vulnerability for Pakistan, with potential impact on food price stability and economic activity.

To sum up, Pakistan's economy is currently in a much better position to withstand the potential negative fallout from adverse global developments, given the buildup in fiscal and external buffers over the past couple of years. This resilience is a result of the prudent and coordinated monetary and fiscal policies, which are facilitating a more sustainable pickup in economic growth without adding undue pressure on inflation and external account. Nonetheless, it is important to pursue productivity-enhancing structural reforms to increase exports and to privatize loss-making state-owned enterprises (SOEs) to achieve higher growth on a sustainable basis.

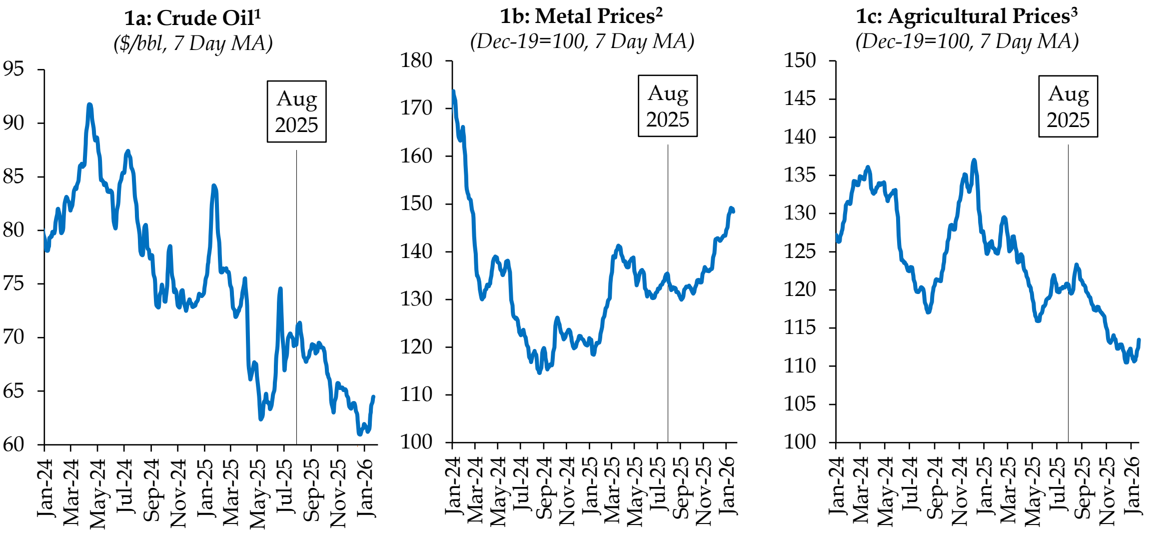
Monetary policy considerations since the August 2025 Monetary Policy Report

For the Monetary Policy Committee, an immediate concern starting from the July 2025 MPC meeting was the potential inflationary impact of flood-related disruptions, geopolitical and tariff-related tensions, and the still-unfolding transmission of the significant reduction in the policy rate over a short period of time (**Box 1**). The MPC, therefore, maintained the policy rate at 11 percent through October 2025 to firmly anchor inflation within the 5–7 percent medium-term target range. However, muted flood-related impacts and a sharper-than-expected decline in global commodity prices, particularly oil, reduced the risks to the inflation outlook. Alongside, the unfolding transmission of earlier policy rate cuts also did not indicate build-up of excessive pressures on inflation or the external account. This supported the stabilization of inflation within the target range and created some space for monetary easing. Accordingly, the MPC reduced the policy rate by 50 basis points in December. Cumulatively, this brought the reduction in the policy rate since June 2024 to 1,150 basis points. The MPC subsequently decided to hold the policy rate steady at 10.5 percent in January 2026, with broadly unchanged inflation projections and a notable improvement in the growth outlook.

Chapter 1 – Macroeconomic Developments and Outlook

Global economic environment remains uncertain amidst tariffs and geopolitical frictions, which have led to volatile commodity prices and trade re-alignments

Figure 1: Crude Oil, Metal, and Agricultural Prices



1) Weighted avg. of Dubai Fateh & Saudi Light, based on Pakistan's import composition of crude oil and petroleum products; 2) Pakistan Trade Weighted Index of Metal Products includes iron, steel, aluminum and copper; 3) Pakistan's trade weighted index of agricultural products consists of wheat, tea, soybean oil, palm oil, sugar, rice, cotton
Source: Bloomberg & SBP staff calculations

Since the last MPR, global commodity prices have depicted a mixed trend. Oil prices have eased significantly and turned out lower than assumed in the previous report. However, they have remained quite volatile (**Figure 1**), ranging from a low of around $60 to a high of $73 per barrel, and have rebounded recently following geopolitical developments in major producers. Nevertheless, considering the general trend and outlook for global demand and supply, the average oil price assumption for FY26 has been revised down (**Table 2**).[1]

Similarly, agricultural commodity prices, including rice prices, also posted a broad-based and more than anticipated decline. On the other hand, global metal prices – particularly those of iron and steel – turned out slightly higher than anticipated earlier.[2]

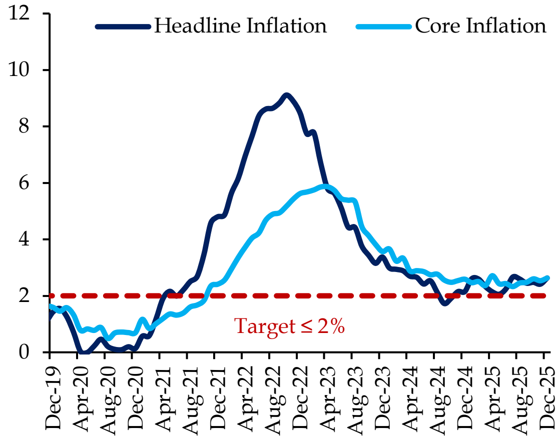
Table 2: Assumptions for Baseline Outlook

	MPR	FY26	FY27
Global Oil Prices ($/bbl.)	Feb-2026	65	67
	Aug-2025	70	-
Global Food Inflation (percent)	Feb-2026	-3.7	0.7
	Aug-2025	-6.2	2.7
Global Growth (percent)	Feb-2026	3.3	3.3
	Aug-2025	2.9	-

Source: SBP Staff estimates based on data from Bloomberg, World Bank, and IMF

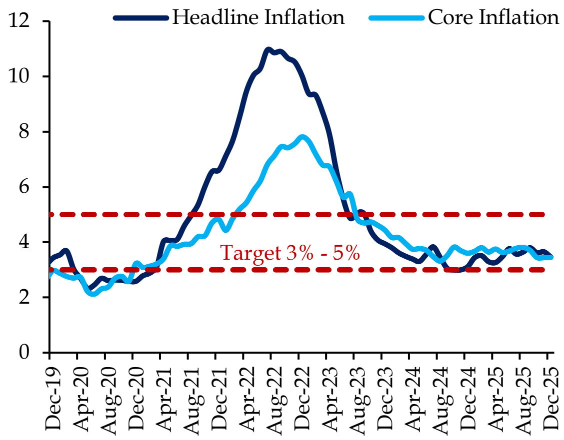
[1] The decline in oil prices was largely driven by increased supplies from OPEC+ countries, while concurrently, international demand remained moderate. The supply glut kept prices broadly in check.
[2] Increase in global iron and steel prices were mainly due to restrained production and stable demand from major importers.

Figure 2: Inflation in Advanced Economies
(median, percent, y/y)



Source: OECD, Haver Analytics

Figure 3: Inflation in Emerging Economies
(median, percent, y/y)



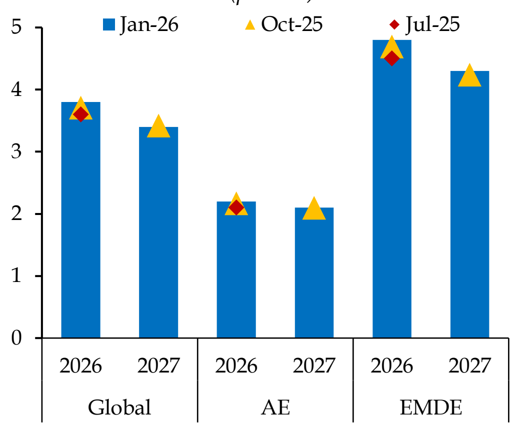
Source: Haver Analytics

Note: Target represents the median of the known targets of central banks in the sample (30 AEs and 44 EMs)

In many advanced economies (AEs), including the US, UK and Eurozone countries, headline inflation declined (**Figure 2**), while core inflation rose marginally – largely due to persistent services inflation. Meanwhile, emerging markets continued to record stable inflation outcomes, with both headline and core inflation easing slightly and remaining within target bands (**Figure 3**). In the January 2026 World Economic Outlook (WEO) update, the IMF has kept the projection for global inflation largely unchanged for CY26 and CY27 from its October 2025 assessment (**Figure 4**), though it projects inflation in the US to converge to the Federal Reserve's target more gradually as compared to other advanced economies.

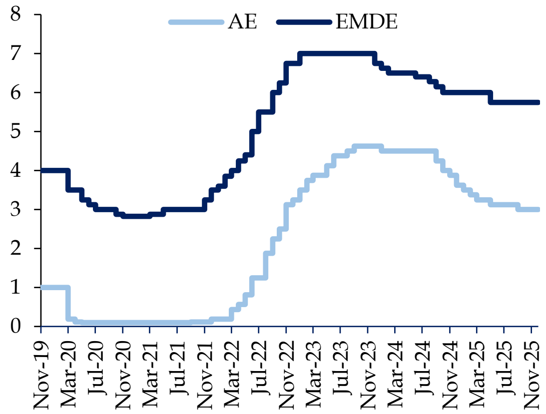
In response to the evolving inflation developments and outlooks, the US Fed reduced its Federal Funds Rate by a cumulative 75 bps over three separate meetings, which was more than anticipated by global markets at the time of the previous MPR. Amidst heightened uncertainty and inflation staying within their target ranges, EM central banks have maintained a prudent stance, with rates being kept unchanged in a majority of decisions that took place since the August MPR. Moreover, central banks have generally remained cautious in their monetary policy decisions given the prevalent uncertainty, and policy rates are still above historical average levels in many countries (**Figure 5**).

