



June 2026 Monetary Policy Assessment

Balancing Disinflation, Growth and Macroeconomic Stability

EXECUTIVE ASSESSMENT















The State Bank of Pakistan's Monetary Policy Committee meets on 15 June 2026 at an important juncture for the economy. Inflation has accelerated in recent months, rising from 7.3 percent in March to 10.9 percent in April and 11.7 percent in May 2026. At the same time, economic recovery remains gradual, financial conditions have tightened significantly, and external sector indicators have strengthened considerably.

The key policy question before the MPC is not whether inflation remains elevated. It clearly does. Rather, the question is whether the recent increase in inflation reflects broad-based demand pressures requiring further monetary tightening, or whether it is primarily driven by cost-push and administered-price factors that are less responsive to interest-rate adjustments in the short run.

PIDE assessment suggests that the recent inflation surge is largely attributable to higher fuel costs, petroleum levy adjustments, administered energy prices, transport costs, and their subsequent pass-through to food and production systems. While these developments warrant vigilance, they do not necessarily indicate an overheating economy.

Moreover, market expectations are broadly aligned with a cautious hold: recent commentary suggests that, while views remain divided between status quo and a modest hike, easing oil-price and geopolitical pressures have reduced the probability of another increase, whereas still-elevated inflation and expectation risks make a rate cut premature.

Macroeconomic snapshot ahead of the 15 June 2026 MPC meeting

Inflation is high, but cost/fiscal driven	Policy stance is already tight	Growth momentum is softening	External buffers are supportive
<p>Key Readings</p> <p> Headline CPI 11.7% YoY, May 2026 - highest since Jun-2024</p> <p> MPL forecast 10.72 / 9.97 / 9.41% in Jun/Jul/Aug - declining path</p> <p> SPI 14.75% YoY, week of 4-Jun; WoW now -0.56%</p> <p> Petroleum levy Petrol/HSD Rs 91.3 / 68.9 per litre; about 24% / 18% of pump price</p>	<p>Key Readings</p> <p> Policy rate 11.50%, after +100bps on 27-Apr-2026</p> <p> Core NFNE Urban/rural 9.0% / 8.4%, both below policy rate</p> <p> T-bill cut-offs 6M/12M at 12.50% / 12.59%; market has added about 100bps</p> <p> FY27 expected inflation 8.2%; implies ex-ante real policy rate of about +3.3pp</p>	<p>Key Readings</p> <p> Real GDP Q3 FY26 at 3.99%; Q4 MPL forecast at 2.86%; FY26 about 3.70%</p> <p> LSM +6.48% cumulative Jul-Mar FY26, but recovery is uneven and volatile</p> <p> Financing cost Credit costs near 12.5% likely constrain working-capital conditions</p>	<p>Key Readings</p> <p> Current account Apr-26 deficit of \$324m after Mar surplus of \$1.134bn; FY26 near balance</p> <p> Remittances \$4.251bn in May 2026; Jul-May \$38.1bn (+9.2%)</p> <p> SBP reserves \$17.19bn on 29-May-2026; multi-year high</p>
<p>Policy signal</p> <hr style="width: 20%; margin: auto;"/> <p>Do not chase tax/administered inflation only with the policy rate; the fiscal lever matters.</p>	<p>Policy signal</p> <hr style="width: 20%; margin: auto;"/> <p>Holding is not easing; it preserves a restrictive stance while avoiding overtightening.</p>	<p>Policy signal</p> <hr style="width: 20%; margin: auto;"/> <p>A further hike would add output and working-capital costs when momentum is fading.</p>	<p>Policy signal</p> <hr style="width: 20%; margin: auto;"/> <p>No urgent external-defence case for a precautionary hike at this meeting.</p>

MONETARY CONDITIONS REMAIN RESTRICTIVE

Monetary policy has already moved into restrictive territory. Following the increase in the policy rate to 11.5 percent, both policy and market interest rates remain above prevailing core inflation measures and above expected inflation over the coming year.

Financial markets have also incorporated additional tightening through higher treasury bill yields and interbank rates. Consequently, monetary conditions facing businesses and households are materially tighter than suggested by the policy rate alone.

In this environment, further tightening may yield limited near-term benefits in reducing cost-driven inflation while imposing additional costs on investment, working capital financing, industrial activity and private-sector expansion.

