Pakistan Economy

Status quo maintained at 11.5%

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REP-300

AHL Research

D: +92 21 38280283

E: research@arifhabibltd.com

Monetary Policy Statement
Status quo maintained at 11.5%

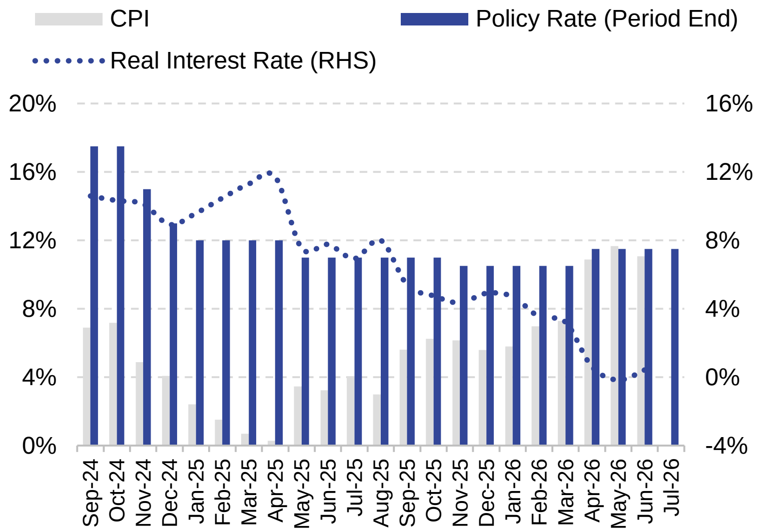
- **The Monetary Policy Committee (MPC) unanimously decided to keep the policy rate unchanged at 11.5% in its meeting held today.**
- **The Committee noted that the macroeconomic outlook has improved since its previous meeting, although risks remain elevated due to renewed tensions in the Middle East.**
- **It observed that the earlier de-escalation in geopolitical tensions lowered global oil prices and eased supply chain disruptions, supporting an improvement in recent economic indicators. While headline and core inflation moderated in June, both remained elevated.**
- **Meanwhile, high-frequency indicators pointed to a gradual recovery in economic activity, with external account pressures remaining contained.**

Key observations since the last MPC meeting

- SBP's foreign exchange reserves surpassed the end-June 2026 target of USD 18bn, supported by continued FX purchases, a small current account deficit in FY26, and the realization of planned official inflows.
- Pakistan's sovereign credit rating was also upgraded to 'B' by Standard & Poor's.
- Inflation expectations eased for both consumers and businesses in the latest sentiment surveys, while confidence indicators presented a mixed picture.
- The Committee further noted that the Federal Board of Revenue (FBR) achieved its revised FY26 tax collection target, while the IMF raised its global inflation forecasts for CY26 and CY27, reflecting higher global commodity prices.

The MPC reiterated that prudent monetary policy and continued fiscal consolidation have helped preserve macroeconomic stability despite global challenges.

Figure: CPI and Policy Rate



Source (s): SBP, PBS, AHL Research

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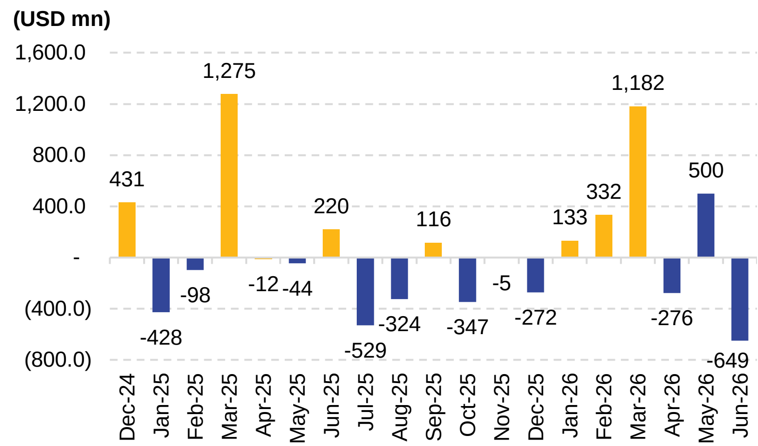
Real Sector

- Economic activity slowed in 4QFY26, reflecting the impact of the Middle East conflict, higher global energy prices, and government austerity measures.
- However, high-frequency indicators, including automobile sales, cement dispatches, fertilizer offtake, satellite imagery, and business sentiment suggested a recovery in activity during June.
- The agriculture outlook has improved, with higher expected sugarcane output likely to offset lower cotton production. Improved performance in commodity-producing sectors is also expected to support the services sector.
- Budgetary incentives, import tariff rationalization, and stronger private sector credit are expected to further support growth.
- The MPC expects real GDP growth of 3.5%–4.5% in FY27.
- However, risks from volatile global commodity prices and uncertain weather conditions, could weigh on the growth outlook.