Figure 4: IMF Global Inflation Projection
(percent)



Source: IMF WEO Update Jan 2026 and Oct 2025

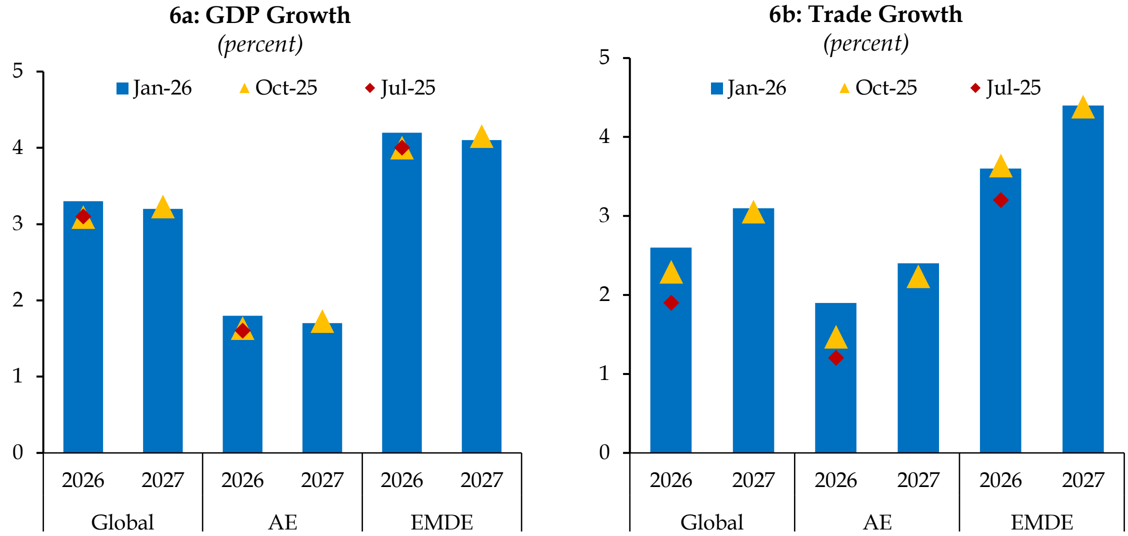
Figure 5: Central Bank Rates
(median, percent)



Note: Sample contains 14 AEs and 73 EMDEs
Source: Haver Analytics

The global growth outlook has improved since the last MPR; though geopolitical and trade tensions continue to pose major downside risks. In the January 2026 WEO, the IMF has slightly upgraded its global growth forecast for 2026 relative to its July 2025 WEO assessment (**Figure 6a**).[3] In 2027, the IMF expects global growth to decelerate to 3.2 percent. The outlook for global trade growth has been revised upward, largely due to reduced level of global trade frictions from the previous assessment (**Figure 6b**).

Figure 6: IMF Global Economic Projections



Source: IMF WEO Update Jan 2026 and Oct 2025

These global developments have had mixed implications for Pakistan's economy. Lower international commodity prices, particularly oil prices, have kept a check on inflation and supported the external balance by containing the overall import bill despite strong non-oil import growth. At the same time, exports have faced headwinds, particularly from declining prices amid intensified competition, underscoring structural competitiveness challenges. While Pakistan's relatively favorable access under US tariff arrangements has provided some relief, the benefits have remained concentrated in a few segments, notably high value-added (HVA) textiles.

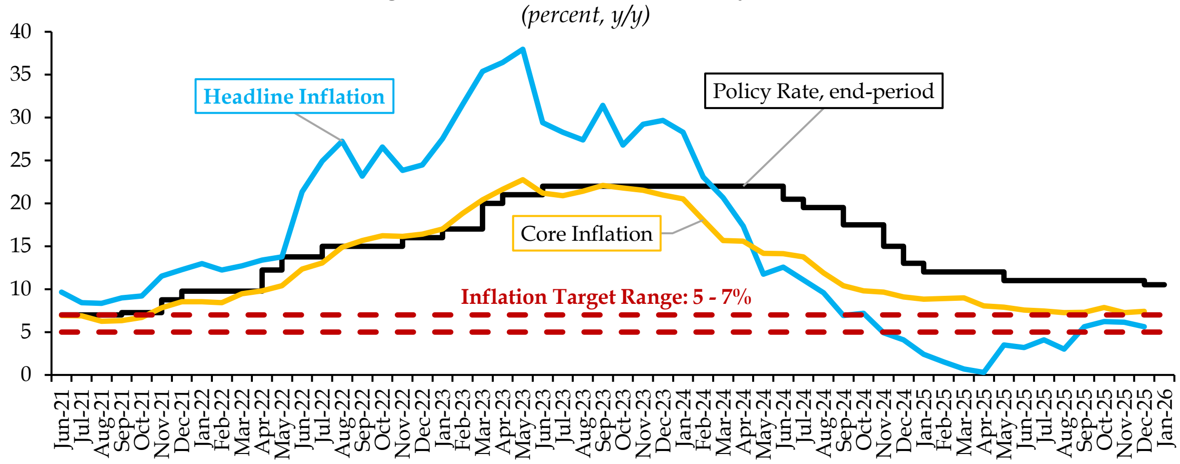
On the financing side, global financial conditions eased marginally since the last MPR, though they still remain elevated. Despite the elevated benchmark yields, multiple emerging and frontier markets with similar credit ratings as Pakistan issued sovereign bonds in recent months, indicating investors' appetite for taking exposure into EMs.[4] In this regard, Pakistan's external credit ratings have been on an improving trajectory over the past year, with major credit rating agencies upgrading their assessment for Pakistan's macroeconomic conditions and outlook. Reflecting this, Pakistan's 5-year CDS spreads have also eased significantly. As such, the global and macroeconomic conditions are

[3] This upward revision mainly stemmed from the ongoing surge in investment into the technology sector, including AI, especially in AEs. These investments are assessed to have offset the adverse impact of shifting global trade policies.
[4] Egypt issued sovereign bonds of $1.5 billion in September 2025, whereas Suriname issued bonds worth $1.6 billion in October 2025. Both countries have the same credit rating as Pakistan (Caa1). Source: Bloomberg, Global Market Analysis – IMF, Moody's

relatively more supportive for the country to re-enter the global capital markets, though a further reduction in benchmark yields (long-term US treasuries) might lead to better pricing prospects.

Barring some near-term volatility, inflation is expected to stay within the target range of 5-7 percent over the medium term

Figure 7: Inflation and SBP's Policy Rate
(percent, y/y)

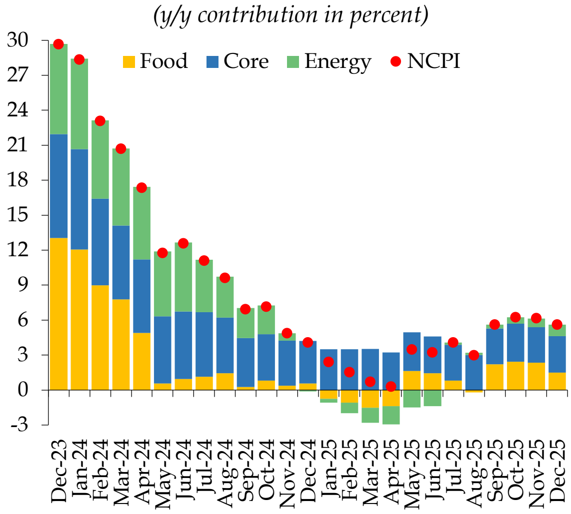


Source: PBS, SBP staff calculations

Consistent with the MPC's earlier projections, after trending up from June, headline inflation has remained within the target range during most of the interim period since the last MPR (**Figure 7**).[5] This stability is largely attributable to absence of excessive demand pressures amidst adequately positive real interest rates and fiscal discipline. Supply-side dynamics, including benign global commodity prices and improved domestic supplies of key food items, also remained favorable, as depicted by contained food and energy inflation (**Figure 8**). Moreover, the continuation of these factors is underpinning the medium-term inflation outlook of 5 – 7 percent.

Supply prospects for food items have improved, in line with the post-flood recovery. The widespread floods during mid-2025 had led to significant increases in prices of key perishable and non-perishable food items (**Figure 9**). However, since then, these effects have subsided, as evident by significant decrease in prices of perishable food items after October. Expected post-flood recovery in agriculture production and downtrend in international food prices are anticipated to keep the food inflation muted. Meanwhile, domestic wheat and allied product prices have increased considerably since the last report, mainly reflecting the adverse impact of floods, seasonal higher demand during sowing season, and market

Figure 8: Composition of National CPI Inflation
(y/y contribution in percent)

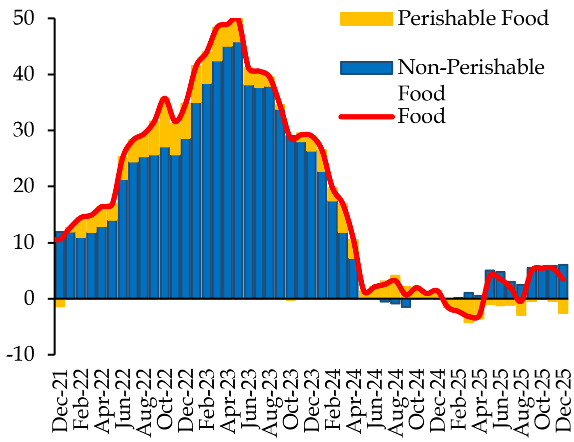


Source: PBS, SBP

[5] Headline inflation stood at 5.8 percent y/y in January 2026.

