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State Bank of Pakistan slashes policy rate to 15% as inflation dips

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The State Bank of Pakistan (SBP) announced a 250-basis-point cut in its policy rate to 15% on Monday, citing easing inflation and a promising economic outlook. The new rate, effective from November 5, comes amid slower-than-expected inflation, which reached close to the central bank's medium-term target in October. The Monetary Policy Committee (MPC) highlighted a drop in inflationary pressures, aided by stable food prices, favourable global oil conditions, and minimal adjustments in domestic tariffs. While inflation volatility is expected to continue, the MPC anticipates stabilisation within the 5–7% target range over the near term. The SBP also cited other recent developments, including the approval of Pakistan's Extended Fund Facility by the IMF, which has boosted economic confidence and attracted planned external inflows. Additional factors, such as improved investor sentiment and lower government yields, further supported the MPC's decision. The committee noted a positive trend in Pakistan's real sector, with growth in industries like textiles, food, and automobiles. The agricultural sector's stronger-than-expected Kharif crop output has also bolstered economic confidence. With inflation containment underway, the SBP expects real GDP growth for FY25 to range between 2.5% and 3.5%. On the external front, the current account posted a surplus for the second consecutive month in September, aided by strong remittances and exports. Despite increased imports, SBP foreign reserves reached $11.2 billion by late October, with further increases projected in coming months. The SBP's revised inflation outlook for FY25, adjusted to below the previous forecast range of 11.5%–13.5%, reflects reduced core inflation and improving domestic supply. However, potential risks include Middle East tensions and ad hoc fiscal adjustments.