Day Break

Tuesday, June 17, 2025

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Monetary Policy History		
Date	**Stance**	**Policy Rate**
16-Jun-25	Status Quo	11.0%
5-May-25	-100bps	11.0%
10-Mar-25	Status Quo	12.0%
27-Jan-25	-100 bps	12.0%
16-Dec-24	-200 bps	13.0%
04-Nov-24	-250 bps	15.0%
12-Sep-24	-200 bps	17.5%
29-Jul-24	-100 bps	19.5%
10-Jun-24	-150 bps	20.5%
29-Apr-24	Status Quo	22.0%
18-Mar-24	Status Quo	22.0%
29-Jan-24	Status Quo	22.0%
12-Dec-23	Status Quo	22.0%
30-Oct-23	Status Quo	22.0%
14-Sep-23	Status Quo	22.0%
31-Jul-23	Status Quo	22.0%
26-Jun-23	Status Quo	22.0%
12-Jun-23	+100 bps	22.0%

Source: SBP, IGI Research

Economy

SBP Keeps Policy Rate Unchanged at 11%

- In the latest Monetary Policy Announcement (link), the State Bank of Pakistan (SBP) decided to keep rates steady at 11.0%. Since Jun-24 SBP has cumulatively cut interest rates by 1100bps. MPC noted that headline inflation increased in May-25 in line with expectation while core inflation dropped marginally. Inflation is likely to trend upward and stabilize within target range of 5-7% in FY26. MPC's initial assessment indicates limited impact on inflation outlook of proposed budgetary measures, however remains susceptible to multiple risks emerging from geo-political tensions, rising oil & commodity prices and local energy price adjustments.
- The Committee noted that few key developments since last MPC meeting. GDP growth for FY25 was provisionally reported at 2.7% and Government is targeting higher growth for FY26. Current account remained in surplus despite widening trade deficit. US$ 1bn disbursement under IMF EFF increased SBP Forex Reserves to US$ 11.7bn as of 06-Jun-25. Government's is targeting primary surplus at 2.4% of GDP in FY26. Although US-China trade tensions eased, oil prices rebounded sharply due to evolving geopolitical tension in Middle East.
- Heightened risk of geopolitical tensions on oil prices and supply chain disruption along with impact of proposed budgetary measures prompted SBP to adopt a cautious stance and keep rates steady in Jun-25. In our view, SBP is likely to monitor impact of external risks and budgetary measures on inflation and decide appropriately on Monetary Stance.

SBP Keeps Rates Unchanged at 11%

In the latest Monetary Policy Announcement (link), the State Bank of Pakistan (SBP) decided to keep rates steady at 11.0%. Since Jun-24 SBP has cumulatively cut interest rates by 1100bps. MPC noted that headline inflation increased in May-25 in line with expectation while core inflation dropped marginally. Inflation is likely to trend upward and stabilize within target range of 5-7% in FY26. The MPC noted that growth in picking up gradually and will accelerate in FY26. The Committee noted potential risk to external sector and proposed FY26 Budgetary measures may further widen trade deficit through rising imports. MPC's initial assessment indicates limited impact on inflation outlook of proposed budgetary measures, however remains susceptible to multiple risks emerging from geo-political tensions, rising oil & commodity prices and local energy price adjustments.

Exhibit: Monetary Policy Rate Decision	Current	Previous	Chg. (bps)
Target Policy Rate	**11.00%**	**11.00%**	**Unchanged**
Discount rate (Ceiling Rate)	12.00%	12.00%	Unchanged
Floor Rate	10.00%	10.00%	Unchanged

Source: SBP, IGI Research

Analyst

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The Committee noted that few key developments since last MPC meeting. GDP growth for FY25 was provisionally reported at 2.7% and Government is targeting higher growth for FY26. Current account remained in surplus despite widening trade deficit. Completion of 1st review under IMF EFF program and US$ 1bn disbursement increased SBP Forex Reserves to US$ 11.7bn as of 06-Jun-25. Government's revised estimates report primary surplus at 2.2% of GDP, while targeting surplus at 2.4% of GDP in FY26. Although US-China trade tensions eased, oil prices rebounded sharply due to evolving geopolitical tension in Middle East.

Considering the recent developments and risks, MPC noted that real policy rates are adequately positive to stabilize inflation in the target range of 5-7% while ensuring sustainable economic growth.

Exhibit: National CPI Heat Map

	May-25	Apr-25	Mar-25	Feb-25	Jan-25	Dec-24	Nov-24	Oct-24	Sep-24	Aug-24	Jul-24	Jun-24
General	**3.5**	**0.3**	**0.7**	**1.5**	**2.4**	**4.1**	**4.9**	**7.2**	**6.9**	**9.6**	**11.1**	**12.6**
Food	3.1	-4.8	-5.1	-4.1	-3.1	0.3	-0.2	0.9	-0.6	2.5	1.6	1.0
Transport	-2.5	-3.9	-1.2	-1.1	0.7	-2.5	-2.8	-6.1	-7.3	3.2	12.2	10.4
Utility/Rent	-2.5	-2.6	-2.2	-0.6	1.5	3.4	7.9	19.2	20.9	22.2	25.3	35.3
Essentials	9.6	9.6	12.2	12.2	12.2	13.2	13.2	13.1	14.4	16.1	17.5	17.4
Disc.	8.3	8.1	8.1	8.3	8.1	8.2	8.7	8.8	9.1	9.7	11.6	12.0

