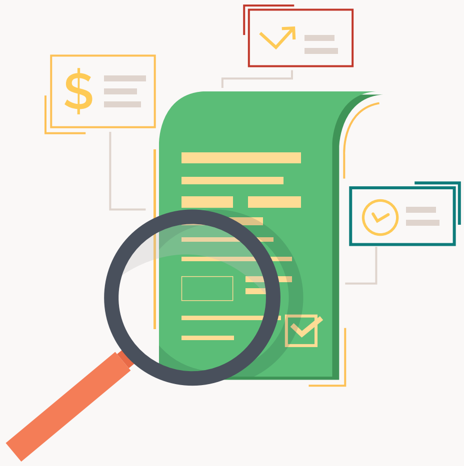


# July 2026 Monetary Policy Assessment

## Market Expectations, Macroeconomic Conditions and Policy Assessment

*PIDE MONETARY POLICY TRACKER, Pre-MPC scorecard, risk dashboard and conditional forward guidance*

## EXECUTIVE ASSESSMENT

Pakistan's monetary policy has entered a narrow corridor: inflation is easing, but not enough to declare victory; growth is recovering, but not strongly enough to absorb further tightening without cost. Against this balance, PIDE assesses that the policy rate should remain unchanged at 11.5 percent at the 27 July 2026 MPC meeting. The policy imperative is now neither to tighten reflexively nor to ease prematurely, but to preserve credibility while allowing the existing stance to work through the economy.

Inflation dynamics reinforce this case for patience. Headline CPI eased to 11.1 percent in June, yet urban and rural core inflation remain elevated at 8.7 and 7.9 percent. Much of the recent inflation impulse has come from food, energy, transport and administered prices. Monetary policy cannot reverse these first-round price increases; its task is to prevent them from becoming embedded in expectations, wages and broader price-setting. The recent rebound in weekly SPI further cautions against assuming that disinflation is firmly entrenched.

Market signals broadly support the status quo. Short-term Treasury-bill yields remain close to the policy rate and the overnight rate is aligned with the existing stance, while somewhat higher 6 and 12-month yields point to medium-term caution rather than an immediate case for either easing or further tightening. Meanwhile, economic recovery remains positive but uneven. GDP growth has strengthened, but recent large-scale manufacturing momentum remains soft, suggesting little evidence of demand-driven overheating. Further tightening would therefore impose additional costs on investment and activity without directly addressing administered-price shocks.

External conditions have improved, creating greater, but not unlimited policy space. Stronger reserves, robust remittances and an orderly exchange rate have reduced immediate external pressures. However, the wide merchandise trade deficit, forthcoming external repayments and continued dependence on imported energy leave the economy exposed to renewed external shocks.

The balance of risks therefore favors patience with a clear conditional path ahead. Easing should begin only when headline and core inflation show sustained moderation, inflation-expectation proxies improve, and exchange-rate, reserve and external-financing conditions remain stable. Conversely, persistent core inflation, broadening second-round effects or renewed energy and external pressures would justify maintaining the current stance.

**PIDE Policy Call:** HOLD at 11.5 percent. The case for patience is stronger than the case for movement: hold now, ease only when disinflation is firmly anchored.

## PIDE DECISION FRAMEWORK: FIVE PILLARS OF THE POLICY CALL

The recommendation is derived from a structured assessment of five policy pillars rather than from any single indicator. Each pillar is evaluated for the direction and strength of its signal, with the final stance reflecting the balance of inflation control, macroeconomic stability and output costs.

| Policy pillar | Current reading | Implication for 27 July |
| --- | --- | --- |
| Inflation and persistence | Headline inflation is easing, but core inflation and administered-price risks remain elevated. | Hold; do not ease prematurely. |
| Inflation expectations | No comprehensive survey-based 12-month measure is available; core inflation, market yields and weekly price momentum serve as proxies. | Maintain credibility and watch second-round effects. |
| Growth and output conditions | Recovery is positive but uneven, with soft recent LSM momentum and no clear evidence of overheating. | Against additional tightening. |
| Financial conditions | The overnight rate is close to the policy rate; the short end of the yield curve is aligned, while longer tenors show moderate caution. | Hold, while monitoring transmission, credit and lending rates. |
| External stability | Reserves and remittances have improved, but the trade gap, repayments and imported-energy exposure remain a hurdle. | Greater flexibility, but not enough for an immediate cut. |

