MONETARY POLICY REVIEW

ABBASI AND COMPANY (Pvt) Ltd.

SBP Raises Policy Rate by 50bps to 12.0% as Middle East Conflict Clouds the Inflation Outlook

Monetary Policy Statement | Key Takeaways

Tuesday, 27 October, 2026

Decision: Majority decision of nine out of ten MPC members

Inflation target: 5 – 7 percent over the medium term

Source: SBP Monetary Policy Statement, October 26, 2026

Policy Rate	**12.00%**
Change	**+50bps**
Effective From	**27-Oct-2026**

SBP Monetary Policy Statement | Overview | Tuesday, 27 October, 2026

The SBP's Monetary Policy Committee (MPC) raised the policy rate by 50bps to 12.0% on October 26, 2026 (effective October 27), with a majority decision of nine out of ten members. The Committee noted that the intensifying Middle East conflict is keeping global energy prices persistently elevated and has worsened the inflation outlook, while the external account and growth outlook remain broadly unchanged. The hike aims to anchor inflation expectations, contain second-round effects and bring inflation within the 5–7% target.

Key Developments Since the Last Meeting

- **FX reserves:** Stable at ~US$21.5bn, ~3 months of import cover
- **IMF:** Staff-level agreement reached
- **FY26 GDP:** Revised to 3.7%, almost unchanged
- **FBR:** Exceeded its Q1-FY27 revenue target
- **Expectations:** Consumers' inflation expectations up; businesses' down
- **Global:** Major central banks hiked; IMF raised global inflation projections

12.0% Policy Rate (+50bps)	**10.3%** Headline CPI (Sep, y/y)	**~8.4%** Core Inflation
US$21.5bn SBP FX Reserves	**US$874mn** Q1-FY27 CA Deficit	**3.5–4.5%** FY27 GDP Growth (proj.)

Source: SBP Monetary Policy Statement (October 26, 2026)

Key Sectoral Takeaways | Tuesday, 27 October, 2026

Real Sector

- **LSM:** Grew 1.9% y/y in Jul–Aug FY27 vs 0.4% in Q4-FY26
- **Activity:** Kharif crops better than anticipated; services indicators improving
- **FY27 GDP:** Projected within 3.5–4.5%

External Sector

- **CA deficit:** US$874mn in Q1-FY27; imports rising sharply
- **Inflows:** Exports led by rice, HVA textiles & services; remittances resilient
- **FY27 CAD:** Within 0–1% of GDP; FX reserves to rise further

Fiscal Sector

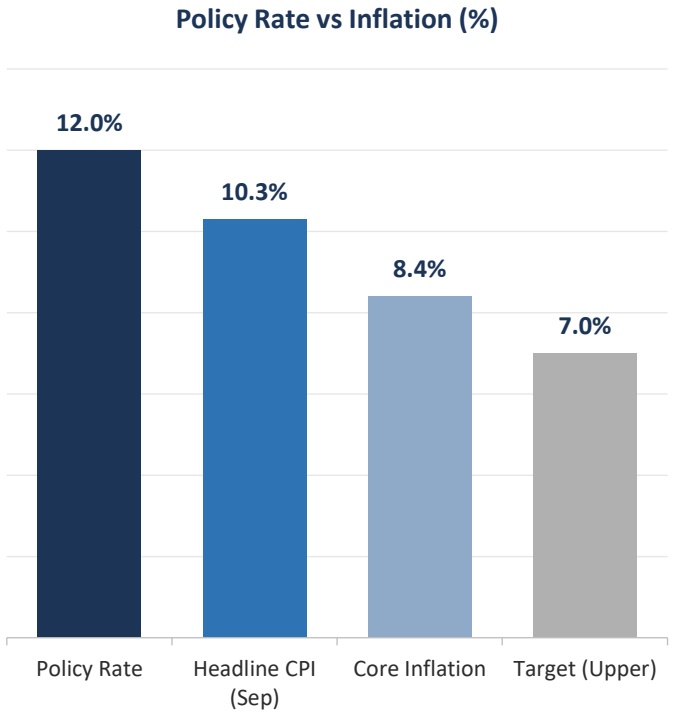
- **FBR:** Collection up 7.0% y/y in Q1-FY27, Rs33bn above target
- **Balances:** Overall and primary balances assessed in surplus in Q1-FY27
- **Challenge:** Middle East conflict has made fiscal management harder

Money & Credit

- **M2:** Growth rose to 12.7% y/y (Oct 9) from 11.4% (Aug 28)
- **PSC:** Grew 14.1% y/y, broad-based; led by textiles, trade and agriculture
- **NDA:** Decelerated amid lower net budgetary borrowing from banks

Inflation Assessment and Policy Outlook | Tuesday, 27 October, 2026

- **Headline CPI:** 10.3% y/y in September, above the MPC's expectation, driven by energy, wheat and allied products.
- **Core inflation:** Steady at ~8.4%; risk that food and energy inflation lifts expectations and seeps into core.
- **Drivers:** Middle East conflict and domestic wheat supply frictions are expected to persist over the next few months.
- **Policy stance:** Hike keeps the real policy rate adequately positive on a forward-looking basis to reach the 5–7% target.
- **Risks:** Geopolitical tensions, commodity price volatility, energy tariff adjustments, wheat prices and adverse weather.
- **Way forward:** MPC stressed building external and fiscal buffers, a prudent policy mix and timely structural reforms.



Source: SBP Monetary Policy Statement (October 26, 2026)

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FCFE – Free Cash Flows to Equity	FCFF – Free Cash Flows to Firm	DCF – Discounted Cash Flows
PE – Price to Earnings Ratio	PB – Price to Book Ratio	BVPS – Book Value Per Share
EPS – Earnings Per Share	DPS – Dividend Per Share	ROE – Return of Equity
ROA – Return on Assets	SOTP – Sum of the Parts	LDCP – Last Day Closing Price

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