

A Cautious Pause

Chase Research

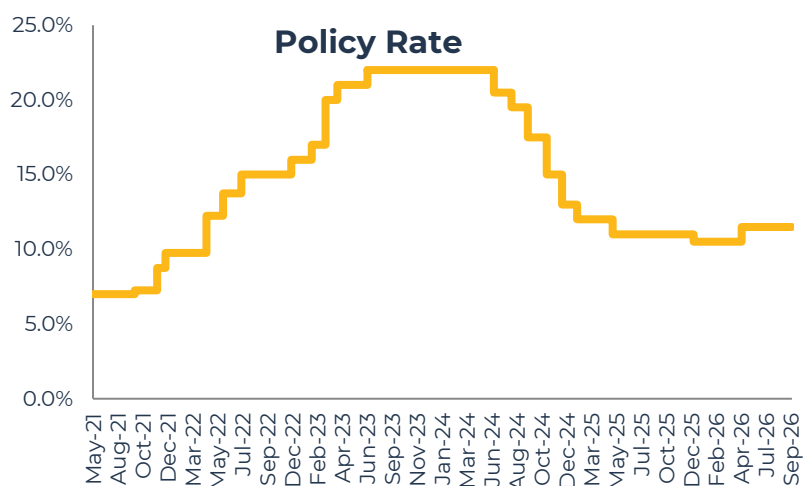
The Monetary Policy Committee (MPC) voted seven to three to keep the policy rate unchanged at 11.5%, noting that the Middle East conflict has further increased already elevated global commodity prices. However, recent domestic macroeconomic data turned out broadly in line with the MPC's expectations. Headline inflation increased to 11.1 percent y/y in August from 9.2 percent in July, while core inflation was slightly lower than expectations. External account pressures remained contained, supported by robust workers' remittances. Meanwhile, economic activity started to pick up gradually, as reflected by recent high-frequency indicators. In this context, the MPC assessed that the current monetary policy stance remains appropriate to guide inflation towards the target range over the medium term, though uncertainty regarding the outlook has increased.

14th Sep 2026

Monetary Policy
Statement

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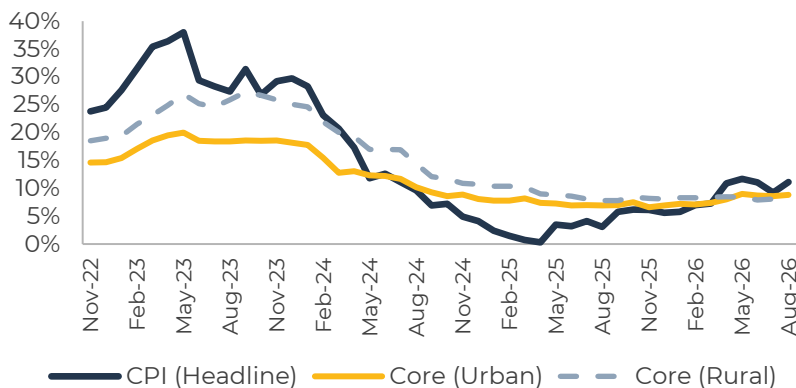
Since their last meeting, the MPC observed these key developments that will have an effect on the macroeconomic outlook:

1. Pakistan's sovereign credit rating was upgraded to B3 by Moody's with a stable outlook.
2. The country successfully tapped international capital markets to raise \$3 billion through Eurobonds, which, along with continued FX purchases, helped increase SBP's FX reserves to over \$21.4 billion.
3. Inflation expectations of both businesses and consumers increased in September, while their confidence weakened.
4. LSM declined by 3.5% in June, bringing FY26 growth to 5%.

5. Fiscal consolidation turned out higher than the budgetary target during FY26, and SBP transferred a higher profit of Rs1.9 trillion than the budgeted amount of Rs1.4 trillion to the government.

Economic activity, after moderating in Q4-FY26 amidst conflict-related disruptions, appears to be gradually picking up in the subsequent period. High-frequency indicators, including POL sales, private sector credit, textile exports, business sentiments, and satellite imagery of both nighttime lights and gas emissions, suggest recovery in economic activity in July. Furthermore, increased acreage for rice and sugarcane, along with encouraging initial reports on cotton arrivals, have improved prospects for the agriculture sector. The expected improvement in the commodity-producing sectors also bodes well for the outlook of the services sector.

Headline CPI vs Core Inflation (YoY, %)



Broad money growth decelerated to 11.6 percent y/y as of August 28 from 13.2 percent at the time of the last MPC meeting, due to lower contributions from both NDA and NFA of the banking system. Meanwhile, private sector credit (PSC) grew by 13.4 percent y/y, supported by reduced net budgetary borrowing from the banking system and a recovery in economic activity. The increase in PSC was broad-based across working capital, fixed investment, and consumer financing; with wholesale and retail trade, agriculture, and sugar being the major borrowing sectors. Going forward, PSC growth is expected to strengthen further alongside the ongoing pickup in economic activity.