# MACROECONOMIC SNAPSHOT

**PRE-MPC DASHBOARD · MONETARY POLICY ASSESSMENT · 27 JULY 2026**

**MACRO POLICY LAB – PIDE**

**POLICY SIGNAL**

**HOLD**
**policy rate 11.5%**

## MARKET EXPECTATIONS

**SIGNAL HOLD**

| 11.35% | 11.52% | 11.80% | 11.99% |
|---|---|---|---|
| 1-M T-bill | 3-M T-bill | 6-M T-bill | 12-M T-bill |
| −15 bps vs policy | +2 bps vs policy | +30 bps vs policy | +49 bps vs policy |

**Takeaway.** Short-term Treasury bill yields remain at or near the policy rate, supporting a hold, while higher 6- and 12-month yields signal moderate medium-term caution and provide little basis for immediate easing.

## INFLATION & MONETARY

**SIGNAL HOLD**

| 11.1% | 8.7 / 7.9% | 11.5% | 11.54% |
|---|---|---|---|
| Headline CPI | Core (NFNE) | Policy rate | O/N repo rate |
| YoY · Jun-26 ▼ from 11.7% | urban/rural | since 27-Apr-26 | 16-Jul-26 |

**Takeaway.** Disinflation is underway, but high petroleum levies keep cost-push pressure alive and limit pass-through of cheaper global oil. The stance is restrictive.

## DOMESTIC ECONOMY

**SIGNAL HOLD**

| 3.99% | 4.65% | −0.98% | +5.77% |
|---|---|---|---|
| Real GDP | Industry (VA) | LSM (May-26) | LSM cumulative |
| YoY · Q3 FY26 | YoY · Q3 FY26 | YoY | Jul–May FY26 |

**Takeaway.** The recovery is positive but uneven; services and industry lead while large-scale manufacturing is still soft. There is no sign of demand-driven overheating.

## EXTERNAL SECTOR

**SIGNAL HOLD**

| −$649 mn | $3,406 mn | $17.26 bn | −$4,679 mn |
|---|---|---|---|
| Current a/c | Remittances | SBP reserves | Trade balance |
| Jun-26 | Jun-26 | 17-Jul-26 | Jun-26 |
| FY 2026P -$139mn | | | |

Exports $2,252 mn · Imports $6,931 mn· Petroleum imports (Rs mn): crude 230,079, products 215,780.

**Takeaway.** External buffers remain supportive despite a wide trade gap and a heavy petroleum import bill. Re-serves are adequate, and the rupee has stayed orderly.

## MARKET EXPECTATIONS SUPPORT A STATUS QUO

Treasury-bill yields are an important corroborating signal rather than a mechanical guide to the MPC decision. At the 22 July auction, the 1-month MTB yield remained below the 11.5 percent policy rate, and the 3-month yield was broadly aligned with it, indicating limited immediate pressure for a policy adjustment. However, the 6- and 12-month yields rose to 11.80 and 11.99 percent, respectively, signalling moderate caution over the medium-term inflation and liquidity outlook. Overall, the yield structure supports maintaining the policy rate at 11.5 percent, as short-term conditions do not warrant tightening, while the higher longer-tenor yields provide little justification for immediate easing.

A broader reading of financial conditions is also required. The effective overnight rate of 11.54 percent on 16 July was closely aligned with the 11.5 percent policy rate, indicating that short-term liquidity conditions were consistent with the existing policy rate, dictating to keep policy rate unchanged. The yield curve was mildly upward sloping at the 22 July auction, with the 6 and 12-month cut-offs above the policy rate, pointing to medium-term caution rather than an immediate tightening signal. For subsequent editions, the tracker should report private-sector credit growth, weighted-average lending rates, monetary aggregates and the term spread alongside auction yields to assess the strength of monetary transmission.

