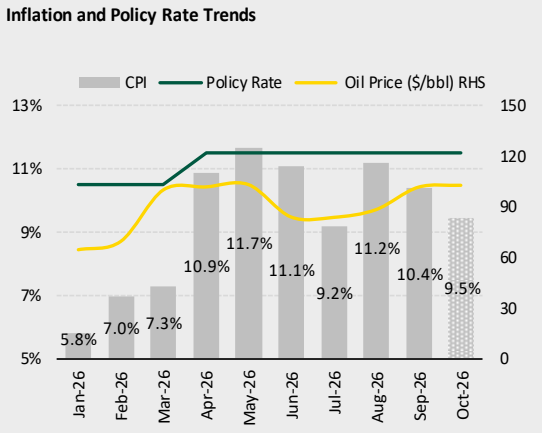
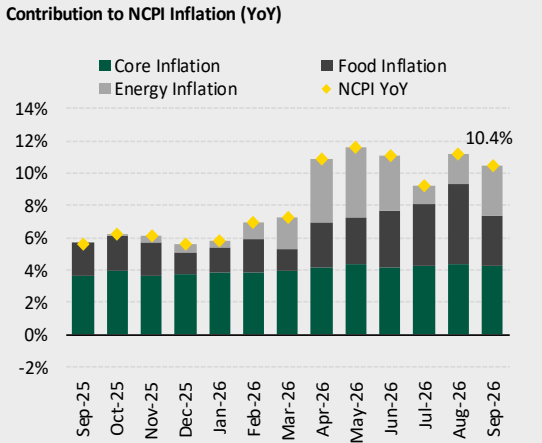


Economics

PAKISTAN



Source: PBS, SBP, Foundation Research, Oct 2026



Source: PBS, Foundation Research, Oct 2026

Analyst

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Foundation Securities (Pvt) Ltd
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Pakistan Economy

MPC preview: 50bps hike to keep real rates positive

We expect a 50bps hike to 12.0% on 26 Oct’26

We expect the Monetary Policy Committee (MPC) to raise the policy rate by 50bps to 12.0% at its meeting on Monday, 26 Oct’26. The SBP has kept the policy rate at 11.5% through three consecutive reviews since its 100bps hike in Apr’26. A broadly stable rupee and record FX reserves give the SBP some room to wait. In our view, though, persistent above-target inflation driven by oil price volatility amid war in the Middle East, rising inflation expectations, a thin real interest rate and a pickup in growth argue for a measured, pre-emptive hike. A 50bps hike would lift the ex-post real interest rate to ~2.5% on our Oct’26 inflation estimate, from ~1.2% in Sep’26.

Oct’26 inflation expected at 9.5% YoY and 1.0% MoM

National CPI is projected to increase by 1.0% MoM in Oct’26. Together with a favourable base effect (Oct’25: +1.8% MoM), this would ease YoY inflation to 9.5%, from 10.3% in Sep’26 and 6.2% in Oct’25.

Food (~34.6% weight in CPI) is expected to be the largest contributor. Prices rose for wheat flour (+9.7%), chicken (+17.1%) and pulse gram (+11.0%), partly offset by declines in tomatoes (-32.1%), potatoes (-10.0%) and onions (-6.4%). The housing index (~23.6% weight) should rise on the quarterly house rent revision. Motor fuel prices are up ~2.4% on a monthly average basis.

We maintain our FY27 projection of average inflation at 8.8% YoY (FY26: 7.0% YoY). Inflation is expected to hover around 9.5–10.0% through Mar’27, before favorable base effects bring it down to ~7.5% in Apr–May’27.

Why we favor a hike over a hold

Inflation persistently above target: Headline inflation has averaged 10.3% in 1QFY27, well above the SBP’s 5–7% medium-term target.

Second-round effects are visible: Food inflation reached 8.1% in urban and 7.7% in rural areas in Sep’26. Higher transport costs have lifted core inflation, with urban core inflation at 8.6% YoY in Sep’26.

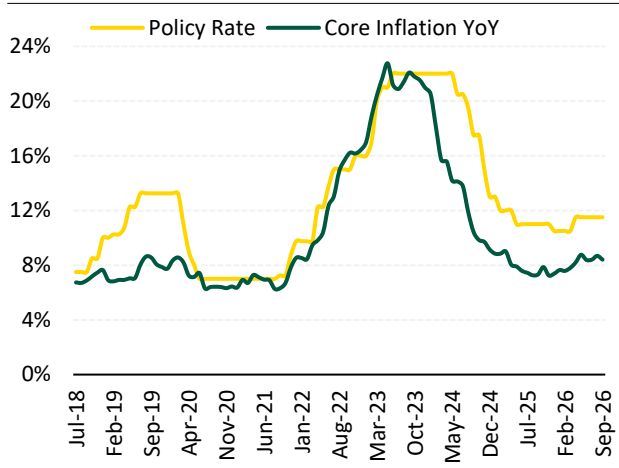
Real interest rate shrinking: At 11.5%, the policy rate gives an ex-post real rate of only ~1.3% against 1QFY27 inflation. That leaves lower cushion than if inflation was near SBP target.