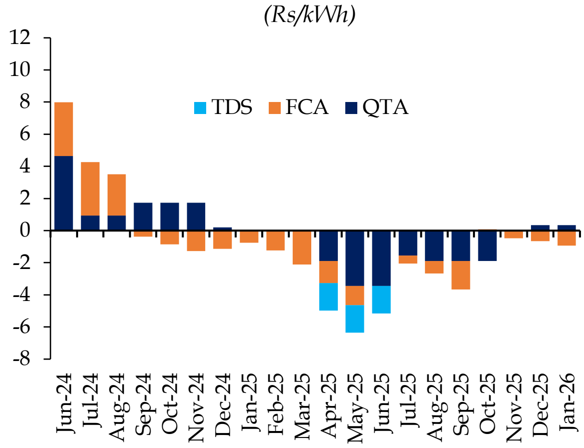
frictions. However, the surge in wheat prices is expected to be short lived, given the impending arrival of the new crop from April 2026 onwards; and lower likelihood of illicit cross-border movement given that international wheat prices are significantly lower than domestic prices and the ongoing western border closures are continuing.

Figure 9: Composition of Food Inflation
(y/y contribution in percent)



Source: PBS

Figure 10: QTA, FCA & TDS notified by NEPRA
(Rs/kWh)

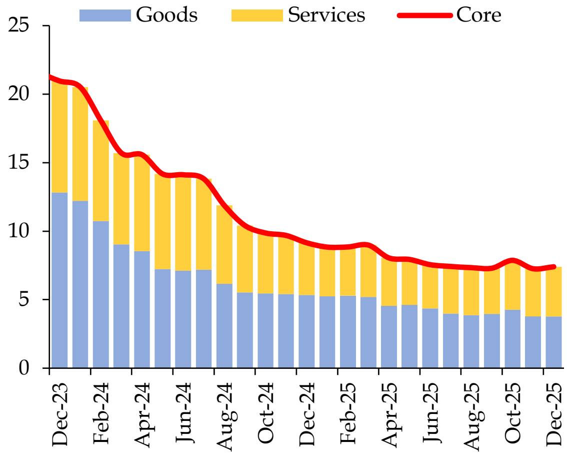


Source: NEPRA

The favorable pass-through of easing global oil prices to domestic consumers led to successive favorable adjustments in POL prices as well as monthly fuel cost adjustment (FCA) and quarterly tariff adjustment (QTA) in electricity tariffs, with favorable implications for energy inflation (**Figure 10**). Further, the government has kept the base electricity tariffs unchanged for the next 12 months (January-December 2026) at the prevalent average level. Moreover, OGRA has recommended a reduction in consumer gas tariffs as part of its semi-annual gas tariff revision, scheduled for mid-February 2026. These two factors have improved the energy inflation outlook. However, despite these favorable developments, energy inflation on y/y basis may increase sharply toward the end of FY26, before normalizing thereafter.[6]

Meanwhile, core inflation – after declining gradually throughout FY25 – has proved more persistent so far in FY26, with y/y readings coming in around 7.5 percent since the last MPR. This persistence may partly be attributed to downward sticky services inflation (**Figure 11**),[7] as indicated by elevated education fees, house rents, airfares and medical charges. The sharp increase in

Figure 11: Contribution in Core Inflation - National
(y/y contribution in percent)

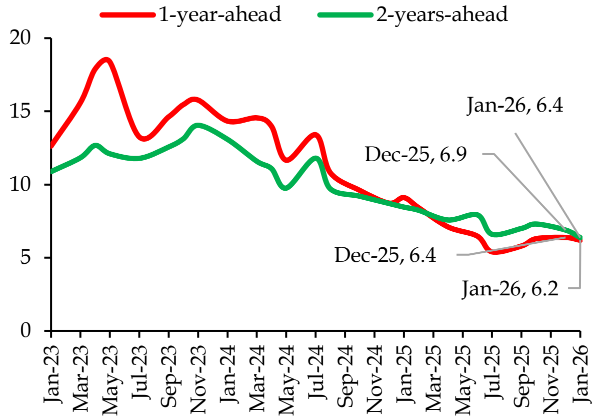


Source: PBS, SBP staff estimates

[6] The government had temporarily reduced electricity tariffs during Q4-FY25 by providing tariff differential subsidies (TDS), as indicated in **Figure 10**. Mainly due to this low base effect, electricity prices during Q4-FY26 are expected to increase on y/y basis, contributing to a potential y/y pickup in energy inflation in the quarter.
[7] Services inflation is generally stickier than goods inflation due to their labor-intensive nature and lesser competition amidst limited international trade.

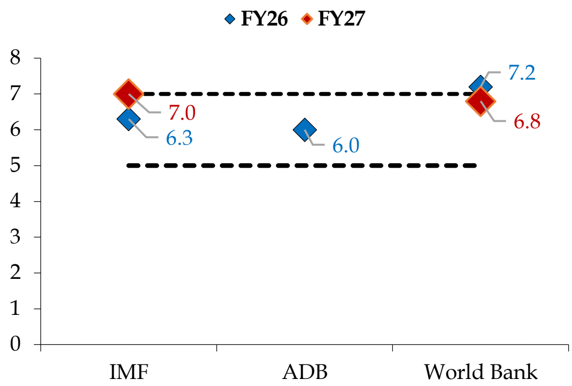
global gold prices is also an important contributor to the persistence of core inflation.

Figure 12: Inflation Expectations of Professional Forecasters
(average, percent)



Source: SBP

Figure 13: Inflation Projections of Multilateral Agencies
(FY avg., percent)



Source: IMF, ADB, World Bank

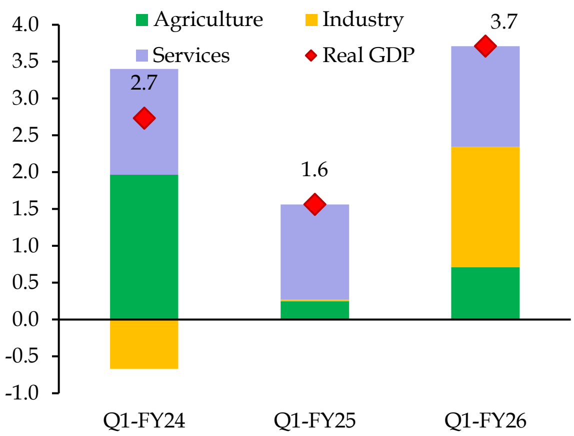
Meanwhile, inflation expectations of both consumers and businesses have been on an easing trend and remain broadly aligned with the medium-term target. Moreover, inflation expectations of professional forecasters (**Figure 12**) and multilateral agencies are also converging towards the target range for both FY26 and FY27 (**Figure 13**). This is assessed to have favorable implications for the inflation outlook, as anchored expectations are likely to contain the second-round inflationary impact of potential supply shocks in the future.

To sum up, the favorable supply-side dynamics – including food and energy prices – as well as relatively stable exchange rate and adequately positive real policy rate are helping anchor inflation expectations and supporting the ongoing price stability. Based on these developments, inflation outturns are expected to remain within the target range of 5 – 7 percent over the medium term, while exceeding the upper bound in some months of H2-FY26 and H1-FY27, before reverting to the target range in mid-FY27.

Economic activity is gaining further traction, leading to a notable improvement in the growth outlook

Economic activity has gained significant momentum, with real GDP growth strengthening to 3.7 percent in Q1-FY26, against the modest growth of 1.6 percent in Q1-FY25. The industry and agriculture sectors rebounded notably (**Figure 14**) in the wake of relatively stable cost of production, along with favorable supply-side dynamics and easing financial conditions. Importantly, the recovery in agriculture remained resilient despite some flood disruptions. High-frequency indicators show that this momentum is

Figure 14: Contribution to Real GDP Growth
(percentage points, y/y)

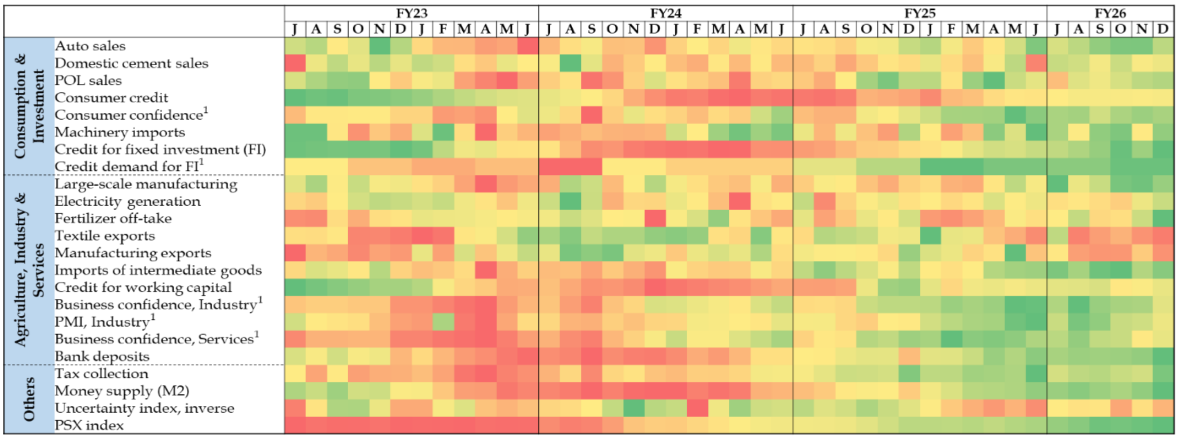


Source: PBS

continuing **(Table 3 & Box 2)**. Satellite-based high-frequency indicators, such as nighttime light intensity and NO_2 emissions, also corroborate this assessment. In contrast, export-related indicators exhibited some moderation, indicating that the ongoing recovery remains predominantly domestically driven.

