

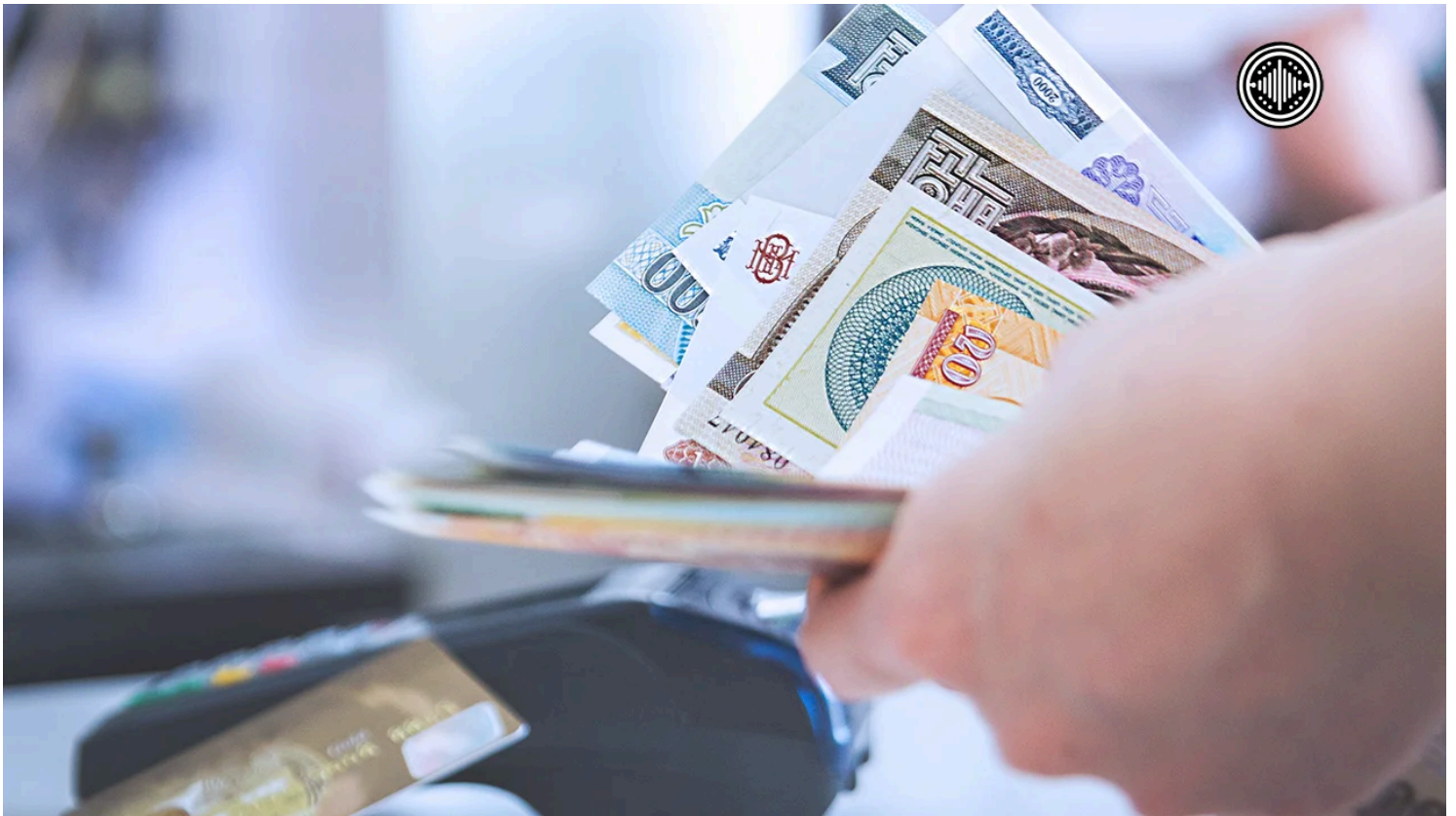
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Pakistan Think Tank Urges SBP to Slash Interest Rate

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— Categories: Finance



With inflation dropping to 3.2% and a key monetary policy meeting imminent, pressure is mounting on the State Bank of Pakistan (SBP) to significantly lower interest rates, potentially down to single digits.

According to the Finance Ministry's monthly economic outlook, inflation is forecast to remain within the 3.5% to 4.5% range in July, though risks from heavy rains could disrupt agricultural supply chains. Despite low inflation, the central bank's current policy rate stands at 11%, creating a real interest rate of 7.8%, the highest among regional economies.

A newly launched think tank, the Economic Policy and Business Development (EPBD), has called for the SBP to reduce rates to 6%. EPBD argues that Pakistan's real interest rate severely undermines business competitiveness, especially compared to India's 3.4% and China's 1.4%. The think tank warns that current monetary policy is impeding industrial growth and employment, with Pakistan's GDP growth projected at only 3.4% nearly half of India's.

The SBP's Monetary Policy Committee is set to meet on July 30, with market expectations indicating only a modest rate cut of 0.5% to 1%.

The Finance Ministry reported signs of economic recovery, including improved investor confidence and rising industrial activity. Large-scale manufacturing showed momentum in June, supported by stronger private sector credit and increased production. However, high borrowing costs remain a key constraint for businesses seeking expansion.

EPBD stated that a 6% interest rate would not only enhance access to affordable capital but also ease the fiscal burden. With 59% of public debt tied to floating rates, a rate cut could reduce annual debt servicing costs by Rs3 trillion, which currently consumes 46% of federal expenditure.

Additionally, Pakistan's export-to-GDP ratio remains stagnant at 10.48%, in contrast to India's 21.85% and Vietnam's 87.18%. EPBD highlighted that the combination of high interest rates and energy tariffs ranging from 12 to 14 cents per kWh compared to 5 to 9 cents in the region undermines Pakistan's global competitiveness.

The report also pointed to a 10.6% decline in perishable food prices and a 3.3% drop in housing and utility costs, contributing to lower inflation. For fiscal year 2026, the Finance Ministry anticipates GDP growth of 4.2% and continued price stability. It emphasized the need for sustained fiscal consolidation, improved tax collection, and modernization of key sectors to maintain momentum.

However, independent economists have questioned the government's reported 2.7% growth last year, underscoring concerns about data transparency and economic credibility.