### Table 1: Treasury Bills Yield

| MTBS | Auction dates | 13-May-26 | 20-May-26 | 10-Jun-26 | 23-Jun-26 | 8-Jul-26 | 22-Jul-26 | Market pressure |
|---|---|---|---|---|---|---|---|---|
| | | % | % | % | % | % | % | |
| MTBS | 1-Month | 11.37 | 12.23 | 12.19 | 11.80 | 11.40 | 11.35 | Low immediate Pressure |
| | 3-Month | 12.08 | 12.49 | 12.50 | 11.75 | 11.40 | 11.52 | Broadly aligned with the policy rate |
| | 6-Month | 12.35 | 12.50 | 12.49 | 11.75 | 11.44 | 11.80 | Moderate medium-term caution |
| | 12-Month | 12.5 | 12.59 | 12.99 | 11.84 | 11.49 | 11.99 | Moderate medium-term caution |
| Policy rate | | 11.5 | 11.5 | 11.5 | 11.5 | 11.5 | 11.5 | - |
| Market Pressure (Overall) | | Rising Pressure | High Pressure | | Moderating Pressure | Low Pressure | Low short-term pressure, with moderate medium-term caution | Support maintaining the policy rate at 11.5% |

Source: SBP

### Pressure Guide

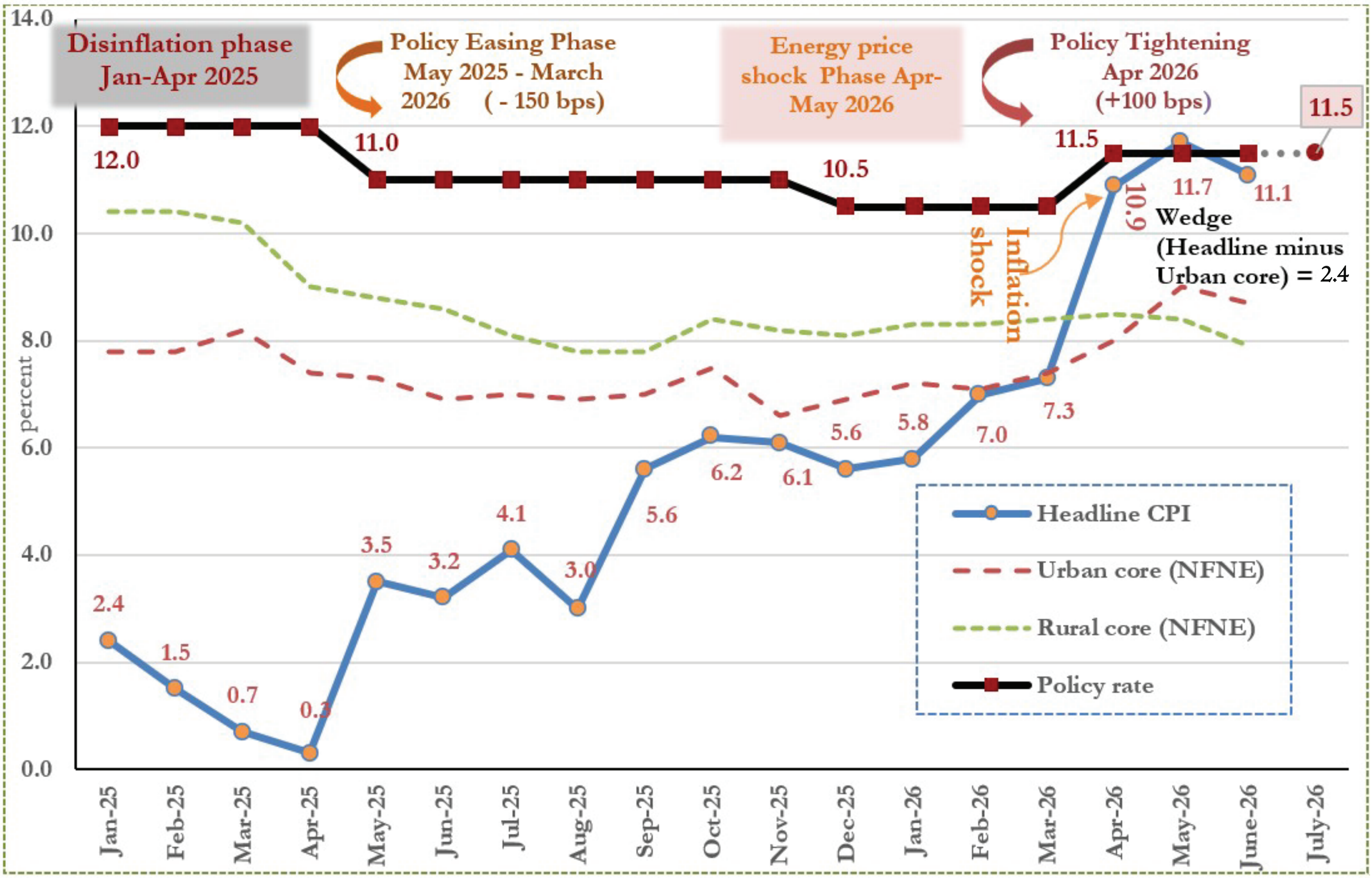
| | | | |
|---|---|---|---|
| High Pressure: MTB rate > Policy rate by more than 50 bps | Rising Pressure: MTB rate > Policy rate by more than 25-50 bps | Moderating Pressure: MTB rate > Policy rate by 0-50 bps | Low Pressure: MTB rate ≤ Policy rate |