Source: PBS, IGI Research

Key takeaways from analyst briefing

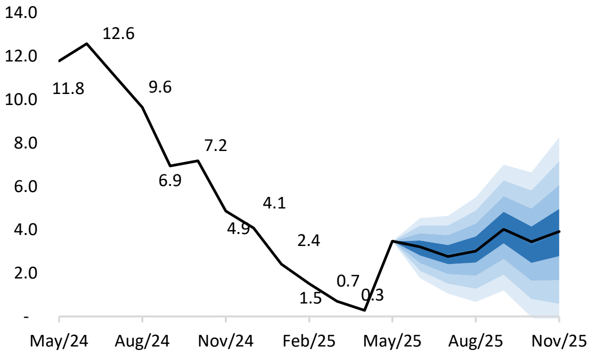
SBP in its post MPS briefing highlighted key updates, which included:

- C/a remained largely balanced in Apr-25 bringing total cumulative surplus for 10MFY25 to US$ 1.9bn. Imports continue to grow in line with economic activity while export growth decelerated due to challenging global trade environment. Remittances continue to remain strong offsetting impact of widening trade deficit. Based on this, C/a is expected to remain in surplus in FY25 while strong import demand is expected to turn C/a in to moderate deficit in FY26. Despite weak financial inflows, MPC expects SBP's FX reserves to rise to US$ 14bn by Jun-25. Going forward, external outlook is prone to various risks such as rise in geopolitical tension, volatility in oil prices, proposed budgetary measures and potential shortfalls in planned financial inflows.
- Real GDP growth for gained momentum during 2HFY25 with GDP estimated at 3.9% against 1.4% during 1HFY25. This was largely in line with SBP's expectation. The agriculture sector underperformed compared to FY24 mainly due to decline in production of major crops. However, industrial and services sector

were major contributors to growth in 2HFY25. Going ahead, MPC expects services and industrial sector to continue to drive growth in FY26. Agriculture sector prospects seem subdued which is indicated by initial information of Kharif Crops amid unfavorable weather conditions. The MPC expects growth in increase further in FY26 from current 2.7% in FY25.

- M2 Broad Money moderated to 12.6% as of 30-May-25 compared to 13.3% as the time of last MPC meeting. The Committee noted that this was due to deceleration in NDA of the banking system as growth in net budgetary borrowing declined. However, private sector credit growth remained strong at around 11%. Textile, telecommunication and wholesale & retail sectors were major borrowers whereas consumer finance also grew at rapid pace. The Committee also noted significant increase in reserve money growth. This was mainly due to Eid-related seasonal rise currency in circulation, which required SBP to increase its liquidity injections to ensure interbank repo rate remained close to Policy Rate.
- Expected debt repayments for FY25 of US$ 25.8bn have mostly been made or rolled over while remaining US$400mn is expected to made in Jun-25. Similar quantum of debt repayment is expected for FY26.
- SBP is expected to transfer PKR 2.4trn in profit for FY25 to Government of Pakistan after finalization of audit.
- Quantum of OMO has increased due to higher currency in circulation led by seasonality impact of Eid as well as time lag between Government's debt repayments and financial inflows.
- SBP expects to achieve Net International Reserve (NIR) target for Jun-25 by a considerable margin.
- SBP has set inflation target at oil price assumption of US$ 75/bbl, however, SBP is presented with multiple pricing scenarios in order to facilitate its decision making.

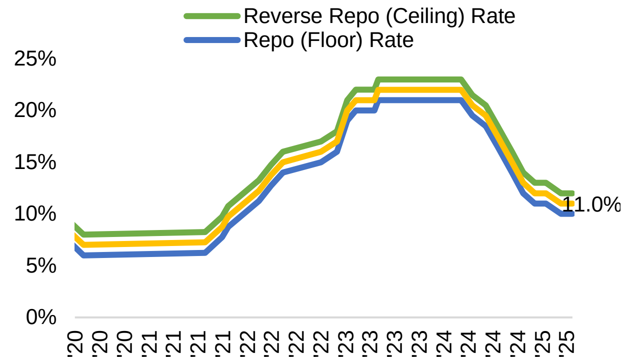
Exhibit: CPI likely to continue its downward trajectory with real rates also significantly positive on a 12m fwd basis.



Source: SBP, PBS, IGI Research

Exhibit: Pakistan Policy Rate (historical)

SBP keeps rates steady in Jun-25. (Source: SBP)



Outlook

Heightened risk of geopolitical tensions on oil prices and supply chain disruption along with impact of proposed budgetary measures prompted SBP to adopt a cautious stance and keep rates steady in Jun-25. Moreover, core inflation declined but marginally. In our view, SBP is likely to monitor impact of external risks and budgetary measures on inflation and decide appropriately on Monetary Stance. Although impact of budgetary measure does not pose significant risk however, higher core inflation, impact of geopolitical tensions and energy price adjustments remain key risks to inflation outlook.

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