INFLATION RISKS REQUIRE CONTINUED VIGILANCE

The recent inflation acceleration should not be dismissed. Persistent cost shocks can eventually influence inflation expectations, wage negotiations and price-setting behaviour. If households begin to expect higher inflation, workers demand compensation, and firms adjust prices pre-emptively, a cost-push shock can become more persistent.

Moreover, global energy markets remain vulnerable to geopolitical developments, while imported inflation risks cannot be ruled out. For this reason, maintaining credibility in the monetary policy framework remains essential. Any policy decision should continue to signal the State Bank's commitment to medium-term price stability and inflation expectations management.

GROWTH CONSIDERATIONS MATTER

Pakistan's economy has shown encouraging signs of stabilization during FY2025-26. However, the recovery remains uneven and fragile. Industrial activity, private investment, construction, transport-linked activity and SMEs continue to face elevated financing costs and uncertain demand conditions.

Additional monetary tightening at this stage could disproportionately affect productive sectors without materially reducing the principal drivers of current inflation. This is particularly relevant where firms rely on short-term borrowing for working capital, inventories and production finance.

EXTERNAL SECTOR PROVIDES GREATER POLICY SPACE

The external position has strengthened significantly compared to previous years. Foreign exchange reserves have reached multi-year highs, remittance inflows remain robust, and the current account position remains broadly manageable.

While global uncertainties continue to pose risks, the immediate need for defensive monetary tightening to protect external stability appears considerably weaker than during earlier episodes of macroeconomic stress. External conditions therefore provide some policy space, although continued monitoring of oil prices, import payments, reserves and exchange-rate pressures remains necessary.

POLICY ASSESSMENT

On balance, current macroeconomic conditions suggest that maintaining the policy rate at its existing level would be consistent with preserving a restrictive monetary stance while allowing policymakers to assess the persistence of recent inflationary pressures.

Accordingly, the most prudent course for the June 2026 MPC appears to be maintaining the current policy rate while closely monitoring inflation expectations, core inflation trends, external developments and evolving domestic demand conditions. A hold should be framed as a conditional and data-dependent pause, not as

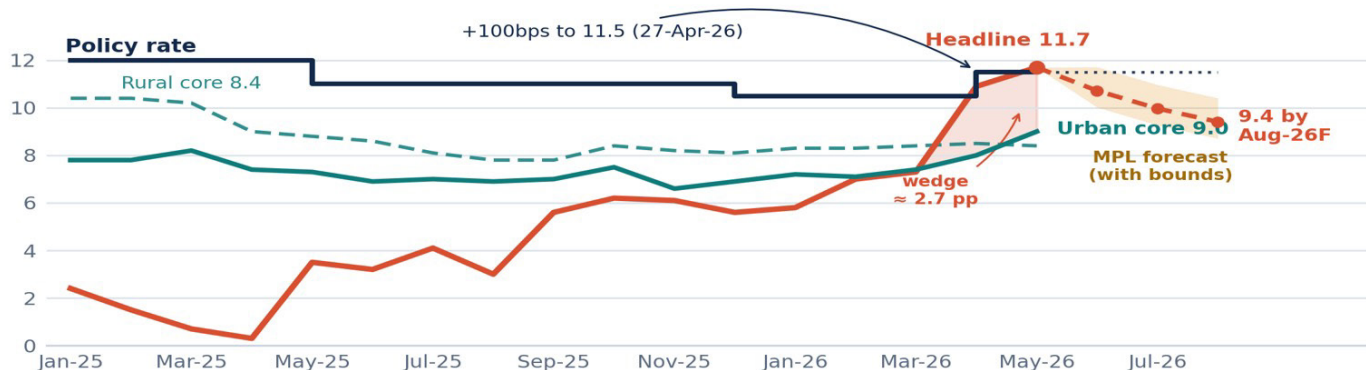
easing or complacency. If inflation expectations become unanchored, second-round effects broaden, or external pressures intensify, the case for further tightening would strengthen.

