

SBP Expected to Cut Policy Rate by 100 Basis Points Amid Easing Inflation and Economic Stabilization

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The Monetary Policy Committee (MPC) of the State Bank of Pakistan (SBP) will meet on Wednesday, July 30, 2025, to reveal its monetary policy decision. At its last meeting on June 16, the MPC left the policy rate at 11%, mentioning persisting threats from geopolitical tensions, external sector vulnerabilities, and inflationary expectations.

Since that time, inflation prospects have greatly improved. Headline Consumer Price Index (CPI) inflation dipped to 3.2% in June, and the FY2025 average stood at 4.49%—the lowest in nearly a decade. As inflation is now well within the SBP's higher target band, there is plenty of room for the central bank to lower policy rates without regeneration inflationary pressures.

Meanwhile, Pakistan's economic recovery has sustained at a modest rate, the government originally estimated GDP growth at 4.2% but now sees revised estimates like those by the Asian Development Bank (ADB) seeing FY2025 growth at around 2.7%. Still, robust remittances and a current account surplus have aided in boosting Pakistan's external buffers, which have made macroeconomic stability more likely.

Reflecting these improvements, the SBP has been following a cautious monetary easing trend, reducing the policy rate from a high of 22% in June 2024 to the present 11%. It is expected that this trend will continue with a 100 basis point reduction in the upcoming announcement. This would bring the benchmark rate down to 10 %, while maintaining monetary discipline.

With real interest rates remaining comfortably positive—estimated at between 300 and 500 basis points—the SBP has room to facilitate private-sector growth and investment without eroding inflation control. Notably, this projected step is aligned with the overall reform program under the IMF's Extended Fund Facility (EFF). The SBP's conservative yet accommodative stance has been well-received by global partners, particularly in conjunction with the continued efforts of the government to consolidate the public finances.

Overall, all the important and relevant indicators, restrained inflation, better external accounts, positive real interest rates, and reform commitments, move in the direction of a 100 basis point rate reduction in the next monetary policy announcement. Bringing down the policy rate to 10 % would be a measured, forward-looking response balancing macroeconomic stability with the necessity to support domestic demand.