Table 3: Heat Map of Economic Activity Indicators[8]

(deviations from monthly average during FY18-25, inflation adjusted)



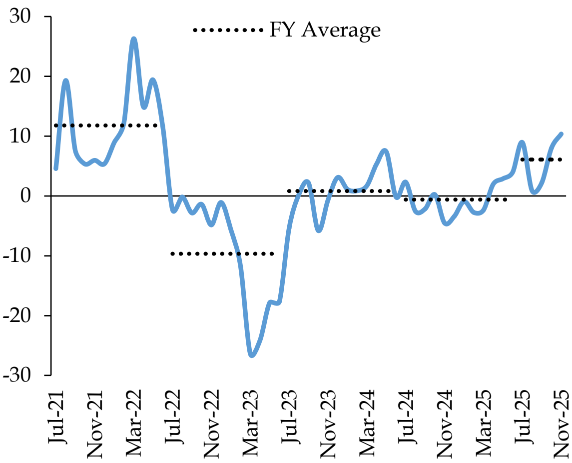
1/ Survey-based diffusion indices, deviation from 50 benchmark;

Source: SBP, PBS, NFDC, APCMA, PAMA, FBR, NEPRA, OCAC, PSX, SBP staff estimates

As anticipated in the previous MPR, LSM has posted a notable recovery so far during FY26, after a contraction last year **(Figure 15)**. Importantly, the LSM growth has been broad-based, with strong production particularly noted in automobiles, coke and petroleum products, wearing apparel (HVA textiles), and construction-allied industries **(Figure 16)**. This improvement points to strengthening demand conditions and easing supply-side constraints, as also reflected by improving business confidence, contained inflationary pressures, and higher imports of key intermediate and capital goods, which have all supported production activity.

Figure 15: Large-scale Manufacturing

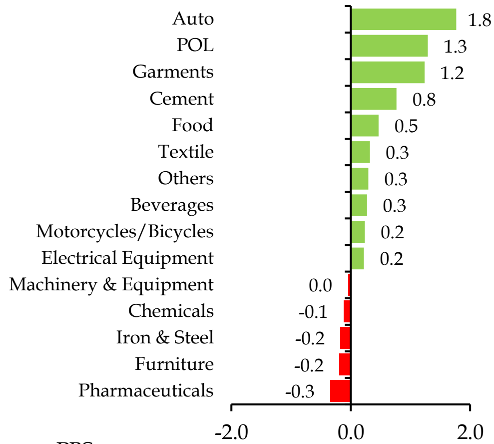
(y/y growth in percent)



Source: PBS

Figure 16: LSM Sector Growth

(Jul-Nov; contribution to y/y growth)



Source: PBS

Note: Other sectors include tobacco, paper & board, leather products, fabricated metal, footballs, rubber products, wood, computer & electronics.

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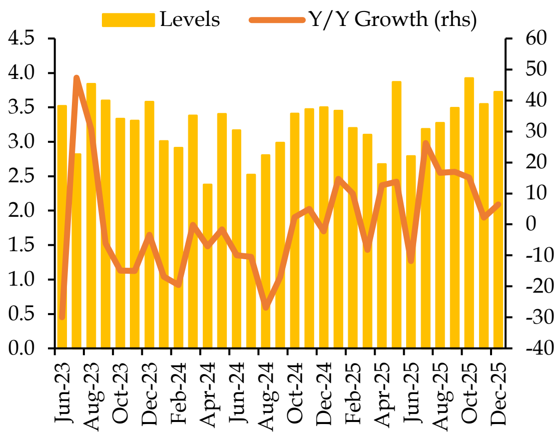
[8] POL sales data for December 2025 has been updated in the heat map after January 23, 2026.

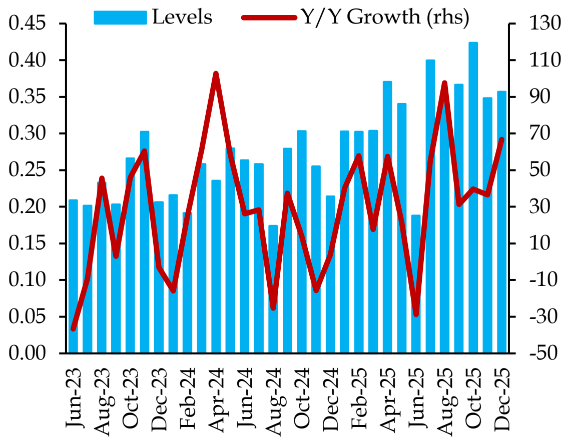
Going forward, the persistence of these enabling conditions – particularly continued demand recovery, stable input availability, and improving sentiments (**Box 3**) – indicates that LSM activity would remain encouraging in the remainder of FY26. In addition, construction activity has been upbeat, as reflected by momentum in domestic cement sales and import volumes of iron and steel **(Figures 17 and 18)**. This level of construction activity is expected to continue, amidst higher PSDP spending, and is assessed to support industrial growth momentum in FY26 and FY27. In line with these developments, the outlook for the industrial sector has been revised up relative to the previous report.

Figure 17: Domestic Cement Sales
(million tons)



Source: APCMA

Figure 18: Iron and Steel Imports
(million metric tons)



Source: PBS

The growth in agriculture sector is expected to improve further in FY26, driven by the better-than-expected production of major crops. In particular, the Kharif crop estimates, as reported by the FCA, showed that flood-related damage remained lower than anticipated, and production is projected at close to FY25 levels, except for maize crop. Meanwhile, wheat output is expected to exceed FY25 production, given that the government's higher sowing target has almost been achieved, and after also accounting for the expected post-flood improvement in wheat yields.[9] Satellite-based indicators also reinforce this assessment. Besides, in terms of growth contribution, livestock remains the biggest factor given its share in the overall agriculture output; livestock is assessed to grow in line with its historical trend.

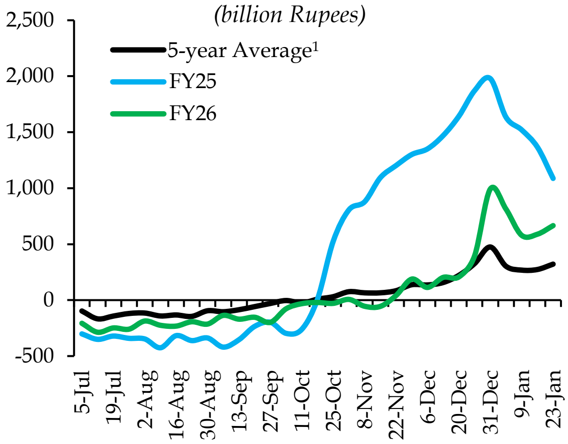
The improved outlook for commodity-producing sectors is expected to have positive spillover for the services sector, which is now assessed to grow at a faster pace than anticipated in the last MPR. Wholesale and retail trade and transportation – both closely linked to activity in the commodity-producing sectors – are projected to post stronger growth in FY26. Taking these developments into account, the outlook for economic growth has improved significantly from the previous report, and real GDP growth is now projected between 3.75 to 4.75 percent in FY26. Economic growth is projected to pick up further in FY27, facilitated by the still-unfolding impact of the earlier reductions in the policy rate.

[9] The yield of wheat crop increased by an average of 8.5 percentage points following the floods in FY89, FY11 and FY23.

Ease in financial conditions and the resultant pickup in credit to the private sector is facilitating the ongoing economic recovery

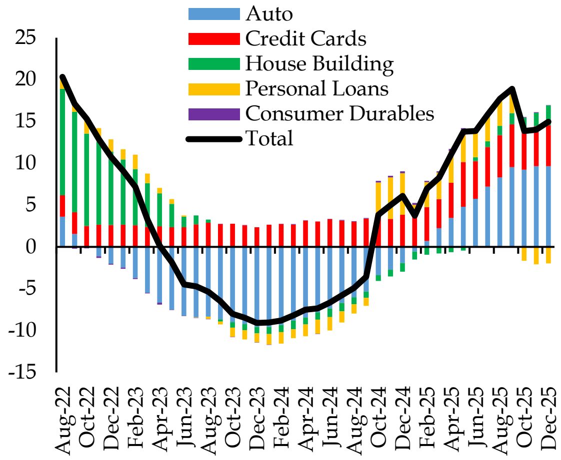
The impact of the ongoing monetary easing has become increasingly evident across key interest rate indicators, particularly in the lending rates offered by commercial banks. With the earlier reduction in the policy rate, borrowing costs for businesses and individuals began to decline. This contributed to a pickup in credit to the private sector. Since the start of the fiscal year, credit offtake has continued to expand at a pace above its recent five-year average (**Figure 19**). Moreover, this increase has been in traditional sectors and evident across working capital, fixed investment and consumer loans **(Figure 20)**. The key borrowers so far this year include textiles, chemicals, telecommunications, and wholesale and retail trade firms. Nonetheless, y/y growth in PSC has moderated, reflecting the high base effect from last year's ADR-related surge.

Figure 19: Cumulative Weekly Private Sector Credit Flows
(billion Rupees)



1/ Average period: FY20 to FY24
Source: SBP

Figure 20: Consumer Financing
(percent contribution in y/y growth)

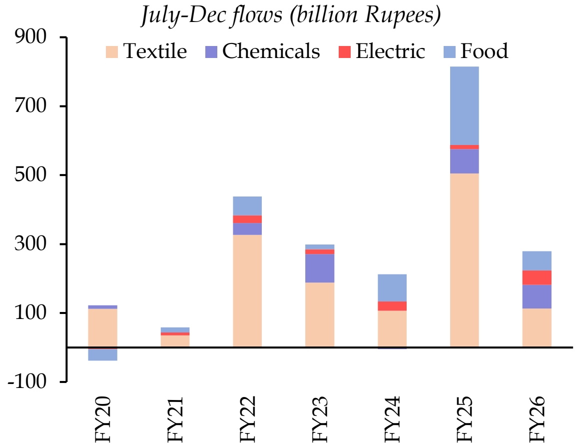


Source: SBP

Credit to the manufacturing sector has strengthened, reflecting both working capital needs and fixed investment (**Figure 21 and 22**). A large and growing consumer base has supported capacity expansion and efficiency enhancing investments, particularly in food and FMCG-related industries. Manufacturers in segments such as edible oil, poultry, and sugar are increasingly focusing on modernization, cost reduction, and adoption of energy efficient technologies, supporting demand for long term financing. These observations are also backed up by interactions of SBP's Economic Agents Network team with relevant stakeholders (**Box 4**).

