Monetary Policy Statement

October 27, 2025

1. The Monetary Policy Committee (MPC) decided to keep the policy rate unchanged at 11 percent in its meeting today. The Committee noted that headline inflation rose significantly to 5.6 percent in September, whereas core inflation remained unchanged at 7.3 percent. The MPC assessed that the impact of the recent floods on the broader economy appears to be somewhat lower than anticipated at the time of its previous meeting. The crop losses are likely to be contained, whereas supply disruptions turned out to be minimal. Moreover, economic activity gained further momentum, as depicted by robust growth in high frequency economic indicators. Based on these developments, the overall macroeconomic outlook has improved from the previous assessment. At the same time, the Committee noted uncertainties around this outlook arising from volatile global commodity prices; challenging export prospects amidst the evolving tariff dynamics; and potential domestic food supply frictions. In this backdrop, and given the still-unfolding impact of the earlier reduction in the policy rate, the MPC viewed today's decision as appropriate to maintain the ongoing price stability.

2. The Committee noted some key developments since its last meeting. First, real GDP growth in FY25 was revised by PBS to 3 percent from the previous estimate of 2.7 percent. Second, initial estimates of major Kharif crops by the Federal Committee on Agriculture remained close to last year's production, despite the recent floods. Third, despite the repayment of a $500 million Eurobond, SBP's FX reserves continued to increase. Fourth, Pakistan reached a staff level agreement with the IMF on the EFF and the RSF reviews. Fifth, inflation expectations of both consumers and businesses eased in the latest SBP-IBA sentiment surveys. Lastly, global commodity price movements depicted mixed trends, with oil prices displaying heightened volatility.

3. In light of these developments, the MPC viewed the real policy rate to be adequately positive to stabilize inflation within the target range of 5 – 7 percent over the medium term. The Committee also reiterated the important role of the continued build-up in external and fiscal buffers to absorb future shocks and in facilitating the ongoing pickup in economic activity, without adding excessive pressures on inflation and the external account. The MPC also emphasized the importance of continuing the coordinated and prudent monetary and fiscal policies, and undertaking the required structural reforms, to ensure ongoing progress towards sustainable economic growth.

Real Sector

4. The MPC observed that the recent high-frequency indicators (HFIs) point to sustained growth momentum. In agriculture, major Kharif crop estimates turned out better than expected, with satellite-based images also indicating healthier vegetation cover. Moreover, improved input conditions as well as expected post-flood uptick in yields point towards better prospects for the upcoming Rabi crops. In industry, LSM expanded by 4.4 percent during July-August FY26, against a marginal contraction in the same period last year. Furthermore, robust growth in HFIs – such as sales of automobiles, cement, fertilizers and POL products, alongside stronger credit demand from private sector and positive business sentiments – have improved the industrial outlook. These positive developments in commodity-producing sectors are expected to support a further pickup in services sector activity. In light of these trends, the growth outlook has improved from the previous assessment, and 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.

External Sector

5. The current account posted a surplus of $110 million in September 2025, containing the cumulative deficit to $594 million during Q1-FY26. This 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. This, along with net financial inflows, increased the SBP's FX reserves to $14.5 billion as of October 17. Going forward, imports are likely to gain further traction, in line with the projected pickup in economic activity; though the flood-induced import requirements are expected to be somewhat lower than anticipated earlier. At the same time, the outlook for workers' remittances has improved further. Overall, the current account deficit is expected to remain within the earlier projected range of 0 to 1 percent of GDP in FY26. The contained current account deficit and realization of planned official inflows are projected to improve SBP's FX reserves to $15.5 billion by December 2025 and around $17.8 billion by June 2026.

Fiscal Sector

6. During Q1-FY26, tax collection recorded a notable growth of 12.5 percent y/y. However, the overall collection of Rs2.9 trillion fell short of the target by Rs198 billion. Meanwhile, the transfer of sizeable SBP profit and higher PDL revenues during the first quarter would augment non-tax revenues. Based on these developments, both the overall fiscal and primary balances are likely to post surpluses in Q1-FY26. Going forward, the MPC expects that the post-flood rehabilitation expenditures are likely to be met through the budgeted fiscal resources. For this, the MPC reiterated the need to continue with fiscal discipline to meet the overall and primary balance targets and achieve long-term fiscal sustainability.

Money and Credit

7. Since the last MPC meeting, broad money (M2) growth decelerated to 12.3 percent as of October 10, driven by a decline in the banking system's net domestic assets. This is mainly because of the sharp deceleration in banks' credit to non-bank financial institutions. Net budgetary borrowing also remained contained, reflecting ongoing fiscal consolidation, which created space for private sector credit (PSC). The PSC growth rose to 17 percent, supported by continued economic recovery and easier financial conditions. The increase in PSC was broad based, with notable expansion across working capital, fixed investment and consumer loans. The key borrowing sectors included textiles, telecommunications, chemicals, and wholesale and retail trade. On the liability side of M2, the currency in circulation grew on y/y basis while deposit growth decelerated, leading to an increase in the currency to deposit ratio to 37.6 percent. This high growth in currency in circulation kept reserve money growth at an elevated level.

Inflation

8. Headline inflation rose significantly to 5.6 percent in September from 3.0 percent in August. This largely reflected the expected flood-induced increase in food prices; an uptick in energy prices; and sticky core inflation. The MPC observed that unlike previous flood episodes, the recent surge in food prices appears to be milder than anticipated earlier. This is reflected by the recent slowdown in price increases of major food items in high frequency SPI data, such as wheat and allied products, sugar, and perishable items. Nonetheless, the Committee expects inflation to exceed the upper bound of the target range for a few months in H2-FY26, before reverting to the target range in FY27. This outlook is subject to risks from volatile global commodity prices; magnitude and timing of future energy price adjustments; and uncertainty around prices of wheat and allied products and perishable food items.