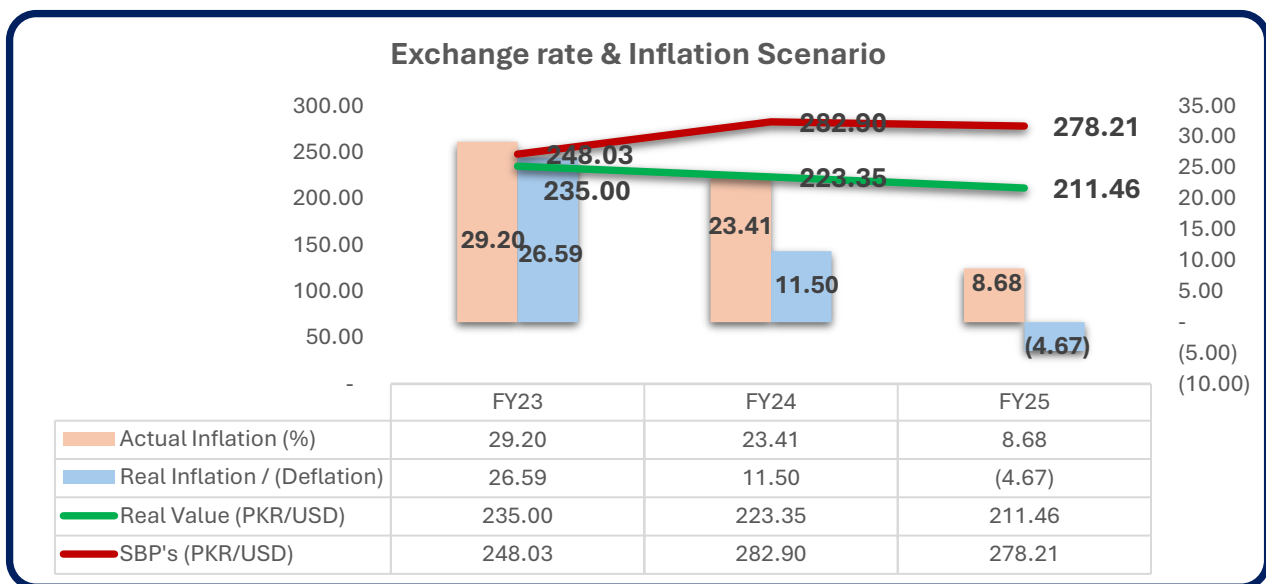


## The Impact of a high level of Rupee Parity: How It Shapes the Economy

For the past three years, the value of the Pakistani Rupee (“PKR”) has traded at a higher value, which has adversely affected Pakistan's economy. If the PKR/USD parity were adjusted to reflect its estimated real average value of 211.5/USD, it could have transformative economic benefits. For instance, the average inflation for the Jul-Oct period of FY25, currently at 8.68%, could shift into deflation of 4.67%. This deflationary trend would enable the Government to reduce interest rates to below 2%, creating significant fiscal space. Such adjustments could result in Government savings of approximately PKR 6,346 billion, offering a substantial opportunity to allocate resources for development and economic growth, i.e. 1% of interest rate decline will reduce domestic debt repayment by PKR 475 billion in FY25. Consequently, in FY23, FY24 and FY25 (Jul-Oct), the deflation would be 2.61%, 11.91%, and (4.67)%, respectively. Therefore, the estimation of Fiscal space w.r.t. domestic debt level in each fiscal year is estimated in the table *infra*:

PKR in Billion	FY23	FY24	FY25 (Jul-Oct)
<b>Domestic Debt</b>	<b>38,810</b>	<b>47,160</b>	<b>47,536</b>
<b>1% on Domestic debt</b>	388	472	475
<b>Inflation Difference</b>	2.6	11.91	13.35
<b>Fiscal Space</b>	1,009	5,617	6,346

Additionally, the graph hereinbelow, illustrates the real PKR value for the past three years, and their real inflation impact.



*(Source: State bank of Pakistan)*