## INFLATION RISKS REQUIRE CONTINUED VIGILANCE

Headline CPI inflation eased to 11.1 percent year-on-year (YoY) in June, and prices declined by 0.3 percent month-on-month, but underlying pressure has not disappeared. Urban and rural NFNE core inflation stood at 8.7 percent and 7.9 percent. Food, housing-energy and transport contributed 8.33 percentage points to headline inflation. The latest acceleration originated largely in administered energy, transport and food prices, while persistent core measures point to second-round risks. At 11.5 percent, the policy rate is only 0.4 percentage point above current headline inflation but 2.8-3.6 percentage points above core (NFNE) inflation, a firmly positive real rate on the measure most relevant to underlying, persistent inflation. In the absence of a reliable survey-based measure of 12-month inflation expectations, an exact ex-ante real rate cannot be computed; on backward-looking measures, however, the stance is clearly restrictive relative to core. The evidence therefore supports a hold rather than either renewed tightening or immediate easing. Given the fragile global environment, it is too early to draw firm conclusions on inflation; however, if oil prices remain stable, inflation in Pakistan is expected to ease.

Monetary policy should remain forward-looking rather than responding solely to current inflation outcomes. While recent indicators support maintaining the policy rate, the appropriate stance will depend on how inflation, inflation expectations, growth and external conditions evolve over the coming months. A sustained moderation in core inflation, continued stability in inflation expectations and external accounts, and further easing in underlying price pressures would strengthen the case for a gradual policy easing cycle. Conversely, renewed energy-price shocks, persistent core inflation, deterioration in inflation expectations or emerging external financing pressures would warrant maintaining the current stance for longer or, if sufficiently severe, reconsidering additional tightening. Against this balance of risks, maintaining the policy rate at 11.5 percent remains the most appropriate course at the July 2026 MPC meeting.

