MPS Preview

SBP likely to keep rate unchanged at 11.5%

23-Jul-2026

REP-300

Best Broker: '25
Best Bank for Research:'25
Best Investment Bank for M&A: '25
Best for Research: '24
Best for Diversity & Inclusion: '24
Best Investment Bank: '23

Best Corporate Finance House: '25, '23-'13
Best Brokerage House: '23 – '21
Best Brokerage House (Runner-up): '25–'24
Best Economic Research House: '23–'21
Best Economic Research House (Runner-up): '25–'24

Best Broker:'26
Best Equity Capital Market House:'26
Best Investment Bank:'26

Best Gender Equality Bond: '24
Best Equity Advisor: '21

Best Securities House: '23
Best Investment Bank: '23

Best Brokerage House: 2023

Top 25 Companies ('17-'19)

Excellence Award Leading Brokerage House for RDA '21

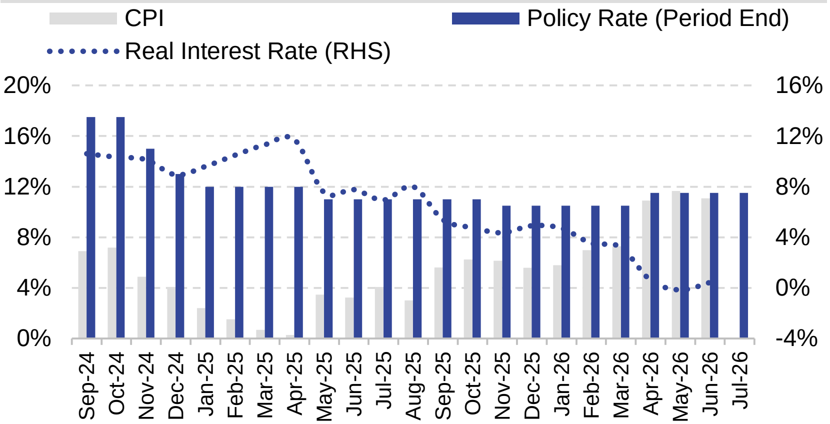
Sana Tawfik
D: +92 21 38280283
E: sana.tawfik@arifhabibltd.com

MPS Preview

SBP likely to keep rate unchanged at 11.5%

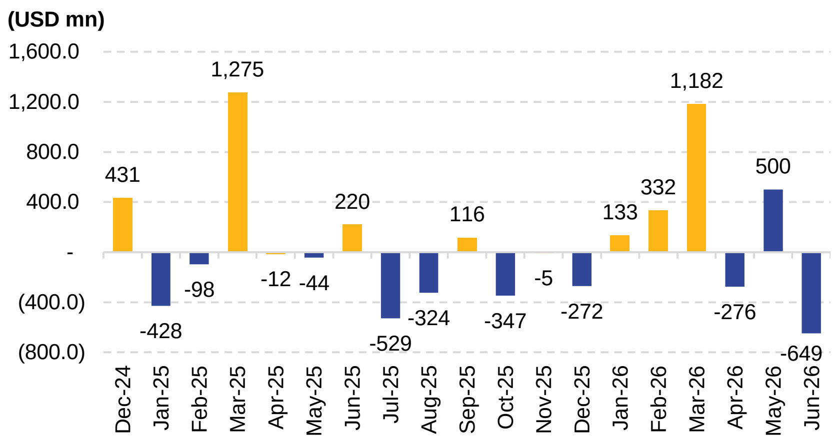
- Global conditions have remained fluid since the last monetary policy review in June. The ceasefire between the US and Iran has broken down, bringing renewed focus to geopolitical developments and their implications for energy markets. Brent crude, which had eased toward the mid USD 80s following the truce, has moved back above USD 91 to 94/bbl, its highest level in six weeks, as disruptions to shipping through the Strait have tightened supply expectations.
- While higher oil prices naturally warrant close monitoring for an energy importing economy such as Pakistan, monetary policy is better guided by the persistence of underlying macroeconomic trends than by short term geopolitical developments. Against this backdrop, Pakistan’s current domestic fundamentals provide the SBP with room to look through near term external volatility.
- **We therefore expect the State Bank of Pakistan to maintain the policy rate at 11.5% in the upcoming Monetary Policy.**
- The domestic macroeconomic backdrop provides justification for such a decision. Inflation has continued to moderate despite lingering pressure from energy prices. Headline CPI averaged 7.05% in FY26, comfortably within the SBP's medium term target range of 5 to 7%. More importantly, the latest inflation readings indicate that price pressures are gradually easing. June CPI slowed to 11.1% YoY from 11.7% in May. While inflation remains elevated due to higher energy and transport costs, the underlying trajectory continues (for now) to move in the right direction.
- Growth has also regained momentum. Pakistan's economy expanded by a provisional 3.7% in FY26, marking the fastest pace in four years. This reflects a gradual recovery in domestic activity and suggests that the current policy stance has been restrictive enough to restore macroeconomic stability without derailing economic growth.

