



MONETARY POLICY COMMITTEE STATE BANK OF PAKISTAN

Monetary Policy Statement

June 15, 2026

1. The Monetary Policy Committee (MPC) decided to keep the policy rate unchanged at 11.5 percent in its meeting today. The Committee noted that global oil prices have eased following the recent positive geopolitical developments, yet they remain elevated as compared to pre-conflict levels. Nonetheless, as anticipated in the last MPC meeting, the impact of the conflict is now reflecting in recent economic indicators. Headline inflation rose to double digits in April and May, while core inflation also edged up. Moreover, economic activity is showing some signs of moderation, reflecting the impact of elevated prices, austerity measures and prevalent economic uncertainty. Meanwhile, the external account pressures remain moderate. While evaluating the impact of these unfolding developments and risks, the MPC observed that the macroeconomic outlook is broadly unchanged from its previous meeting. In this context, the MPC assessed that the current monetary policy stance remains appropriate to guide inflation towards the target range of 5 – 7 percent over the medium term.

2. The Committee noted the following key developments since its last meeting. First, real GDP growth for FY26 is provisionally estimated at 3.7 percent by the PBS. Second, confidence of both consumers and businesses recovered marginally in the latest sentiment surveys, while their inflation expectations eased somewhat. Third, the successful completion of IMF reviews for EFF and RSF, coupled with ongoing purchases, increased SBP's FX reserves to \$17.2 billion as of June 5, 2026. Fourth, the government has estimated primary balance surplus for FY26 at 2.5 percent of GDP and is targeting a surplus of 2.0 percent of GDP for FY27. Lastly, the Middle East conflict has begun to impact macroeconomic conditions in many economies, and a rising number of central banks have started to raise their policy rates.

3. The MPC noted that proactive macroeconomic management – underpinned by forward-looking monetary policy and consistent fiscal consolidation – has helped sustain ongoing macroeconomic stability despite the prolonged Middle East conflict. The MPC remains committed to achieving its objective of price stability and will closely monitor incoming data and evolving developments. The Committee also reiterated that it is imperative to accelerate structural reforms to strengthen the economy's resilience to supply shocks, enhance productivity, and create the necessary conditions for higher and more sustainable economic growth.

Real Sector

4. According to the provisional PBS estimates, real GDP grew by 3.7 percent in FY26, up from 3.2 percent in FY25. The MPC observed that this outturn reflects the impact of Middle East conflict and austerity measures, as the pre-conflict growth momentum was notably higher. The growth in FY26 was primarily underpinned by the services and industry sectors, with meaningful contribution from agriculture. Large-scale manufacturing posted a strong growth of 6.5 percent during July-March FY26, though it is expected to moderate in Q4-FY26, as indicated by recent trends in some high-frequency indicators. Looking ahead, the MPC expects that spillover from the conflict may continue to moderate activity in both industry and services sectors in the coming months. This, along with subdued agriculture prospects – as indicated by initial information on the Kharif crops amidst challenging weather conditions – may weigh on the growth outlook for FY27.



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External Sector

5. The current account turned into a deficit of \$0.3 billion in April, leading to a cumulative deficit of \$0.2 billion during July-April FY26. This was mainly due to a widening of the trade deficit amidst the surge in energy imports in April, which more than offset the resilient workers' remittances. The realization of sizable workers' remittances during May is likely to contain the current account deficit in FY26 to the lower end of the earlier projected range, despite the challenging external environment. On the financing side, increase in official inflows provided critical support in meeting external obligations. These developments have facilitated ongoing FX purchases and buildup in SBP's FX reserves, which are projected to reach \$18 billion by end-June 2026. Notwithstanding some expected widening in the current account deficit in FY27, the MPC noted that the reserve buildup is expected to continue amidst FX purchases and timely realization of planned official inflows.

Fiscal Sector

6. As per the July-March FY26 fiscal operations data, the fiscal consolidation efforts remained broadly on track, primarily driven by expenditure restraint. Revenue growth, however, moderated as compared to the same period last year. In this context, the FBR has revised its target to around Rs13 trillion for FY26. Despite this downward revision in revenues, the government expects to achieve a primary balance surplus of 2.5 percent of GDP by containing expenditures. For FY27, the government is targeting a primary balance surplus of 2.0 percent of GDP. In this regard, the MPC emphasized the importance of continuing with fiscal consolidation. The Committee also reiterated the need for timely implementation of structural reforms, particularly measures aimed at broadening the tax base and reforming PSEs.

Money and Credit

7. Since the last MPC meeting, broad money (M2) growth moderated to 14.3 percent y/y as of May 29, 2026, from 14.5 percent on April 10, 2026. This was entirely due to a deceleration in NDA growth, reflecting moderation in net budgetary borrowing from the banking system. Meanwhile, private sector credit grew by around 13 percent, with increase in working capital, fixed investment and consumer financing. At the same time, the improvement in the external position led to an acceleration in NFA growth. On the liability side, growth in currency in circulation rose, partly reflecting seasonal Eid-related cash withdrawals, resulting in an increase in the currency-to-deposit ratio.

Inflation

8. Headline inflation rose sharply from 7.3 percent in March to 10.9 percent y/y in April and 11.7 percent in May. Apart from the low base effect, the Middle East conflict has fueled inflation directly through the hike in domestic energy prices as well as indirectly through the rise in transportation and production costs. The latter has contributed to an increase in core inflation to 8.2 percent in April and 8.7 percent in May. Further, unanticipated surge in wheat and its product prices pushed up food inflation significantly during the last two months. The MPC assessed that inflation may remain in double digits for the next few months, before gradually easing subsequently. This outlook is subject to multiple risks, including geopolitical developments, the extent of pass-through of global prices to domestic fuel prices, magnitude of adjustments in power and gas tariffs, potential fiscal slippages, and uncertain food prices amidst weather-related challenges.