### Figure 1: Headline vs core Inflation & SBP Policy rate (YoY%)



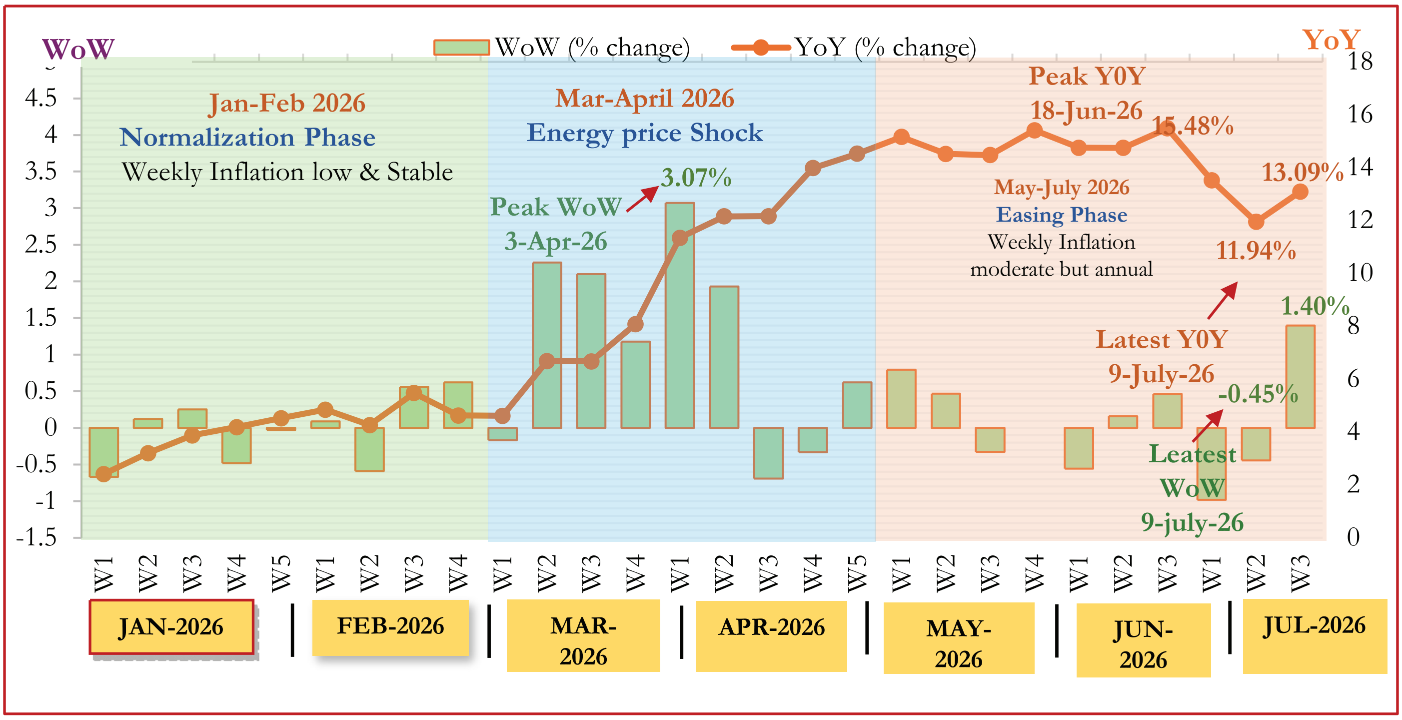

**Source:** PBS (CPI, NFNE core); SBP (policy rate); Prepared by MPL team, PIDE

## SHORT-TERM PRICE PRESSURES REMAIN VOLATILE

Near-term price momentum remains volatile rather than uniformly disinflationary. The combined Sensitive Price Indicator rose by 1.40 percent week-on-week in the week ended 16 July, after declines of 0.98 percent and 0.45 percent in the preceding two reported observations. The latest increase was concentrated in tomatoes, chicken, LPG, high-speed diesel and petrol.

Year-on-year SPI inflation was 13.09 percent. The rebound does not by itself establish a renewed inflation trend, but it demonstrates how quickly weekly readings can reverse when food or fuel prices change. Sustained movements in monthly and core inflation are therefore more informative for policy decisions than any single weekly observation.

## Figure 2: SPI Weekly Trends (%, WoW &YoY)




**Source:** Prepared by MPL Team PIDE, using PBS data

## GROWTH IS RECOVERING BUT UNEVEN

The recovery remains positive but uneven. Real GDP expanded by 3.99 percent year-on-year in Q3 FY2025-26 and industrial value-added grew by 4.65 percent. LSM, however, contracted by 0.98 percent year-on-year in May even as cumulative July-May growth remained 5.77 percent. This combination indicates that earlier gains coexisted with weaker recent momentum, sectoral divergence and base effects. Elevated financing costs are one of several constraints on investment, alongside energy costs, taxation, demand conditions and structural bottlenecks. Holding the policy rate preserves anti-inflation credibility without adding unnecessary pressure on output and employment. Q4 FY2025-26 in Figure 3 is an MPL forecast rather than an official PBS estimate.

## EXTERNAL SECTOR PROVIDES GREATER POLICY FLEXIBILITY

Pakistan's external position has improved but remains exposed. The current account recorded a US$649 million deficit in June, while workers' remittances reached US$3.48 billion. SBP liquid foreign exchange reserves were US$17.26 billion on 17 July; total liquid reserves, including commercial bank holdings, were US$22.68 billion. The rupee traded near PKR278 per US dollar in mid-July. These indicators reduce immediate external financing pressure, but they do not by themselves establish reserve adequacy.