Headline inflation turned out at 9.2 percent y/y in July and 11.1 percent in August. Recent inflation outturns are driven largely by food inflation in the wake of elevated prices of wheat and allied products, and perishable items. At the same time, the intensification of the conflict in the Middle East has kept energy inflation at elevated levels, pushing core inflation to 8.7 percent.

However, the MPC noted that the recent change in the HSD pricing mechanism led to a significant reduction in its prices in August and has partially offset the impact of higher global prices on domestic inflation. Real positive interest rates on a forward-looking basis are likely to keep demand-side pressures in check and contain second-round impacts emanating from food and energy inflation.

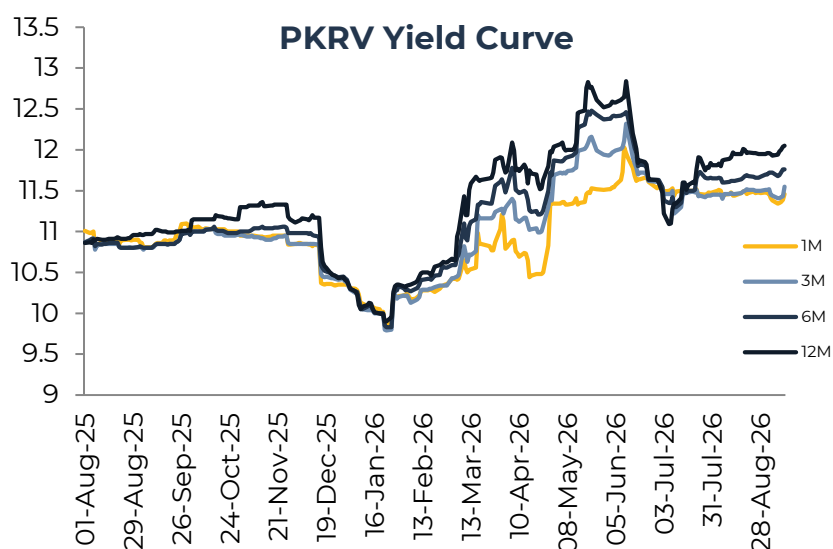
Analyst Briefing Post MPS Announcement

Following the announcement of the Monetary Policy, the SBP Governor conducted an analyst briefing, shedding light on several key aspects.

The Committee expressed satisfaction with the overall pace of economic activity. While the SBP expects inflation to gradually taper toward the upper bound of its medium-term target range, the committee noted that upside risks have intensified due to the incremental rise in global oil prices amid escalating Middle East tensions. Addressing food inflation, it was stated that the upticks observed in June and July were largely seasonal, whereas August's elevated levels were exacerbated by monsoon disruptions and transporter strikes. Moving forward, food prices particularly wheat, are expected to normalize following imports for which a tender has been issued by the government.

On the external front, the Governor highlighted that robust remittance inflows have successfully cushioned the impact of a widening trade deficit. With the FY27 remittance target set above \$44 billion, which the SBP remains optimistic about achieving, the current account deficit is projected to remain comfortably within the 0–1% of GDP range. The Governor also welcomed Moody's recent upgrade of Pakistan's sovereign credit rating, viewing it as a strong external validation of the country's stabilized external sector.

External buffers have strengthened significantly; following the issuance of a \$3 billion Eurobond on September 2nd, the SBP's foreign exchange reserves surged past the FY27 target of \$21 billion to reach \$21.4 billion. Concurrently, the central bank's forward liabilities have been drastically reduced, falling from over \$5.7 billion in February 2023 to under \$0.7 billion. Regarding the rising Real Effective Exchange Rate (REER), the Governor emphasized that the SBP's primary focus remains on reserve accumulation, allowing market forces to determine the currency's parity. Furthermore, the SBP has maintained its FY27 real GDP growth projection at 3.5%–4.5%



Regarding external obligations, total SBP debt repayments for FY27 stand at \$21.5 billion, of which \$17.6 billion comprises the principal amount. Out of the \$11 billion currently marked as repayable, \$3.55 billion has already been repaid. Notably, the overall debt repayment burden has eased compared to the \$26.1 billion recorded in FY26, accompanied by a decline in interest payments by several hundred million dollars.

Outlook

The current account deficit in July was largely in line with expectations and is expected to be contained within 0 to 1 percent of GDP in FY27, supported by resilient workers' remittances and higher ICT exports. SBP's FX reserves are projected to approach a 3-month import cover by end-June 2027. On the fiscal front, consolidation turned out higher than budgetary targets in FY26, and the transfer of a significantly higher than budgeted SBP profit of Rs1.9 trillion has improved the fiscal outlook for FY27. On balance, the inflation outlook for FY27 remains broadly unchanged from the previous assessment, expected to gradually ease towards the upper bound of the 5–7 percent target range by June 2027; though key risks have increased significantly, including volatility in global commodity prices, supply disruptions, and adjustments in electricity and gas tariffs.

We interpret the MPC's decision as a cautious pause amid a stable domestic macroeconomic environment and incrementally escalating regional risks. Ultimately, the trajectory and intensity of the Middle East conflict are expected to be the key determinants for the central bank's next policy meeting.



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