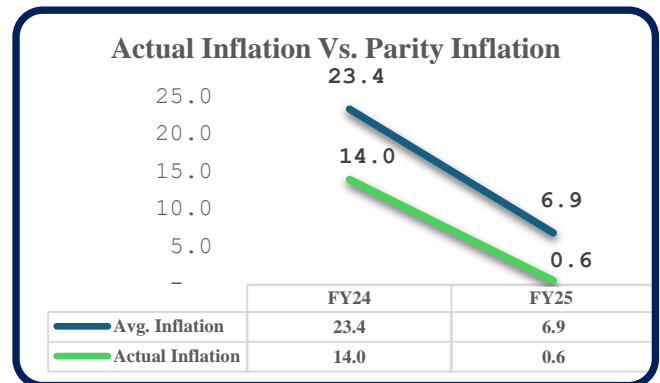
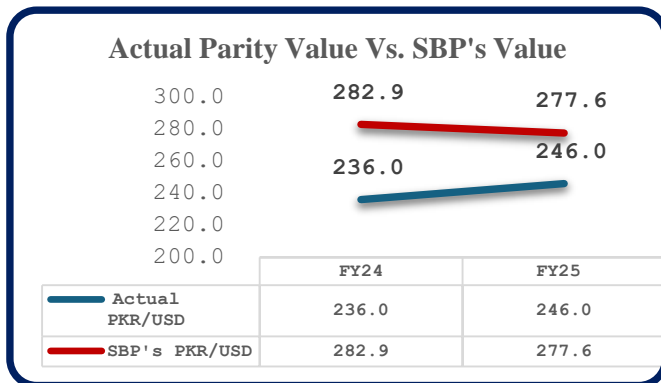


Pakistan’s Inflation Falls to 6.9%: Paving the Way for more Policy Rate Cut:

According to the Pakistan Bureau of Statistics (“PBS”), the monthly inflation rate in Sept 2024 is reported at 6.9% on a Y-o-Y basis. Additionally, the SBP recently reduced the policy rate to 17.5%, yet the Central Bank remains cautious with rate cuts, despite the economic slowdown and rapid decline in inflation. **Moreover, to bring the policy rate in line with the appropriate real interest rate that matches the current inflationary environment, a reduction of 3.0% to 5.0% is recommended.** For a brief overview [please click](#). Furthermore, the headline inflation could decrease to 0.6% if currency parity reflects its true value, potentially lowering inflation to merely below one percentage point. **A 10-rupee depreciation will result in a 2% increase in inflation, or vice versa.**



Additionally, food inflation in urban and rural areas increased by 1.7% and contracted by 0.9%, respectively. The wholesale price index (“WPI”) stood at 1.9% Y-o-Y basis, its lowest in four years. On a monthly basis, the national CPI recorded a deflation of 0.5%, while food inflation contracted by 0.8% in urban areas and 1.0% in rural areas. Lastly, in September 2024, core inflation, which excludes energy and food items, rose by 9.3% in urban areas and 12.1% in rural areas on a Y-o-Y basis. Following September’s inflation, the real interest rate stands at 10.6%, which remains excessively high given the slow pace of economic growth.

In our opinion, the SBP should consider reducing the policy rate by at least 3.0% to 5.0%. Moreover, monetary policy should be part of the solution rather than contributing to the problem. A rate cut would support economic recovery and help alleviate the current cost-push inflation.

Monetary Policy Meetings	Policy Rate	Inflation Rate*	Real Policy rate
18-Mar-24	22.00	30.28	(8.28)
29-Apr-24	22.00	29.06	(7.06)
10-Jun-24	20.50	25.28	(4.78)
29-Jul-24	19.50	22.45	(2.95)
12-Sept-24	17.50	18.92	(1.42)
Average Real Policy Rate			(4.90)
*Avg. Inflation over the last 12 months from the meeting date			