External buffers still thin: FX reserves reached US\$21.5bn by mid-Oct’26 (3.0 months of imports) which were boosted by the US\$3bn Eurobond. However, one-year external liabilities still exceed SBP FX reserves (Fig 6), and we see the current account deficit widening to 1.0% of GDP in FY27.

Risks to our outlook

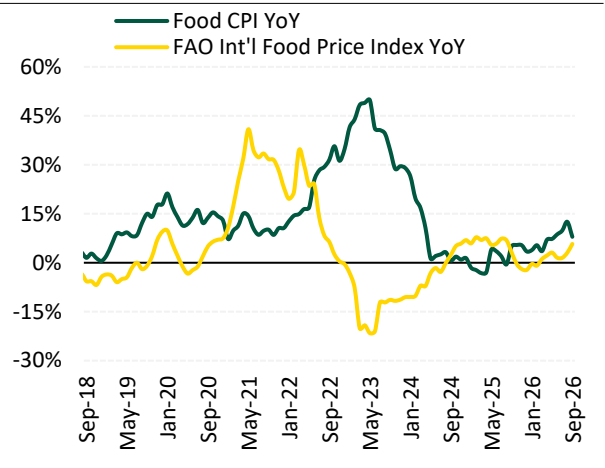
Major risks to this outlook include a prolonged Middle East conflict keeping oil prices elevated and changes to administered electricity and gas tariffs. LPG shortages, El Niño-related crop disruption (expected to peak in Nov–Dec’26) and pre-election fiscal slippage also pose risks. On the downside, lower oil prices and improved wheat availability could pull inflation down faster than we expect.

Fig 1: Core inflation has edged higher



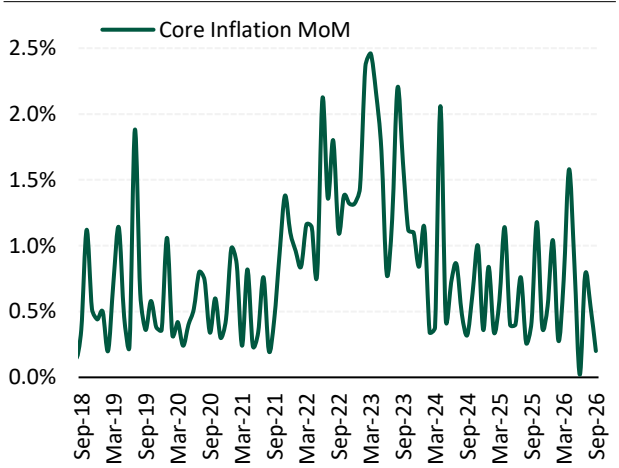
Source: PBS, SBP, FSL Research, Oct 2026

Fig 2: Domestic food inflation is accelerating



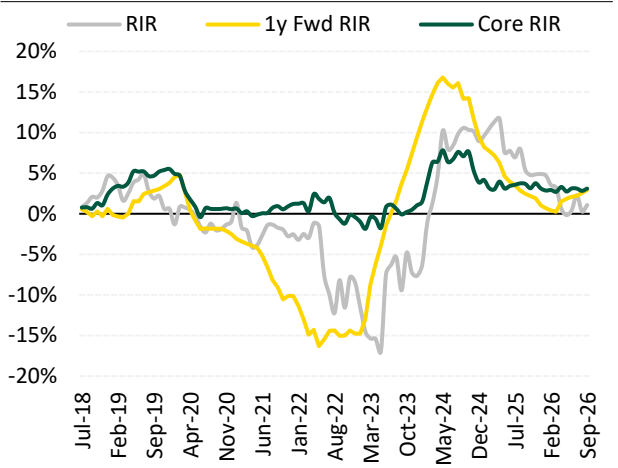
Source: PBS, FAO, FSL Research, Oct 2026