External sector

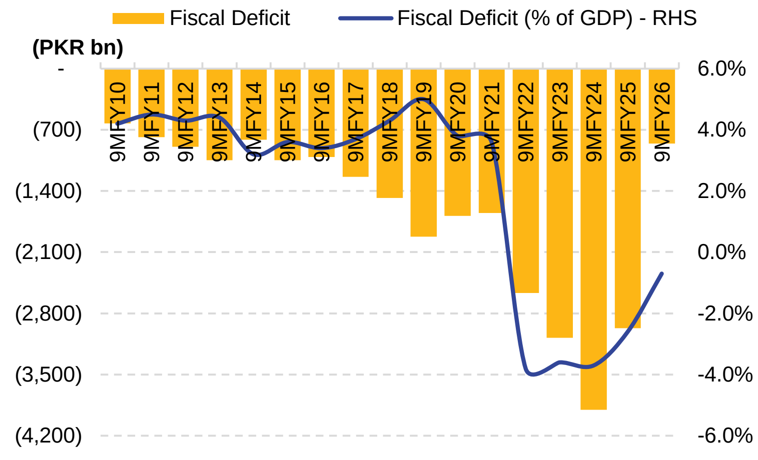
- Pakistan's current account recorded a deficit of USD 139mn in FY26, near the lower end of the projected range, as record workers' remittances partly offset a wider trade deficit caused by the Middle East conflict.
- A financial account surplus enabled SBP to strengthen its foreign exchange reserves and reduce forward liabilities. However, reserves stood at USD 17.3bn as of July 17 following sizeable external debt repayments.
- Looking ahead, the current account deficit is expected to widen with stronger economic activity but remain within 0–1% of GDP in FY27. Workers' remittances are projected to continue growing and finance a significant portion of the higher trade deficit.
- With planned official inflows and an expected improvement in private inflows, SBP targets FX reserves of USD 20.2bn by end-Dec'26.

Figure: Historical Current Account Balances



Source (s): SBP, AHL Research

Figure: Historical Fiscal Balances



Source (s): MoF, PBS, AHL Research

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Fiscal sector

- FBR achieved its revised PKR 13trn tax collection target by the end of FY26.
- The primary balance remained in surplus for the third consecutive year, while the overall fiscal deficit declined significantly compared to the previous year.
- For FY27, the government has targeted a primary surplus of 2.0% of GDP and an overall fiscal deficit of 3.6% of GDP.
- Achieving these targets will require sustained progress in revenue mobilisation and expenditure discipline amid an uncertain domestic and global environment.
- The MPC reiterated the need to accelerate fiscal reforms, particularly by broadening the tax base and curtailing losses of public sector enterprises (PSEs) to support high and sustainable economic growth.

Money and Credit

- Broad money (M2) growth moderated to 13.2% YoY as of 10th Jul’26, down from 15.2% at the time of the previous MPC meeting, reflecting lower contributions from both net domestic assets (NDA) and net foreign assets (NFA) of the banking system.
- Within NDA, the growth in net budgetary borrowing slowed, while private sector credit accelerated to 14.9%, supported by easing financial conditions.
- Credit growth was broad-based across working capital, fixed investment, and consumer financing, with major borrowing by the textile, telecommunications, and wholesale & retail trade sectors.
- Reserve money growth moderated, mainly due to the post-Eid decline in currency in circulation, while strong growth in bank deposits contributed to a lower currency-to-deposit ratio.

Inflation

- Headline inflation eased to 11.1% YoY in Jun’26 from 11.7% in May, mainly due to lower global energy prices and favorable electricity tariff adjustments.
- Core inflation also moderated to 8.4%, though it remained elevated, while food inflation increased owing to higher prices of wheat, allied products, and key perishable items.
- Inflation is expected to remain above the target range in the coming months, driven by higher global commodity prices, rising input costs, and domestic food price pressures.
- Thereafter, inflation is projected to gradually ease toward the upper end of the 5–7% target range by June 2027.
- However, the outlook remains subject to risks, including volatile global energy prices, administered energy price adjustments, adverse weather conditions, and potential fiscal slippages.

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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