The policy space created by higher reserves is constrained by a customs-based merchandise trade deficit of US$4.68 billion in June, upcoming external repayments and continuing dependence on imported energy. External conditions, therefore, support maintaining the current stance while preserving flexibility to respond if reserve losses or exchange-rate pressure re-emerge.

Reserve adequacy should be assessed against prospective imports and external financing needs, not only the headline reserve stock. The improved reserve position reduces immediate liquidity pressure, but the policy assessment must continue to track months of import cover, scheduled public external debt service, expected multilateral and bilateral inflows, rollover risks and the composition of reserve accumulation. A deterioration in these indicators, even with a stable spot exchange rate, would narrow the space for monetary easing.

## INFLATION REMAINS CONCENTRATED IN SUPPLY-SIDE COMPONENTS

June inflation was concentrated in a limited number of high-weight groups. Food contributed 3.33 percentage points, housing-energy 3.22 points and transport 1.78 points; together they accounted for about 75 percent of the 11.1 percent headline rate. A large contribution may reflect a high CPI weight, rapid price growth, or both. This concentration does not mean that underlying inflation is fully contained, because NFNE core inflation remains elevated. A policy hold allows the existing stance to limit second-round effects without treating first-round administered-price shocks as demand inflation.

## POLICY RISK MATRIX

The baseline recommendation is a hold, but the balance can shift quickly. The matrix below identifies the main risks, their assessed likelihood and their monetary-policy implications.

| Risk | Probability | Likely macro impact | Policy implication |
|---|---|---|---|
| Renewed global oil-price shock | Medium-High | Higher transport and energy inflation; weaker external balance | Hold with tightening bias if second-round effects broaden. |
| Persistent core inflation | Medium-High | Slower disinflation and weaker expectations anchoring | Delay easing; hike if persistence intensifies. |
| Exchange-rate depreciation | Medium | Imported inflation and reserve pressure | Hold or tighten depending on persistence and pass-through. |
| External financing shortfall or rollover stress | Medium | Reserve losses, liquidity pressure and exchange-rate risk | Against easing; tighten if market stress becomes disorderly. |
| Weaker industrial and employment recovery | Medium | Lower investment, output and labour demand | Supports a cut only after inflation and external conditions improve. |
| Faster-than-expected disinflation with stable reserves | Low-Medium | Improved real incomes and room for less restrictive policy | Begin gradual, data-dependent easing. |

## POLICY ASSESSMENT

The overall evidence supports maintaining the policy rate at 11.5 percent.

The case against another increase rests on moderating headline inflation, Treasury-bill yields at or below the policy rate, an overnight rate closely aligned with the policy setting, improved external buffers, and uneven industrial momentum. Higher interest rates would have a limited direct effect on administered fuel and electricity prices while raising financing costs for firms and households. The case against an immediate reduction is equally important. Headline inflation remains above the 5-7 percent medium-term target, core inflation is elevated, weekly SPI rebounded in mid-July, and energy prices remain sensitive to geopolitical developments. Premature easing could weaken expectations, while renewed core or external pressure would reopen the case for tightening.

| Policy stance | Indicative triggers |
|---|---|
| HOLD (baseline) | Headline inflation moderates but remains above target; core inflation stays elevated; the exchange rate remains orderly; reserves are broadly stable; and growth remains positive but uneven. |
| CUT (gradual easing) | Sustained moderation in headline and core inflation; improving expectations proxies; a positive ex-ante real rate; stable exchange rate and reserves; contained external financing risks; and no new administered-price shock. |
| HIKE (risk response) | Acceleration in core inflation; broadening second-round effects; deterioration in expectations; sustained exchange-rate or reserve pressure; renewed oil shock; or a material inconsistency between fiscal conditions and the disinflation objective. |

Maintaining the policy rate at 11.5 percent is therefore warranted. The recent escalation in international oil prices has materially increased upside risks to inflation and reduced the space for premature easing. While additional tightening is not justified at this stage, the burden of proof has clearly shifted against a near-term rate cut. Any easing should follow only after sustained moderation in core inflation and inflation expectations, together with stability in the exchange rate, reserves and energy prices.

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