15 September 2026
Pakistan Economy
KSE100 Index: Closing 167,970.66 ↓ (2,541.20)

SBP holds Policy rate at 11.5%

- The Monetary Policy Committee (MPC) kept the policy rate unchanged at 11.5% at its Sep-2026 meeting, a majority decision carried by seven of ten members, assessing the stance as appropriate for the time being.
- Headline CPI clocked in at 9.2% in July and 11.1% in August, led by food inflation (wheat and allied products, perishables) and conflict-driven energy prices, with core inflation at 8.7%. Inflation is expected to ease toward the upper bound of the 5-7% range by Jun-2027, though risks to the outlook have risen significantly.
- External buffers strengthened materially thanks to the US$3bn Eurobond issuance which lifted reserves to US$21.4bn, already above the US$21bn end-June 2027 target. The FY27 current account deficit is projected within 0-1% of GDP.

Holding firm amid elevated inflation

The MPC left the policy rate unchanged at 11.5%, with seven of ten members voting for no change, judging the stance appropriate to steer inflation back to the medium-term target range. Headline inflation printed at 9.2% YoY in July and 11.1% in August, against 11.7% in May, driven largely by food inflation elevated wheat, allied product and perishable prices while the intensification of the Middle East conflict has kept energy inflation elevated. Higher fuel prices have fed into transport costs, pushing core inflation to 8.7%.

Two developments cut the other way. The revised HSD pricing mechanism sharply reduced its price in August, partially offsetting the pass-through of higher global prices, while a government wheat-import tender should add supply and ease food-price pressures. Inflation expectations of consumers and businesses rose in Sep-2026 but remain below May-Jun levels; the Committee credited its pre-emptive 100bp hike in Apr-2026 with limiting the energy shock's transmission into core inflation. The FY27 inflation outlook is broadly unchanged though risks around that path have risen significantly.

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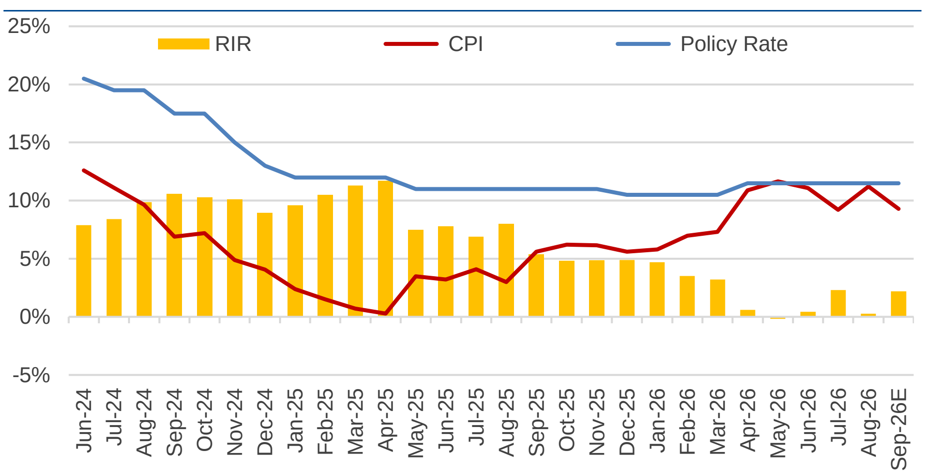
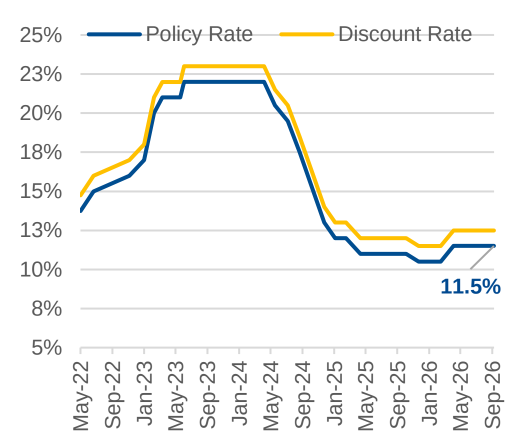
RIR contracts



Source: PBS, SBP, JS Research

SBP Policy rate unchanged at 11.5%



Source: SBP, JS Research

With the policy rate at 11.5% against Aug-2026 inflation of 11.1%, the real interest rate (RIR) has compressed to ~0.4% on a current basis, but stays firmly positive on a forward-looking basis given the expected disinflation path if geopolitical tensions ease.

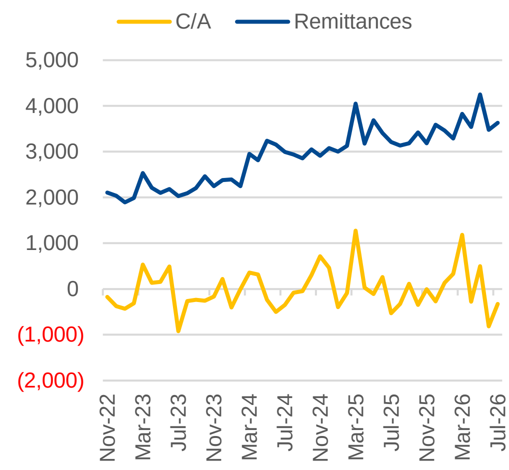
Activity, after moderating in 4QFY26 amid conflict-related disruptions, is picking up gradually; POL sales, private sector credit, textile exports, business sentiment and satellite imagery of night-time lights and gas emissions point to a relative recovery. To note, SBP retains its FY27 real GDP growth projection of 3.5-4.5%.

Fiscal consolidation largely on track

Fiscal consolidation in FY26 turned out better than the budgeted targets, led by contained current expenditure and, in particular, lower interest payments. In the first two months of FY27, FBR collection was broadly in line with targets though its growth decelerated from last year, while the transfer of an SBP profit of Rs1.9trn well above the budgeted Rs1.4trn has further improved the FY27 fiscal outlook.

The Committee stressed that meeting the full-year tax revenue target will require sustained effort in an uncertain environment, and re-emphasized broadening the tax base and curtailing PSE losses. On the monetary side, broad money growth decelerated to 11.6% YoY as of August 28 (from 13.2% previously), while private sector credit grew 13.4% YoY broad-based across working capital, fixed investment and consumer financing supported by lower net budgetary borrowing. The MPC underlined the need for a prudent monetary-fiscal mix and a further buildup of buffers to absorb supply shocks.

C/A and remittances trend (US$ mn)



Source: SBP, JS Research

Stable external outlook for now

July's current account deficit was largely in line with the MPC's expectations, as import growth outpaced the increase in exports and robust workers' remittances. SBP expects the FY27 deficit to stay within 0-1% of GDP, against ~0.1% of GDP last year and ~4.7% (US$17.5bn) at the peak of the last cycle. Remittances are projected above US$44bn and exports slightly above US$32bn (vs below US$31bn last year), though the Governor noted export growth remains below the desired pace.

The US$3bn Eurobond issuance in Sep-2026, US$1.75bn of 5.5-year and US$1.25bn of 10-year paper alongside continued SBP FX purchases lifted reserves to US$21.4bn, already above the US$21bn end-June 2027 target, and lengthened the external debt maturity profile. Of the ~US$21.5bn due in FY27, ~US$3.5bn has been settled in the first two and a half months.

Moody's upgrade to B3 with a stable outlook, narrower CDS spreads and firmer secondary-market yields point to improving investor confidence. The key risk remains elevated global commodity prices, power tariff adjustments, and supply constraints for Food and energy products amid the unfolding situation in the Middle East and the worsening El Niño conditions.

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