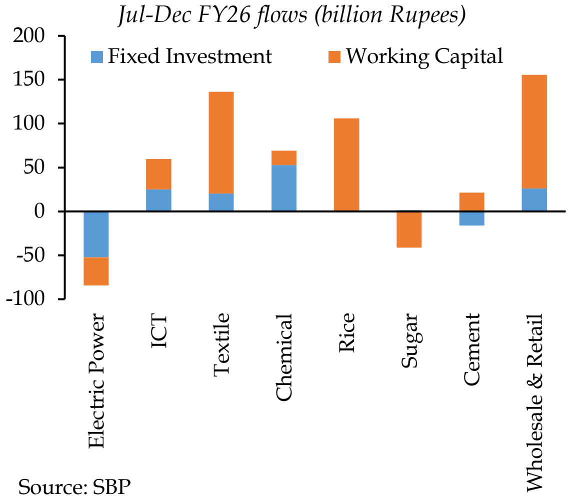
On January 26, the SBP reduced the average cash reserve requirement (CRR) for banks to 5 percent from 6 percent, and the daily requirement to 3 percent from 4 percent, which is expected to contribute to a further increase in credit to the private sector.

Figure 21: Credit to Manufacturing Sector
July-Dec flows (billion Rupees)



Source: SBP

Figure 22: Credit by Sector and Financing Mix
Jul-Dec FY26 flows (billion Rupees)



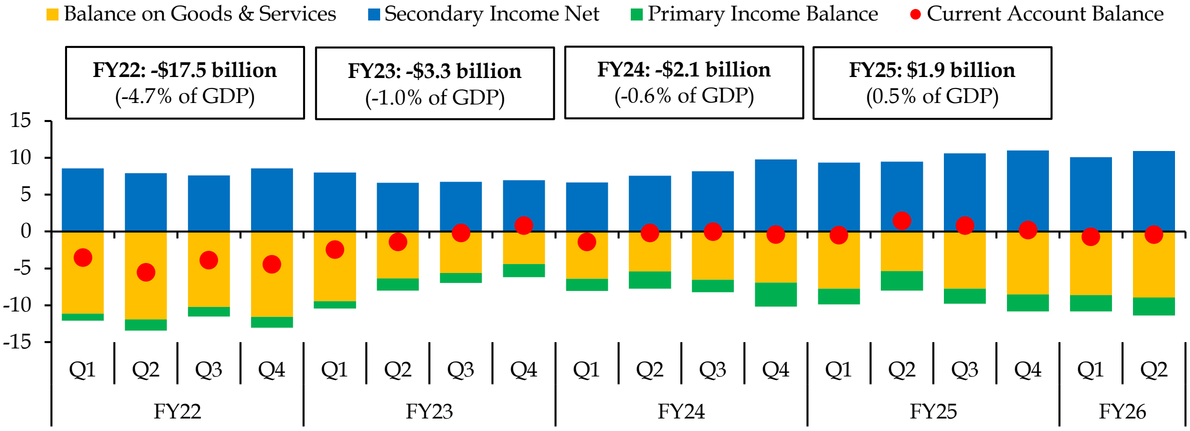
Source: SBP

In this backdrop, reserve and broad money growth are projected to remain close to their FY25 levels in FY26. Credit activity is expected to pick up further amidst easing financial conditions, rising business and consumer confidence, and other favorable macro indicators.

Despite challenging global environment, SBP's FX buffers continued to strengthen, mainly led by a contained current account deficit

SBP's FX reserves have maintained their rising trajectory, exceeding the December 2025 target of $15.5 billion by reaching $16.1 billion. This increase primarily stemmed from SBP's continued FX purchases from the interbank ($2.5 billion during July-October 2025) amidst a contained current account deficit and with the arrival of official financial flows.

Figure 23: Current Account Balance
(billion $)

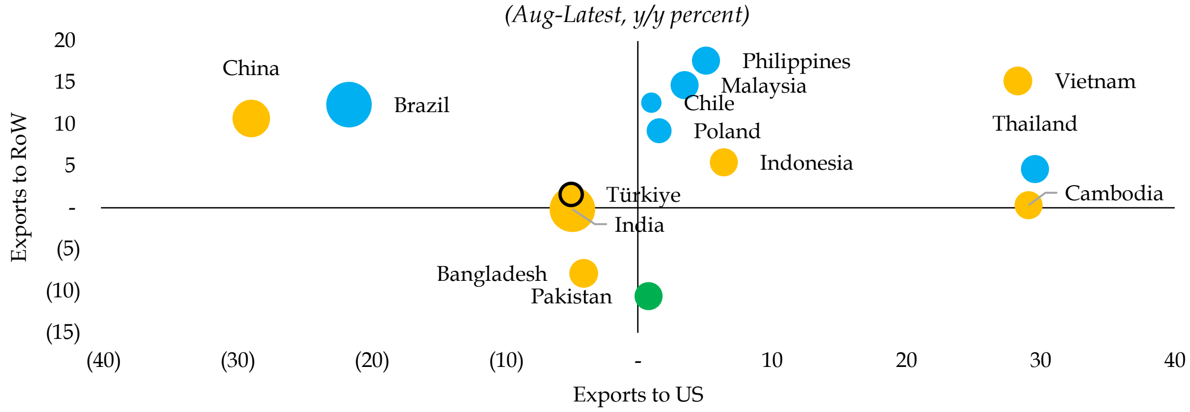


Source: SBP

The current account deficit amounted to $1.2 billion during July-December FY26 (**Figure 23**), broadly in line with the MPC's expectations, amidst some compositional differences. A surge in workers' remittances offset the expected widening in the trade deficit amidst weak exports and rising imports, in line with improving economic activity. On the financing side, while private flows remained weak, higher net official inflows, especially in December 2025, were recorded.

With regards to exports, Pakistan and ASEAN countries have been successful in capturing some of the gap in the US market left by Indian and Chinese exporters owing to cross-country tariff differences. Pakistan's exports to the US rose slightly amidst favorable tariffs (**Figure 24**), though those to the rest of the world (ROW) tapered. In contrast, other major export-oriented EMs managed to increase their market shares in the US as well as in other destinations more significantly. Going forward, HVA textiles are expected to continue to grow and may partly offset the projected decline in rice exports in the remainder of FY26. Rice export prospects remain challenging, in the wake of multi-year low prices and exporters' inability to ship higher volumes abroad despite ample exportable surplus. Prolonged closure of Pakistan's western border is also assessed to constrain exports, especially of pharmaceuticals and cement, to Afghanistan and land-locked Central Asian destinations.

Figure 24: Export to US vs. Rest of the World
(Aug-Latest, y/y percent)

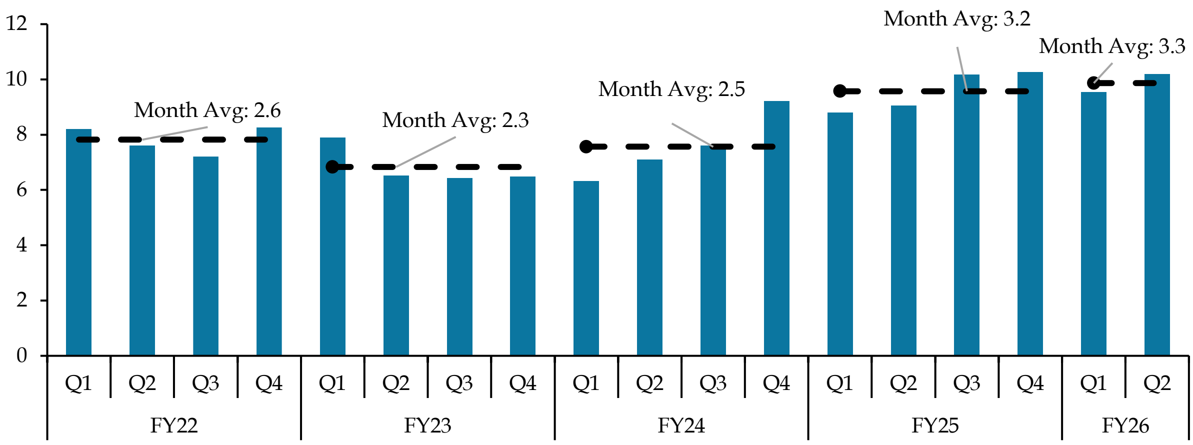


Note: Golden bubbles represent Top-15 Textile Exporters based on Observatory of Economic Complexity data for 2023. Bubble size indicates US reciprocal tariffs for each country
Source: Haver Analytics

Led by non-oil products, imports are projected to continue to increase, in line with improving economic activity. Notwithstanding the cutback in LNG imports and softening international oil prices, the import growth so far in FY26 has been slightly higher than the MPC's anticipation. Within non-oil imports, automobiles, iron and steel, machinery and palm oil have been the major drivers. Meanwhile, in line with the prevailing trend, the oil import bill is expected to remain contained, supported by the prevalent level of global oil prices around $65 per barrel. Owing to the expected further decline in exports and the anticipated uptick in imports, the trade deficit is projected to widen during H2-FY26 and further in FY27.

Workers' remittances have recorded a higher than projected growth so far in FY26, on the back of particularly strong inflows recorded during Q2-FY26 (**Figure 25**). Beyond organic growth, this improvement may also be attributed to an increase in the number of workers going abroad, driven by concerted diplomatic efforts. Incorporating the realized remittances so far and the ongoing momentum in work-related emigrations, full-year FY26 workers' remittances are now projected at $41.2 billion, against $40 billion projected in the previous MPR. This is expected to offset much of the projected widening in the trade deficit. Therefore, the current account deficit is assessed to broadly remain in the earlier projected range of 0–1 percent of GDP.