ANNEX A: INFLATION DECOMPOSITION

Figure A1: One inflation number, two stories – headline vs core inflation and the policy rate (% YoY)

1 One inflation number, two inflation stories

Headline CPI vs core (NFNE) inflation and the policy rate, %, YoY | Jan-25 – May-26 + MPL forecast



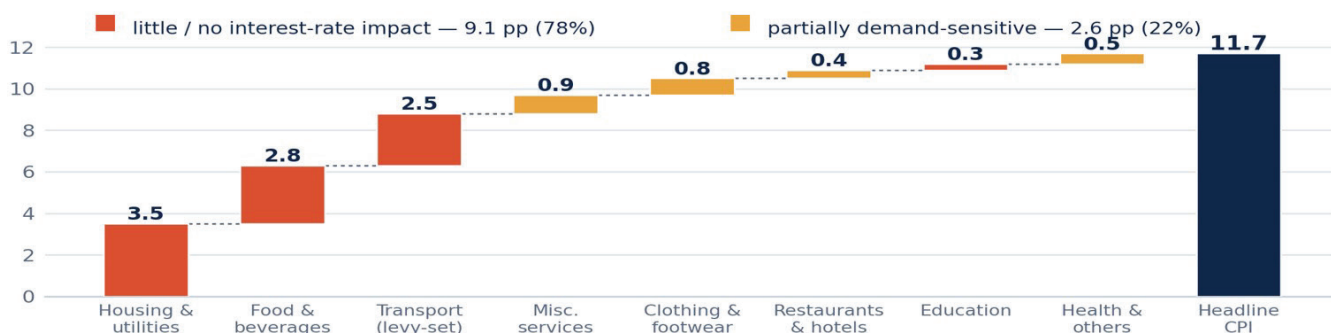
Source: PBS; SBP; MPL forecasts. Bounds: Jun 10.02-11.72; Jul 9.27-10.97; Aug 8.71-10.41. Wedge = headline minus urban core.

Source: PBS; SBP; MPL forecasts. Shading = wedge between headline and urban core. Dashed section = MPL inflation forecast with uncertainty bounds (Jun-Aug 2026).

Figure A2: What the policy rate can and cannot reach – contributions to May-2026 CPI (pp) by interest-rate sensitivity

2 What the policy rate can and cannot reach

Contributions to May-2026 headline CPI of 11.7%, percentage points, by sensitivity to interest rates



Source: PBS CPI May-2026; classification per PRAC (2026) and authors' assessment. Transport CPI +36.8% YoY; housing & utilities +16.8% YoY.

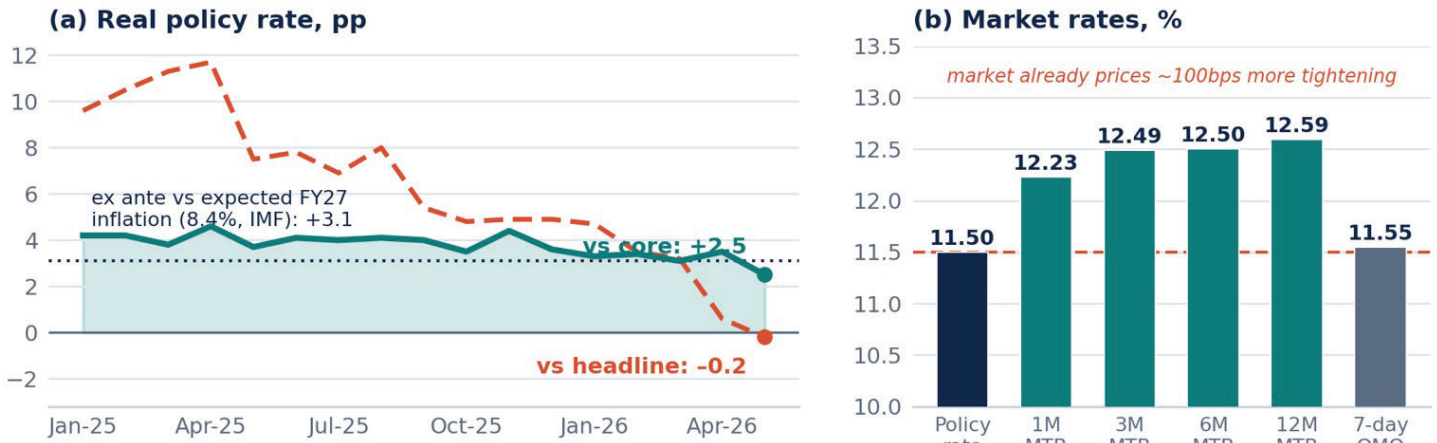
Source: Source: PBS CPI May-2026; classification per PRAC (2026). Coral = little/no rate impact (78%); Gold = partially demand-sensitive (22%).

