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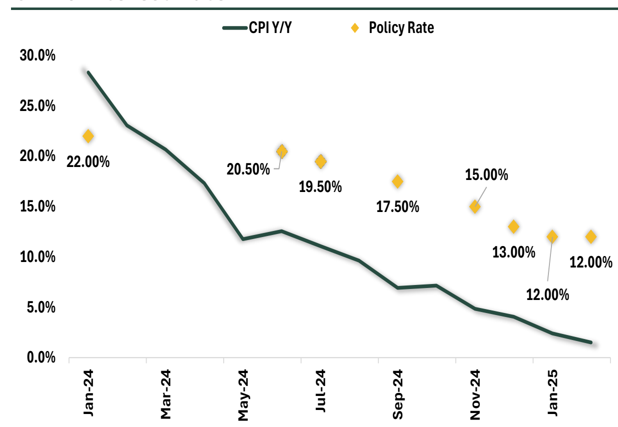
Economy

Tuesday, March 11, 2025

Unchanged Stance: SBP maintain policy rate at 12%

CPI vs Interest Rate



Source: SBP, PBS, HMFS Research

The State Bank of Pakistan (SBP), in its monetary policy meeting on 10th March, announced an unchanged policy rate, maintaining it at 12%. This decision signals a pause in the monetary easing cycle after six consecutive rate cuts since June 2024, when the policy rate peaked at 22%.

The central bank's decision reflects a stabilized inflation trajectory, with single-digit inflation and a positive real interest rate environment. However, the SBP's cautious stance underscores the importance of policy flexibility, ensuring that monetary easing does not outpace economic fundamentals. Despite inflation dropping to 1.5% in February 2025—its lowest level in nearly seven years—this decline has largely been driven by a high base effect, easing global commodity prices, and front-loaded energy tariff adjustments rather than fundamental structural improvements. The SBP remains mindful of historical trends where premature easing led to external imbalances and forced abrupt monetary tightening under IMF programs.

The SBP has justified its decision by citing improved economic indicators. Pakistan's external account remains stable for now, supported by strong worker remittances averaging USD 3bn per month (↑25.2% y/y), cumulative Jul-Jan FY25 remittances of USD 20.8bn (↑31.7% y/y), and a surge in Foreign Direct Investment (FDI) by 56% to USD 1.5bn in 7MFY25. Additionally, total foreign exchange reserves stood at USD 15.87bn, while the current account recorded a surplus of USD 0.7bn during Jul-Jan, reversing last year's deficit. However, risks persist as import growth has picked up since January 2025, with the current account slipping back into deficit (USD 420mn in January).

Outlook: In the upcoming MPC, SBP may resume its rate cut cycle as inflation remains low and economic stability improves. With external account indicators showing resilience and fiscal consolidation efforts continuing, the central bank could opt for a measured rate reduction to support growth. However, policymakers will likely assess the trajectory of inflation, external funding inflows, and IMF review reforms before making any decisions. A cautious approach remains essential to avoid sudden policy reversals and ensure long-term macroeconomic stability.

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