



MONETARY POLICY COMMITTEE STATE BANK OF PAKISTAN

Monetary Policy Statement

March 9, 2026

1. The Monetary Policy Committee (MPC) decided to keep the policy rate unchanged at 10.5 percent in its meeting today. While the incoming data was largely consistent with the macroeconomic projections shared after the January meeting, the Committee observed that the macroeconomic outlook has become quite uncertain following outbreak of the war in the Middle East.

2. The MPC noted that the conflict in the Middle East has led to a sharp increase in global fuel prices as well as freight and insurance costs, while also affecting cross-border trade and travel. Given the evolving nature of events, the MPC observed that the intensity and duration of the conflict will both be important determinants of the impact on the domestic economy. In this regard, the Committee acknowledged the important role of the prudent monetary and fiscal policies in increasing the economy's resilience to shocks. The MPC noted that macroeconomic fundamentals, especially in terms of inflation and the country's FX and fiscal buffers, are better as compared to the time of the start of the Russia-Ukraine war in early 2022. The MPC's initial assessment of the evolving geopolitical situation indicates that the outlook for key macroeconomic variables for FY 26 is within the earlier projected ranges. However, risks for the macroeconomic outlook have increased significantly.

3. In addition to the ongoing geopolitical events, the MPC noted the following key developments since its last meeting. First, inflation rose to 5.8 percent in January and further to 7 percent in February 2026. Second, the current account recorded a surplus in January, which, amidst weak official inflows, led to continued interbank FX purchases by the SBP and the buildup in FX reserves to \$16.3 billion as of February 27. Third, large-scale manufacturing (LSM) grew by 0.4 percent y/y in December 2025, with cumulative growth reaching 4.8 percent in July-December FY26. Fourth, consumers' inflation expectations and confidence improved, while those of businesses remained broadly stable in February. Fifth, FBR tax collection remained below target in both January and February, further widening the cumulative shortfall during July-February FY26. Lastly, the US administration announced the imposition of uniform global tariffs, which may have noticeable implications for global trade.

4. The Committee noted the high degree of uncertainty in the outlook for international commodity prices and supply-chain disruptions in the backdrop of the war in the Middle East. In this context, the MPC deemed today's decision as appropriate, and reaffirmed its commitment to ensure the hard-earned price stability. The Committee also stressed the need for expediting structural reforms to ensure sustainable economic growth.

Real Sector

5. Economic activity continued to strengthen, with high-frequency indicators – such as auto sales, domestic cement dispatches, electricity generation, POL sales (excluding furnace oil) – recording higher growth during July-January FY26. Recent policy and regulatory measures – including the reduction in the Cash Reserve Requirement and in markup rates on loans to exporters by banks, and downward adjustment in energy tariffs for industrial sector – have reinforced manufacturing prospects. In the agriculture sector, wheat sowing target has largely been met, and the input conditions remain favorable. The positive spillover impact of commodity-producing sectors is expected to support the wholesale and retail trade and transport segments of the services sector. Based on these developments, the MPC expects real GDP growth to remain within the earlier projected range of 3.75–4.75 percent in FY26. However, the outlook is subject to risks, particularly from the unfolding geopolitical developments.



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External Sector

6. The current account posted a surplus of \$121 million in January 2026, containing the deficit to \$1.1 billion in July–January FY26. Imports declined in January, whereas exports and workers’ remittances largely stabilized at December levels. Workers’ remittances continued to finance a significant part of the trade deficit. In the financial account, net official outflows were recorded in January, whereas foreign investment inflows inched up slightly. SBP’s FX purchases continued to help building up SBP’s FX reserves. Going forward, the external environment has become more challenging due to the ongoing Middle East conflict. However, the current account deficit is likely to remain within the earlier projected range of 0 – 1 percent of GDP in FY26. In this backdrop, the Committee emphasized on the timely realization of planned official inflows to achieve the targeted buildup in SBP’s FX reserves to \$18 billion by June 2026.

Fiscal Sector

7. The data on fiscal operations indicated continued consolidation, with the overall balance registering a surplus and the primary surplus remaining close to last year’s level, led by contained expenditures due to lower interest payments. However, the tax collection remained moderate, rising 10.6 percent during July–February FY26 – well below the pace required to meet the annual target. In this context, the Committee emphasized the importance of continuing the fiscal consolidation via base-broadening measures and undertaking structural reforms to ensure macroeconomic stability and sustainable economic growth.

Money and Credit

8. Since the last MPC meeting, broad money (M2) growth decreased to 16.0 percent as of February 20, due to a sharp reduction in the net budgetary borrowing from the banking system, whereas NFA’s contribution to M2 growth increased. The Committee noted that lower budgetary borrowing, along with liquidity generated through the recent CRR reduction, has created space for greater private sector lending. Consequently, PSC expanded by Rs790 billion up to February 20, reflecting growth in both working capital and fixed investment. Credit especially increased to textiles, wholesale and retail trade, and chemicals, whereas consumer financing continued to increase as well. Currency in circulation increased whereas deposits recorded a decline, leading to an increase in the currency to deposit ratio and a rise in reserve money growth.

Inflation

9. As expected, headline inflation rose to 7.0 percent y/y in February, largely due to phasing out of low base effect from food and energy prices, along with rationalization of fixed charges on households’ electricity bills. Meanwhile, core inflation increased to around 7.6 percent. The MPC assessed that the impact of higher expected domestic energy prices is likely to be partially offset by recent favorable movement in food prices amidst improved supply of key items and better prospects of agriculture produce. The MPC also observed that the ongoing anchored inflation expectations and stable inflation environment are likely to somewhat limit the second-round impact of the increase in domestic fuel prices. At the same time, the MPC noted that this assessment is subject to significant risks, particularly those from the evolving geopolitical situation, as well as from volatile food prices and unanticipated adjustments in domestic administered energy prices. On balance, given these developments and risks, the Committee assessed that inflation may remain above 7 percent in the remaining months of FY26 and into FY27.