



External Communications Department

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SBP Releases its Monetary Policy Report

The State Bank of Pakistan (SBP) on Wednesday released its Monetary Policy Report (MPR), outlining the major economic developments and macroeconomic outlook that were the main considerations in the recent meetings of the Monetary Policy Committee (MPC). The Report is part of SBP's continuous communications efforts to increase transparency in monetary policymaking and in more effectively communicating the considerations for policy formulation to relevant stakeholders.

With the policy rate kept unchanged at 11 percent in the MPC meetings in June and July, the MPC expects the real policy rate to be adequately positive to stabilize inflation within the medium-term target range – as also evident in the inflation fan chart included in the report. Moreover, in the external account, the MPR expects the trade deficit to widen further and, notwithstanding continued expected growth in workers' remittances, result in a current account deficit of 0 – 1 percent of GDP in FY26. Nonetheless, the MPR observed that the projected financial inflows, coupled with continued SBP interbank FX purchases, would support further buildup in SBP's FX reserves, which are projected to rise to \$15.5 billion by end-December 2025. Meanwhile, economic activity is projected to gain further traction, with the impact of the earlier reductions in the policy rate still unfolding. As such, real GDP growth is assessed to range between 3.25 – 4.25 percent in FY26. At the same time, the MPR discussed potential external and domestic risks to the baseline macroeconomic outlook.

The MPR also contains five box items that discuss both important theoretical underpinnings related to monetary policy formulation and communication, as well as topical issues at the global and domestic levels. The first box contextualizes the 1,100 bps reduction in the policy rate and its still-unfolding impact – as referenced in multiple recent SBP monetary policy statements – with the lag in transmission of monetary policy changes to the economy. The second box provides a holistic summary of recent cautious monetary policy decisions across major central banks in advanced and emerging economies. The third box provides a handy guide for interpreting fan charts – a common visualization tool used by many central banks to highlight uncertainty around forecasts of key variables, especially inflation. The fourth and fifth boxes detail the use of alternative data and machine learning techniques by the SBP to account for the lag and erratic availability of necessary data related to the labor market and agriculture sector, respectively.

For details:

https://www.sbp.org.pk/m_policy/mpr.htm