Figure 25: Workers' Remittances
(billion $)



Source: SBP

On the financing side, net financial flows have been higher so far in FY26 on y/y basis. Nonetheless, private investment inflows have remained weak and are projected to be slightly lower than envisaged in the August MPR. The timely realization of planned official financial inflows will support the ongoing FX reserve buildup.

Chapter 2 – Risks to the Macroeconomic Outlook

Pakistan's near-term economic outlook remains on an improving trajectory, with inflation expected to stabilize within the medium-term target range, current account deficit expected to remain range-bound in line with earlier expectations, and economic activity picking up at a faster than anticipated pace. This qualitative and consistent improvement in the economic outlook is driven by steadfast implementation of prudent monetary and fiscal policies. However, the future macroeconomic trajectory presented in this report remains susceptible to multiple evolving short- and medium-terms risks emanating from both external and domestic sources.

On the external front, while global commodity prices have turned out more favorably than anticipated in the previous report, volatility in these prices remains a key headwind for the macroeconomic outlook. In particular, global oil prices – despite being on a generally downward trajectory – have rebounded during the last few weeks, owing to geopolitical developments in major producers in Latin America and the Persian Gulf. In case of sustained increase in prices, additional pressure on the external account can emerge from higher oil imports and widening trade deficit. The pass-through of global fuel prices to domestic energy prices can impact the outlook for inflation and economic growth.

Furthermore, Pakistan's export earnings are expected to face multiple headwinds. First, export prices are expected to remain unfavorable, largely due to expectations of continuation of rice prices around multi-year low levels in the period ahead. Second, prolonged closure of Pakistan's western border may continue to constrain exports to Afghanistan. Third, trade tensions continue to drag global demand for Pakistan's exports. Lastly, trade friction-induced realignment of global trade flows – with export-oriented Asian economies and South Asian peer economies capturing additional share in our key export markets – is accentuating the challenges for Pakistan's exports. This lower external demand could negatively affect export volumes. In addition, it will have spillover effect on industrial production, particularly in export-oriented industries.

In this regard, the low export-to-GDP ratio remains a key structural vulnerability, constraining the country's growth potential and ability to sustain appropriate levels of FX buffers. Pakistan's narrow export base and limited market outreach have played a role in inhibiting export earnings – irrespective of business cycle and under various policy combinations. Low investment, limited access to finance, and ad-hoc tax and trade policies over time are factors that have suppressed productivity growth. Addressing these structural weaknesses remains critical to re-orient the economic structure from the prevailing inward-oriented, consumption- and import- led model to outward-oriented, investment- and export-led model. In this regard, recent reduction in electricity tariffs for industries, coupled with 300 bps decline in the rate for export refinance, is expected to support credit flows to the private sector in general, and to exporters in particular.

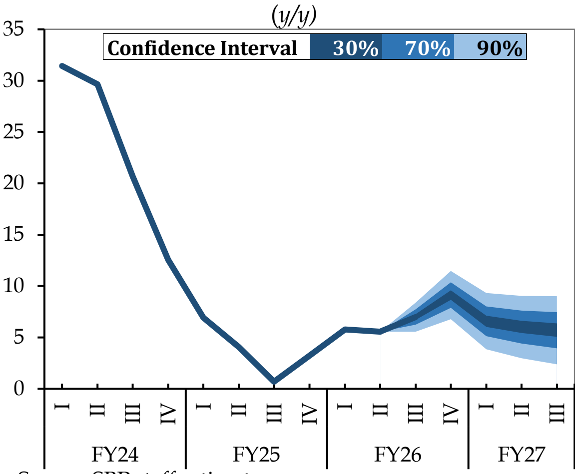
On the domestic front, continued fiscal consolidation over the last few years has supported in embedding macroeconomic stability and laying the foundation for sustainable economic growth over the medium term. In FY26, the fiscal deficit target is likely to be achieved, supported by lower current expenditures; however, meeting the primary balance target seems challenging, mainly due to a shortfall in tax collections from the revised target. This, coupled with slower progress on structural reforms, poses risks to the near to medium-term outlook for the broader economy. In order to meet the fiscal targets, additional taxation measures may have to be introduced, which would likely weaken business sentiments and potentially impact the private sector activity. Besides, any increase in indirect taxes or levies could be inflationary and also impact the financially vulnerable segments the hardest. On the other hand, if development expenditures are curtailed to meet the fiscal targets, that may have an impact on the near- as well as medium-term economic growth outlook. Therefore, in order to address the structural weaknesses in public financing, there is an urgent need to address issues related to narrow and inequitable tax structure; and overreliance on productive and formal sector for tax collection.

Furthermore, climate-related risks remain a key source of vulnerability for Pakistan's macroeconomic outlook. Any severe episode of heavy rainfall and subsequent flooding can disrupt domestic supply chains and adversely impact food inflation and inflation expectations. In addition to its impact on inflation, climate-related shocks can also adversely impact external account projections by necessitating higher imports and/or lower exports than projected under the baseline. It could also have an impact on economic growth via losses in the agricultural sector.

Lastly, since last year, administered energy prices have largely been adjusted in an orderly manner. However, any unanticipated adjustment in these prices in the future may pose a risk to the baseline inflation outlook.

Figure 26: Inflation Projections Fan Chart

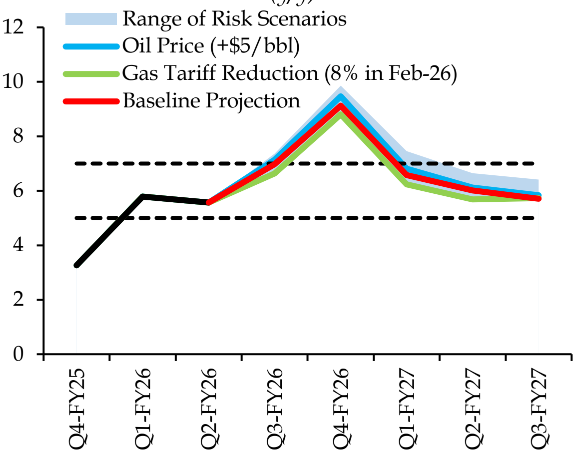
(y/y)



Source: SBP staff estimates

Figure 27: Scenario Results - Inflation

(y/y)



Source: SBP staff estimates

In this backdrop, risks to the inflation outlook are assessed to be broadly balanced. The medium-term risk profile is reflected in both the probabilistic uncertainty around the baseline forecast, as presented in the fan chart (**Figure 26**) and scenario analysis. The scenario analysis suggests that the inflation outlook remains particularly sensitive to shocks from global oil prices and the trade environment, as well as to unanticipated adjustments in administered energy prices (**Figure 27**). Overall, the risk profile of inflation projections remains broadly unchanged from the assessment presented in the August 2025 MPR, with no material shift in the balance of risks at this stage.

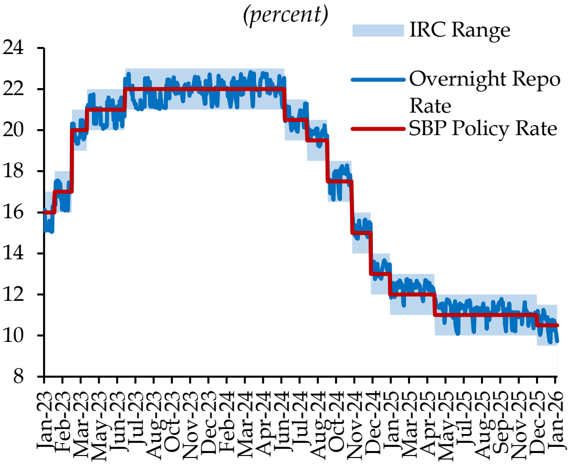
To proactively manage these evolving risks, the continuation of a prudent and well-coordinated monetary and fiscal policy mix remains essential. Presently, continued fiscal discipline, adequately positive real interest rates on a forward-looking basis, and improved FX reserves have helped strengthen the overall buffers and reduced the country's vulnerability to shocks over the short term. However, over the medium term, sustained progress on structural reforms for enhancing productivity, diversifying export base and export markets, broadening the tax base, addressing inefficiencies in the public sector, reforming the energy sector, and deepening the financial system, will be critical to improving economic resilience and supporting higher, sustainable, and inclusive economic growth.

Box 1: Update on the Transmission of Monetary Policy

The Monetary Policy Committee has gradually reduced the policy rate from 22 percent in June 2024 to 10.5 percent in December 2025. The impact of this cumulative reduction is still unfolding, largely reflecting the transmission lag of around 6 to 8 quarters. Latest data shows that transmission of this cut to financial variables, such as interest rates, is almost complete, while the impact on private sector credit, economic activity and prices is still continuing and gradually taking effect.

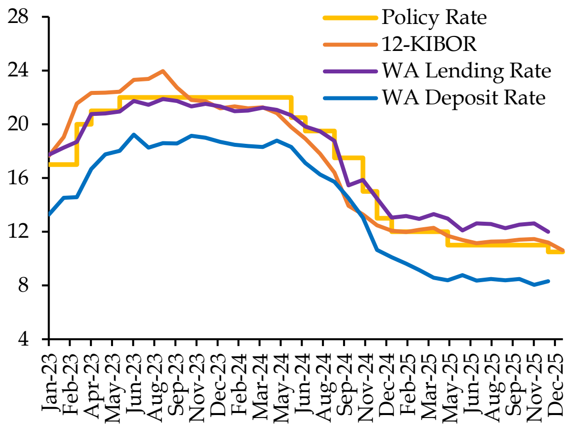
Following the initial policy rate cut, short-term market rates adjusted broadly in line with the policy rate **(Figure 1.1).** Subsequently, weighted average lending rates declined from more than 20 percent in June 2024 to 12.0 percent in December 2025. During the same period, weighted average deposit rate declined from 18.3 percent to 8.3 percent (**Figure 1.2**).