Fig 3: Monthly core inflation remains volatile



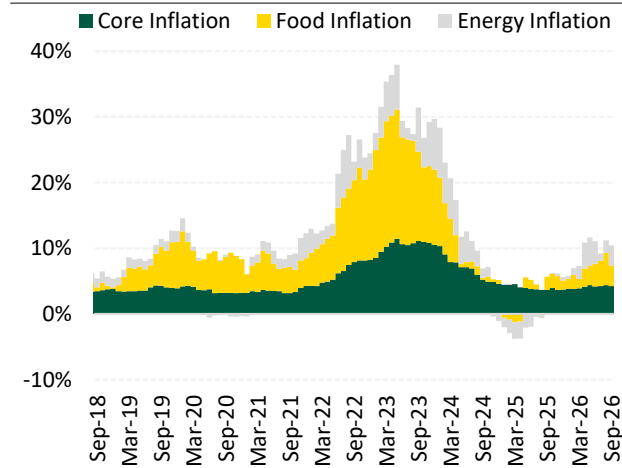
Source: SBP, FSL Research, Oct 2026

Fig 4: Headline-based real interest rate is near zero



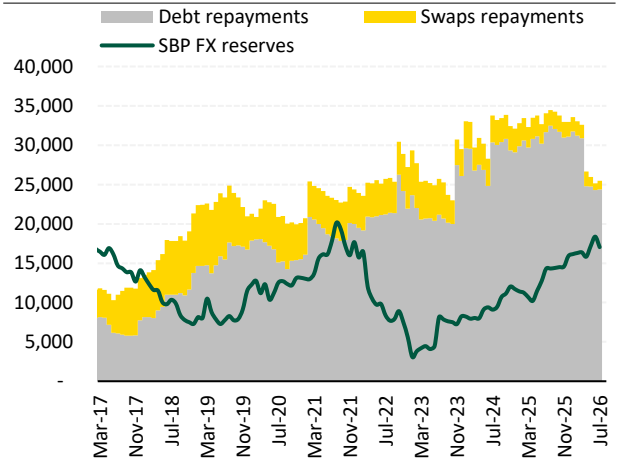
Source: SBP, PBS, FSL Research, Oct 2026

Fig 5: Core, food and energy contributions to CPI



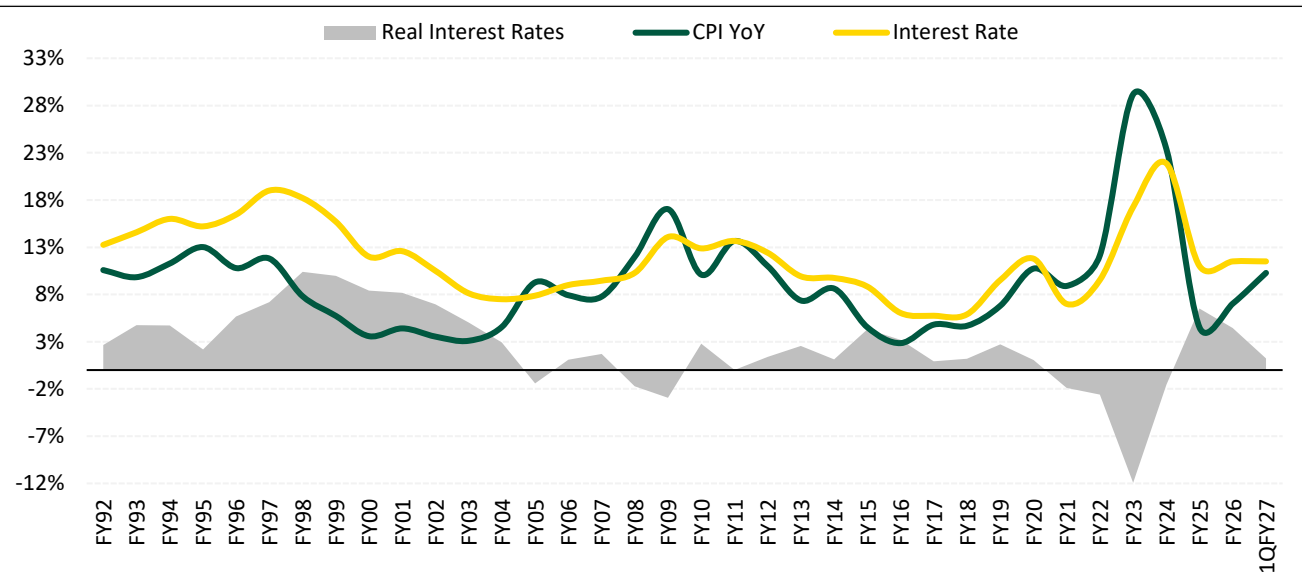
Source: PBS, FSL Research, Oct 2026

Fig 6: 1-yr external liabilities exceed SBP FX reserves



Source: SBP, FSL Research, Oct 2026

Fig 7: Inflation and Interest Rates since FY92



Source: PBS, SBP, Foundation Research, Oct 2026

Abbreviations

CPI	Consumer Price Index
FCA	Fuel Charges Adjustment
LSM	Large-Scale Manufacturing
MoM	Month on Month
MPC	Monetary Policy Committee
NCPI	National Consumer Price Index
PR	Policy Rate
RIR	Real Interest Rate
SBP	State Bank of Pakistan
SPI	Sensitive Price Indicator
YoY	Year on Year

Important disclosures:

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Recommendations definitions

If	
Expected return >+15%	Outperform.
Expected return from 0% to +15%	Neutral.
Expected return <0%	Underperform.