Exhibit: CPI, Policy Rate and RIR



Source (s): SBP,PBS, AHL Research

Exhibit: Current account balance trend

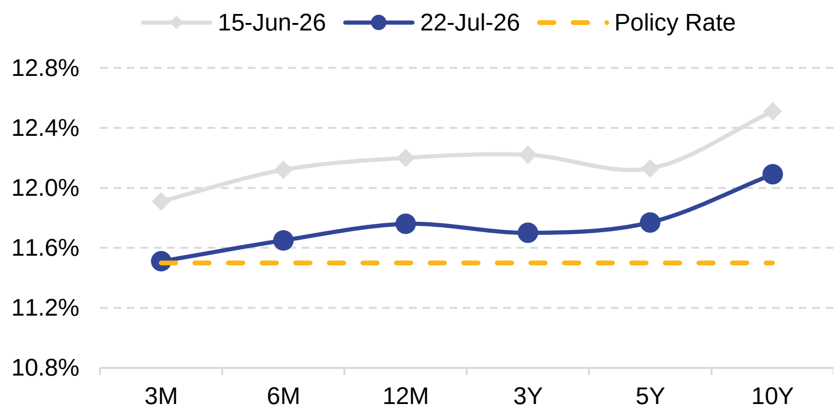


Source (s): SBP, AHL Research

SBP likely to keep rate unchanged at 11.5%

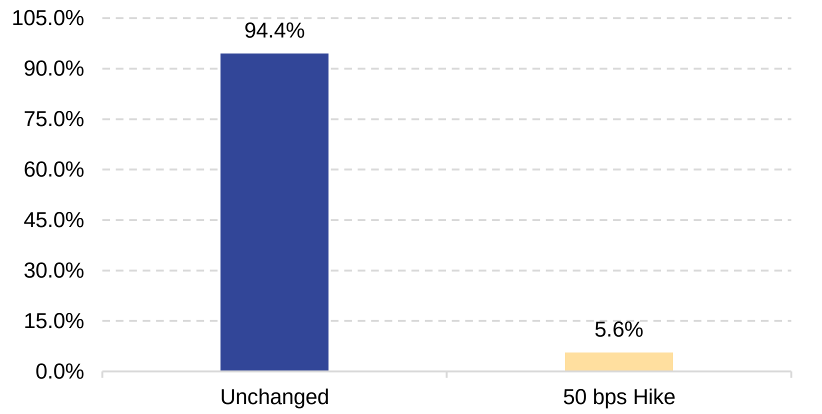
- Perhaps another argument for policy continuity lies in the external sector, historically Pakistan's most vulnerable macroeconomic weakness. Despite imports rising by nearly 8.5% during FY26 and oil prices remaining volatile, the country closed FY26 with a CAD of just USD 139mn. Although June alone recorded a USD 649mn deficit, the overall annual position remained contained.
- This resilience reflects a meaningful strengthening of Pakistan's external buffers over the past two years. Worker remittances exceeded USD 41.5bn during FY26, providing substantial support to the balance of payments, while SBP's foreign exchange reserves strengthened to above USD 18.5bn, compared with roughly USD 14.5 a year earlier.
- Currency stability further reinforces this view. The Rupee has remained broadly steady, trading within a narrow range of around PKR 278 to 279 against the USD throughout July.
- Fixed income markets have delivered mixed signals ahead of the policy announcement. While cut off yields at the latest T bill auction rose across the shorter tenors, yields on the 3-year, 5-year and 10-year PIBs declined compared with the previous auction. At the same time, secondary market yields have eased across the curve since mid June. Overall, market pricing suggests investors remain cautious amid evolving global developments.
- According to our AHL survey, 94% of respondents expect the SBP to leave the policy rate unchanged, while only 6% anticipate a 50bps increase.
- **While the global outlook remains uncertain and warrant close monitoring in the months ahead, the current domestic macroeconomic backdrop does not yet call for a policy response. We therefore expect the SBP to keep the policy rate unchanged at 11.5%, opting to assess how evolving external risks feed through to inflation before considering its next move.**

Exhibit: Secondary market yield curve since last MPS



Source (s): Bloomberg, AHL Research

Exhibit: AHL Survey Poll Result



Source (s): AHL Research

Analyst Certification and Disclaimer

ARIF HABIB LIMITED

Analyst Certification: The research analyst(s) is (are) principally responsible for preparation of this report. The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject security (ies) or sector (or economy), and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. In addition, we currently do not have any interest (financial or otherwise) in the subject security (ies). Furthermore, compensation of the Analyst(s) is not determined nor based on any other service(s) that AHL is offering. Analyst(s) are not subject to the supervision or control of any employee of AHL's non-research departments, and no personal engaged in providing non-research services have any influence or control over the compensatory evaluation of the Analyst(s).

Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2026 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -5% and +10% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -5% from last closing of market price(s)

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks: The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

Disclaimer: This document has been prepared by Research analysts at Arif Habib Limited (AHL). This document does not constitute an offer or solicitation for the purchase or sale of any security. This publication is intended only for distribution to the clients of the Company who are assumed to be reasonably sophisticated investors that understand the risks involved in investing in equity securities. The information contained herein is based upon publicly available data and sources believed to be reliable. While every care was taken to ensure accuracy and objectivity, AHL does not represent that it is accurate or complete and it should not be relied on as such. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. AHL reserves the right to make modifications and alterations to this statement as may be required from time to time. However, AHL is under no obligation to update or keep the information current. AHL is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Past performance is not necessarily a guide to future performance. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for any investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his or her own advisors to determine the merits and risks of such investment. AHL or any of its affiliates shall not be in any way responsible for any loss or damage that may be arise to any person from any inadvertent error in the information contained in this report