Figure 1.1: SBP's Interest Rate Corridor (IRC)
(percent)



Source: SBP

Figure 1.2: Key Market and Retail Interest Rates
(percent)



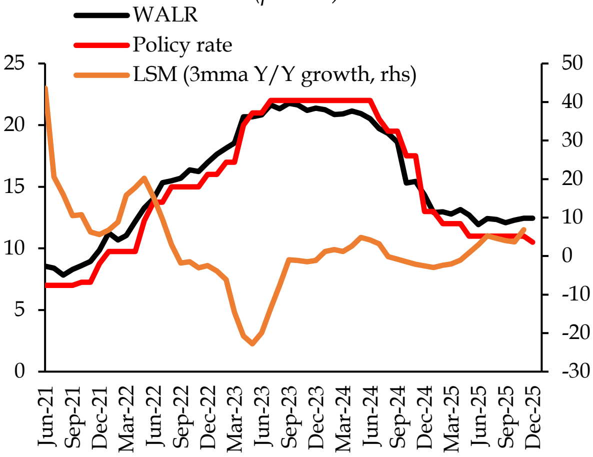
Source: SBP

With a significant decline in the cost of borrowing, credit to the private sector is also picking up (**Table 1.1**). During the first half of FY26, credit to private sector businesses expanded by Rs862 billion. It is significantly higher than the same period average of last five years; however, it is lower than the unusual increase noted last year, due to the ADR-induced lending in H1-FY25. The broad-based credit expansion so far in FY26 is observed across working capital, fixed investment and consumer financing. Consequently, economic activity and aggregate demand have started to recover and are now gaining momentum. This is being reflected by the increase real GDP growth in Q1-FY26 as well as latest trends in high frequency indicators, including large-scale manufacturing (**Figure 1.3**).

Table 1.1: Private Sector Credit Flows (billion Rupees)

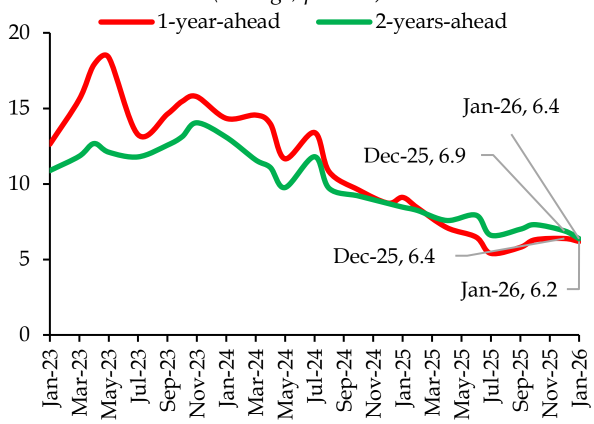
	5-Year Average *(FY20-24)*	**H1-FY25**	**H1-FY26**
Loans to Private Sector Businesses	468.7	1942.0	862.6
Working Capital	306.3	1686.2	643.6
Fixed Investment	135.5	229.4	223.6
Consumer Financing	33.7	65.6	84.4

Figure 1.3: Interest Rates and LSM Growth
(percent)



Source: PBS and SBP

Figure 1.4: Inflation Expectations of Professional Forecasters
(average, percent)



Source: SBP

This gradual pick-up in economic activity is not leading to excessive inflationary pressures. After some increase from the start of this fiscal year, inflation has remained in the target range over the past four months. Importantly, appropriately calibrated monetary policy and well-anchored inflation expectations are helping to stabilize inflation in its target range (**Figure 1.4**).

Box 2: Using Heat Maps to Track Economic Activity

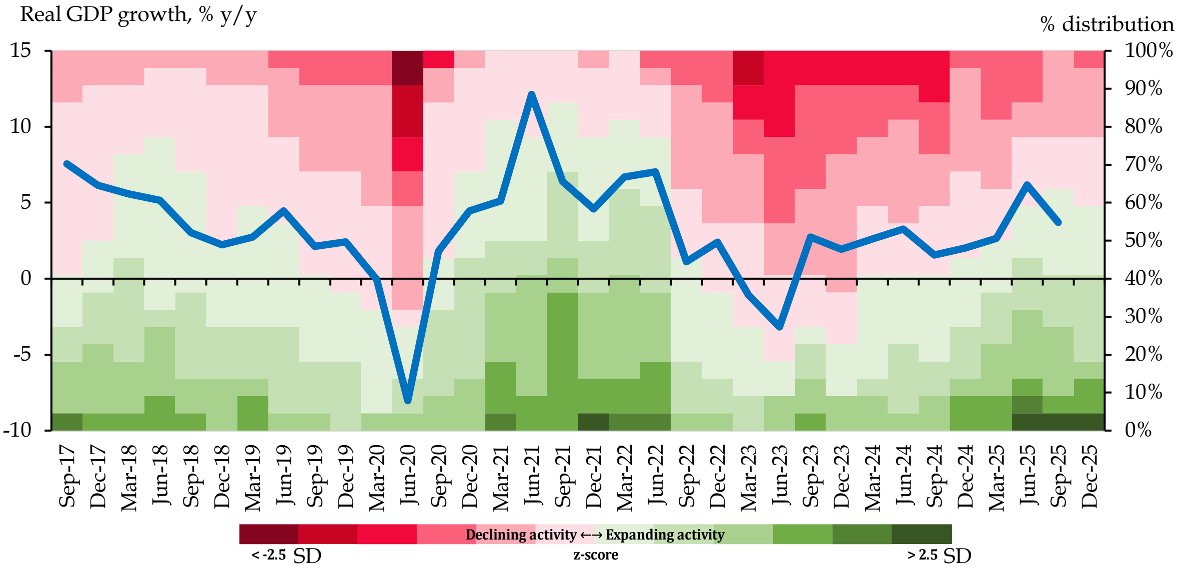
Across central banks, monetary policy decisions are taken at high frequency, yet policymakers – particularly in emerging economies – often face challenges related to data gaps and publication lags. This is especially true for real-sector indicators. Pakistan faces similar constraints: official quarterly GDP data are released with a lag of around 90 days, whereas underlying economic conditions can change rapidly; moreover, the data are frequently subject to significant revisions. Consequently, monetary policy analysis and forecasting at the SBP depends not only on official statistics, but are also based on a broad set of high-frequency and alternative indicators, including sentiment surveys, to assess evolving demand conditions and growth momentum. To address the gap in official data, heat maps offer a practical and intuitive tool by consolidating signals from multiple indicators across different sectors into a single visual summary. These heat maps allow policymakers to quickly gauge whether economic activity is broadly strengthening or weakening.

Against this backdrop, while several methodologies can be used to construct heat maps, this box introduces a z-score-based heat map to track economic activity in Pakistan, using readily available monthly high-frequency indicators[10]. Under this approach, each indicator is standardized relative to its historical average to ensure comparability across series. The standardized indicators are then presented using a color-coded scale, where shades of red indicate weaker-than-average economic activity, and green shades reflect stronger-than-average growth. The color's intensity indicates the strength of the signal. This framework allows both policymakers and general readers to quickly identify shifts in economic momentum, distinguish persistent trends from short-term fluctuations, and better interpret developments in the real sector.

Figure 2.1 presents the z-score based heat map constructed from monthly high-frequency activity indicators, alongside the trend in y/y quarterly real GDP growth as released by the Pakistan Bureau of Statistics. The heat map shows a close association between high-frequency activity indicators and periods of stronger or weaker economic growth. For instance, during FY18 and FY21-22, a progressively larger number of indicators (around 85 percent) performed above their historical averages, coinciding with an acceleration in real GDP growth. Conversely, in FY19-20 and FY23, when a greater share of indicators remained below historical norms, economic growth weakened. From FY24 onward, the heat map indicates a gradual improvement across indicators (around 65 percent), albeit at a varying pace. Consistent with this pattern, real GDP growth also recovered gradually during FY24-25, with the momentum broadly continuing into the first half of FY26 as well.

[10] Twenty-two HFIs are used here that cover different segments of the economy. Nominal indicators are made real using deflators. Z-scores for each indicator are calculated and distributed into 12 intervals of 0.5 width.

Figure 2.1: Heat Map of Economic Activity Indicators & Real GDP Growth



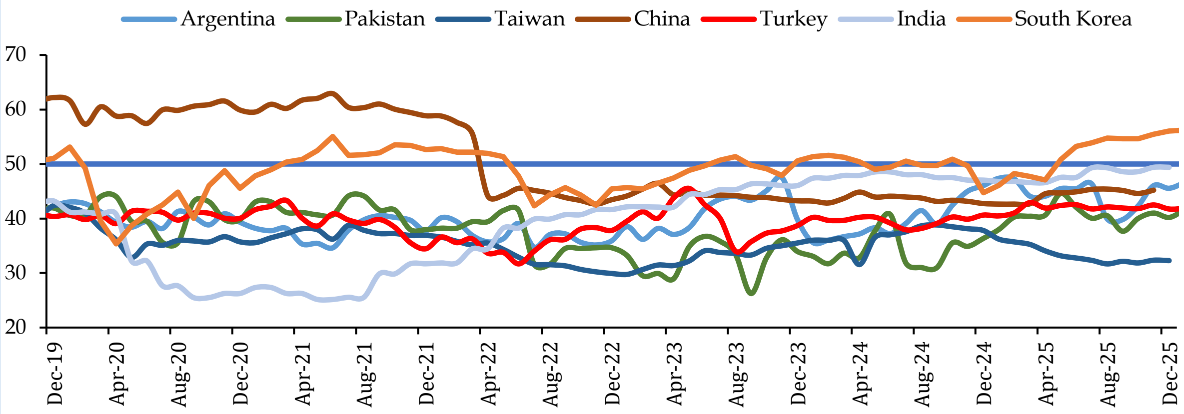
Source: PBS, APCMA, FBR, NFDC, PAMA, OCAC, PSX, SBP staff calculations

Box 3: Tracking Economic Trends through Consumer Sentiment Surveys

The State Bank of Pakistan, in collaboration with IBA, has conducted the Consumer Confidence Survey since 2012. The monthly survey is aimed at tracking households' inflation expectations and their perceptions about their current and expected financial conditions, employment, consumption plans, and the general condition of the economy. The survey results are combined to produce the Consumer Confidence Index, a diffusion measure where values above 50 signal a positive sentiment while values below 50 reflect bearish sentiment.

