



MONETARY POLICY COMMITTEE STATE BANK OF PAKISTAN

Monetary Policy Statement

April 27, 2026

1. The Monetary Policy Committee (MPC) in its meeting today decided to increase the policy rate by 100 bps to 11.50 percent with effect from April 28, 2026. The Committee noted that prolonging of the Middle East conflict has intensified risks to the macroeconomic outlook. In particular, the global energy prices, freight charges and insurance premiums continue to remain significantly above pre-conflict levels. Furthermore, the supply chain disruptions have contributed to the prevailing uncertainty. While the incoming data has been broadly in line with the MPC's expectations so far, the impact of these global developments will be visible in key economic indicators going forward. In this backdrop, the Committee assessed that inflation is likely to increase and remain above the target range in the next few quarters. Accordingly, the MPC deemed it necessary to maintain a tighter policy stance to keep inflation expectations anchored and contain second-round effects of the current supply shock to bring inflation within the target range. This will be important to preserve macroeconomic stability, which is necessary for achieving sustainable economic growth.
2. Apart from the geopolitical events in the Middle East, the MPC noted the following key developments since its last meeting. First, inflation rose to 7.3 percent in March, while core inflation inched up to 7.8 percent. Second, inflation expectations and confidence of consumers and businesses deteriorated in the latest surveys. Third, real GDP grew by 3.8 percent in H1-FY26 as compared to 1.9 percent in the same period last year. Fourth, the current account posted a small surplus during July-March FY26. Fifth, despite significant debt repayments, SBP's FX reserves as on April 24, 2026 are around \$15.8 billion, supported by the issuance of Eurobonds, as Pakistan re-entered international capital markets after a gap of over four years. Lastly, the staff level agreement was reached with the IMF on March 27, 2026.
3. In light of the above developments and evolving risks, the MPC viewed today's decision as important to achieve the objective of price stability over the medium term. The Committee reiterated the important role of the continued build-up of external buffers and fiscal discipline. These efforts have contributed to stronger initial economic conditions at the start of the ongoing geopolitical conflict as compared to similar shocks in the recent past. The MPC also emphasized the importance of undertaking structural reforms to make the external account more resilient to evolving global landscape and to ensure sustainable economic growth.

Real Sector

4. Real GDP growth was provisionally recorded at 3.9 percent in Q2-FY26, bringing cumulative growth in H1-FY26 to 3.8 percent, reflecting a broad-based improvement in economic activity as compared to the same period last year. Large-scale manufacturing posted a robust performance, growing by 5.9 percent during July-February FY26. High-frequency industrial and services sector indicators, which had been showing strong momentum in economic activity till February, showed some signs of moderation in March. In agriculture, growth prospects have moderated slightly, driven mainly by lower than anticipated wheat production as per the first estimates reported by the Federal Committee on Agriculture. This, along with the expected spillover of the ongoing Middle East conflict on industrial and services sector activity in Q4, is expected to result in real GDP growth for FY26 turning out closer to the lower bound of the earlier projected range. The moderation in economic activity is likely to continue in FY27, though the outlook is subject to multiple risks, including the duration and intensity of the ongoing conflict.



MONETARY POLICY COMMITTEE STATE BANK OF PAKISTAN

External Sector

5. The consecutive surpluses in February and March led to a small cumulative current account surplus during July–March FY26. This was mainly supported by resilient workers’ remittances. Accordingly, the current account in FY26 is now likely to remain closer to the lower bound of the earlier projected range, despite challenging external environment including significant worsening of terms-of-trade. On the financing side, the government has proactively raised external financing via enhanced bilateral arrangements and issuance of Eurobonds, which cushioned the impact of the recent debt and liability repayments on SBP’s FX reserves. In this regard, SBP’s FX reserves are now assessed to reach above \$18 billion by June 2026. Going forward, the Committee emphasized the need for further strengthening in FX buffers amidst the uncertain global economic conditions.

Fiscal Sector

6. FBR tax collection remained short of target in March, widening the cumulative shortfall to Rs611 billion during July–March FY26. Nonetheless, the financing side data indicates that the fiscal deficit remained contained till March. However, the ongoing Middle East conflict has made fiscal management more challenging. The pass-through of higher international oil prices to domestic consumers necessitated support for vulnerable groups through targeted subsidies. To achieve the targeted full-year primary surplus, a larger cut in expenditures may be required. In this regard, the MPC emphasized the need for sustained fiscal reforms, including broadening the tax base and curtailing SOE losses, to strengthen fiscal sustainability and resilience.

Money and Credit

7. The broad money growth decelerated to 14.5 percent as of April 10, from 16.0 percent on February 20. This moderation primarily reflects a deceleration in net budgetary borrowing from the banking system. Meanwhile, credit to the private sector continued to grow around 13 percent, in line with improving economic activity and the lagged impact of earlier policy rate cuts. During July–March FY26, the private sector credit flows expanded across working capital, fixed investment and consumer finance. Sectoral flows were concentrated in textiles, wholesale and retail trade, and chemicals, while the sustained rise in consumer financing points to recovery in household demand. On the liability side, both currency in circulation and deposits decelerated since the last MPC meeting.

Inflation

8. Headline inflation rose to 7.3 percent in March, while core inflation also inched up to 7.8 percent. Inflation was projected to increase up to the upper bound of the target range before the start of the Middle East conflict, mainly due to adverse base effect. Subsequently, the energy price shock has led to a surge in fuel prices, which have already begun to seep into core inflation via transport fares, though contained food inflation amidst ample supplies is likely to offset some of the impact on headline inflation. Nonetheless, going forward, the MPC assessed that the current supply shock may push inflation to double digits in the coming months before it starts to ease subsequently. However, inflation is expected to stay above the upper bound of the target range of 5 – 7 percent for most of FY27. The MPC noted that this outlook is subject to multiple risks, particularly the duration and intensity of the ongoing conflict, extent of pass-through of changes in global energy prices to domestic economy, and potential fiscal slippages.