ANNEX B: MONETARY CONDITIONS

Figure B1: Monetary policy already restrictive – real policy rate (a) and money-market rates (b)

3 Policy is already restrictive – and markets have tightened further

(a) Real policy rate, ex post, pp (b) Money-market rates vs policy rate, late-May 2026, %



Source: SBP MTB auction 20-May-2026; SBP DMMO OMO 29-May-2026; PBS. Expected FY27 inflation: IMF programme projection of 8.4%.

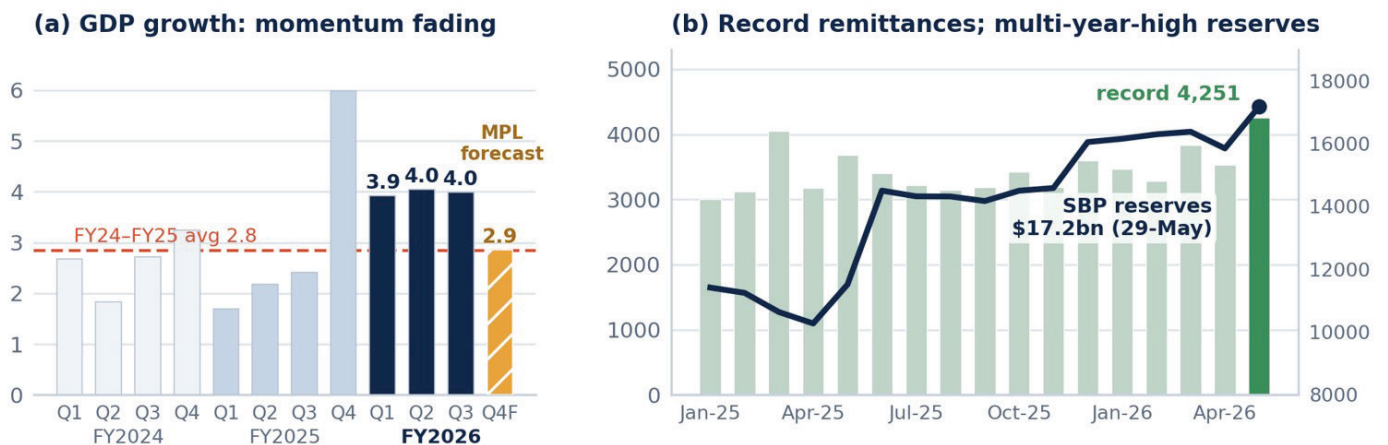
Source: SBP MTB auction 20-May-2026; PBS. Ex-ante real rate vs IMF FY27 projected inflation (8.4%): +3.1pp.

ANNEX C: GROWTH INDICATORS

Figure C1: A recovery, not an overheating – GDP growth by quarter (a) and external buffers (b)

4 A recovery, not an overheating – backed by record external buffers

(a) Real GDP growth by quarter, %, YoY (b) Remittances (bars) and SBP reserves (line), USD mn



Source: PBS National Accounts; SBP. Q4 FY26 (hatched) = MPL forecast of 2.86%, consistent with PBS provisional FY26 growth of 3.70%.

Source: Source: PBS national accounts; SBP. FY26 Q4 bar (gold, hatched) = MPL forecast of 2.86%, consistent with PBS provisional FY26 estimate of 3.70%. May-2026 remittances are an all-time monthly record.

Risk

- Inflation expectations rise
- Core inflation becomes persistent
- Second-round wage and pricing effects
- External price pressure returns
- Further fiscal cost-push shocks
- Growth weakens further

What to monitor

- Household and business expectations, SPI persistence, survey-based price expectations
- Urban/rural core NFNE, month-on-month core momentum
- Wage demands, business pricing behaviour, input-cost pass-through
- Global oil prices, exchange rate, reserves, current account
- Petroleum levy path, power/gas tariffs, indirect tax measures
- LSM, private-sector credit, SME financing, construction-linked activity

Policy implication

- If expectations remain contained, maintaining the current restrictive stance remains appropriate. If expectations rise materially, the MPC may need to reassess.
- Stable core supports a hold; persistent core acceleration would weaken the case for waiting.
- If wage and pricing behaviour remain contained, the current shock can be monitored without additional tightening.
- Current buffers reduce the need for defensive tightening, but renewed external pressure would require caution.
- A predictable fiscal path supports monetary stability; further fuel or tariff shocks could complicate expectations.
- A weaker recovery raises the cost of further tightening and supports maintaining the current stance, unless inflation expectations deteriorate.

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