Historically, consumer confidence in Pakistan has stayed below the 50-benchmark. This raises some concerns that whether low readings signal structural weakness or simply reflect a downward bias in households' sentiments. The cross-country evidence (**Figure 3.1**) and literature[11], both suggest that this phenomenon is not specific to Pakistan, and that consumers in many countries are generally more pessimistic and cautious than optimistic. This results in persistent consumer confidence readings below 50.

Figure 3.1 : Cross Country Trends in Consumer Confidence Index (CCI)
(diffusion indices, >50 means expansion/improvement)



Source: Haver Analytics, SBP staff calculations

Given this tendency, the CCI is more informative when interpreted relative to its long run average rather than the mechanical threshold of 50.[12] As such, the survey conveys useful information about consumer confidence and underlying aspects through its movements over time, rather than its absolute level (Figure 3.2).

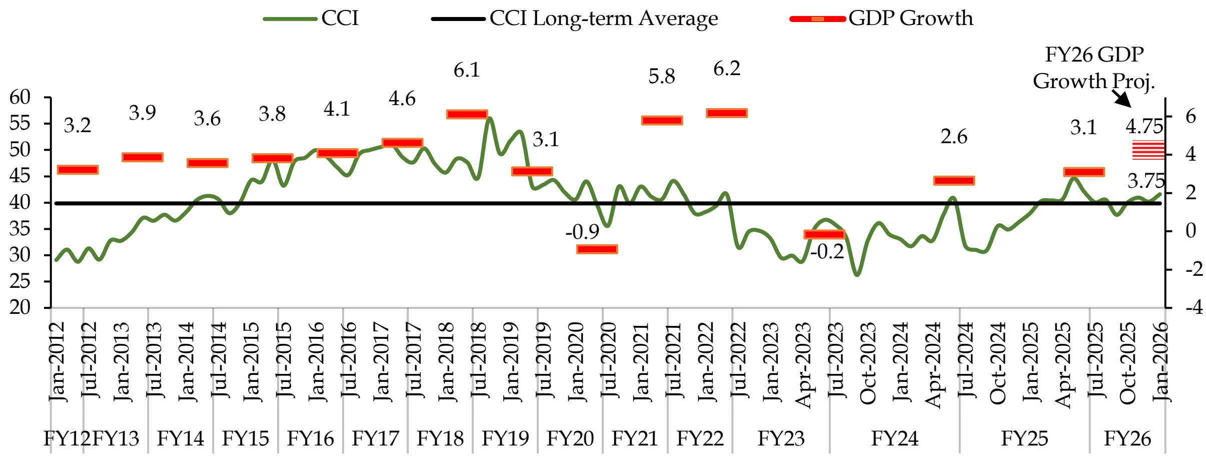
When viewed relative to the long-term average level, the CCI has the tendency to act as a leading indicator of consumption pattern, growth and recession cycles. In Pakistan, its movements closely align with key macroeconomic phases, including the high growth period of 2013 to 2017, the Covid-19 shock of 2020 to 2021, the high inflation episode of 2022 to 2023, and the recent phase of macroeconomic stabilization (**Figure 3.2**). As a forward-looking indicator, the index well captures the

[11] Brave, S. A., & Herbstman, J. S. (2023). Persistently Pessimistic: Consumer and Small Business Sentiment After the Covid Recession. Chicago Fed Letter, 1-9; Dua, P., & Smyth, D. J. (1993). Survey evidence on excessive public pessimism about the future behavior of unemployment. Public Opinion Quarterly, 57(4), 566-574.
[12] https://www.oecd.org/en/data/indicators/consumer-confidence-index-cci.html

impacts of political noise, law and order situation, and exogenous shocks such as floods and droughts, which can induce short-term volatility.

Recognizing the information embedded in the CCI, the Monetary Policy Committee regularly reviews its movements alongside a broader set of macroeconomic indicators and analytical inputs when forming an overall assessment of economic conditions and outlook.

Figure 3.2: Consumer Confidence Index and Real GDP Growth



Source: SBP-IBA Surveys

Box 4: Economic Agents Network (EAN) - Listening to the Economy in Real Time

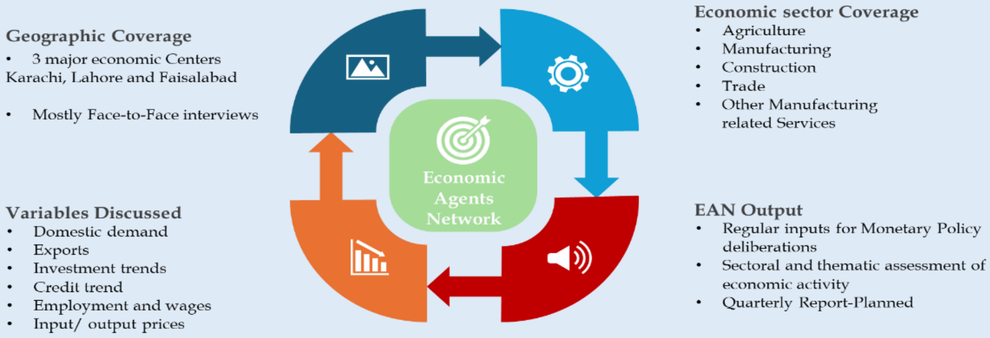
Many central banks use structured systems to liaise with businesses, trade groups and other key stakeholders to obtain timely and qualitative insights that complement official data and support the analysis of trends in demand, pricing, labor markets, and sectoral developments.

In this regard, the State Bank of Pakistan has also institutionalized the role of qualitative insights to complement traditional data in support of its forward-looking monetary policy framework. As part of its efforts to strengthen the effectiveness and forward-looking orientation of monetary policymaking, SBP has expanded its informational toolkit to better capture evolving real-economy conditions. While existing surveys provide useful directional guidance on prevailing economic conditions, their fixed structure and periodic nature limit deeper and nuanced assessment of the underlying drivers and emerging dynamics. In this context, SBP established the Economic Agents Network (EAN) in May 2025 to engage with stakeholders from all major sectors of the economy and seek their views on various unfolding aspects of the economy and policies. At present, the network operates through dedicated teams based in Karachi, Lahore and Faisalabad. Expansion to additional regions is being planned, as coverage and engagement are being progressively broadened.

The EAN teams systematically gather information on key aspects of economic activity. These include demand and supply conditions, cost pressures, pricing behavior, employment trends, financing conditions, and business expectations across the manufacturing, agriculture, and services sectors. Insights are obtained through regular structured engagements - primarily face-to-face interviews with senior business leaders across major economic centers. The insights are then consolidated and presented to the Monetary Policy Committee, whereas they are also used to fine-tune macroeconomic projections for the MPC. The network also engages with research institutes, academia, public sector entities, and government institutions to ensure the collected information is well-grounded and broadly consistent. All inputs remain confidential and are reported in aggregated form, preserving the respondents' trust as well as institutional data integrity.

The EAN acts as an early warning system. It enables SBP to better assess emerging risks, monitor changes in expectations, and respond swiftly to rapidly evolving economic conditions. Its role becomes particularly critical during episodes of heightened uncertainty, such as natural disasters. The network captures developments not yet reflected in published macroeconomic statistics, such as those arising during recent floods, or trade disruptions, including the Pakistan-Afghanistan border closure.

EAN Framework



List of Abbreviations

A

ADR	Advances-to-Deposit Ratio
AEs	Advanced Economies
APCMA	All Pakistan Cement Manufacturers Association
ASEAN	Association of Southeast Asian Nations

B

bbl	barrel

C

CCI	Consumer Confidence Index
CDS	Credit Default Swap
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CY	Calendar Year

E

EAN	Economic Agents Network
EMs	Emerging Markets
EMDEs	Emerging Market and Developing Economies

F

FBR	Federal Board of Revenue
FCA	Fuel Cost Adjustment
FCA	Federal Committee on Agriculture
FMCG	Fast-Moving Consumer Goods
FX	Foreign Exchange
FY	Fiscal Year

G

GDP	Gross Domestic Product

H

H1	First Half
HFI	High-frequency Indicators
HVA	High-value-added

I

IBA	Institute of Business Administration
IMF	International Monetary Fund

K

KIBOR	Karachi Interbank Offered Rate

L

LSM	Large-scale Manufacturing
LNG	Liquefied Natural Gas

M

MA	Moving Average
MoF	Ministry of Finance
MPC	Monetary Policy Committee

	MPR	Monetary Policy Report
N		
	NEPRA	National Electric Power Regulatory Authority
	NFDC	National Fertilizer Development Centre
	NO_2	Nitrogen Dioxide
O		
	OCAC	Oil Companies Advisory Council
	OGRA	Oil & Gas Regulatory Authority
	OPEC+	Organization of the Petroleum Exporting Countries Plus
P		
	PAMA	Pakistan Automotive Manufacturers Association
	PBS	Pakistan Bureau of Statistics
	POL	Petroleum, Oil, and Lubricants
	PSC	Private Sector Credit
	PSDP	Public Sector Development Program
	PSX	Pakistan Stock Exchange
Q		
	Q1	First Quarter
	Q2	Second Quarter
	Q3	Third Quarter
	Q4	Fourth Quarter
	QTA	Quarterly Tariff Adjustment
R		
	ROW	Rest of the World
S		
	SBP	State Bank of Pakistan
T		
	TDS	Tariff Differential Subsidy
U		
	UK	United Kingdom
	U.S.	United States of America
W		
	WALR	Weighted Average Lending Rate
	WEO	World Economic Outlook
Y		
	y/y	year-on-year