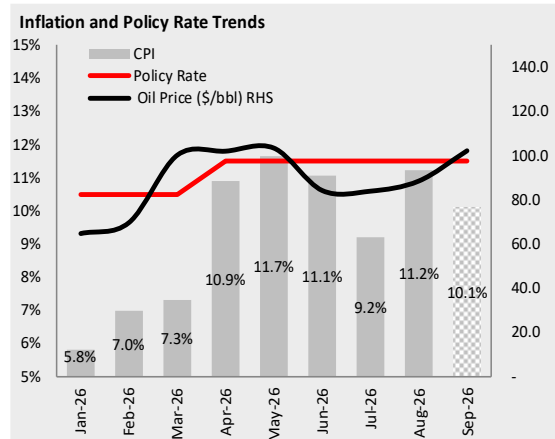
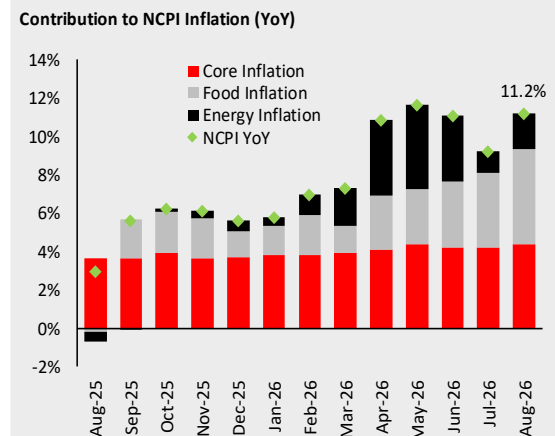


Economics

PAKISTAN



Source: PBS, SBP, Foundation Research, Sep 2026



Source: PBS, Foundation Research, Sep 2026

Analyst

Zeeshan Azhar
+92 213 5612290
zeeshan@fs.com.pk
Ext 331

Foundation Securities (Pvt) Ltd
Wednesday, September 30, 2026

Pakistan Economy

Sep'26 inflation elevated but begins trending down

Sep'26 inflation expected at 10.1% YoY and 1.0% MoM

National CPI is projected to increase by 1.0% MoM in Sep'26. Together with a favorable base effect, this would lower YoY inflation to 10.1%, from 11.2% in Aug'26 and 5.6% in Sep'25.

The category expected to have the greatest impact on Sep'26 inflation is the transport index (~5.9% weight in CPI). Transport inflation is expected to accelerate following increases of 13% and 6% in MS and HSD prices, respectively. These adjustments reflect higher international oil prices which accelerated 16% MoM and averaged US\$ 102/bbl in Sep'26. Housing and food, which account for approximately 23.6% and 34.6% of the CPI basket, respectively, are also expected to contribute to Sep'26 inflation. Higher electricity charges are expected to lift the housing index, while rising onion prices are likely to drive the increase in food prices.

FY27 inflation forecast at 8.8% YoY

We revise upwards our FY27 projection of avg inflation to 8.8% YoY (FY26: 7.0% YoY) given higher than initially anticipated inflation outturn in Aug'26 and an upward revision to our Sep'26 estimate. The near-term increase in inflation due to higher fuel prices is expected to be gradually offset by contained domestic demand and favorable base effects, helping inflation moderate during the remainder of FY27.

Major risks to this outlook include volatility in global commodity prices, second round effects from elevated oil prices, magnitude of adjustments in electricity and gas tariffs, supply disruptions, and unexpected movements in food prices amidst the worsening El Niño conditions.

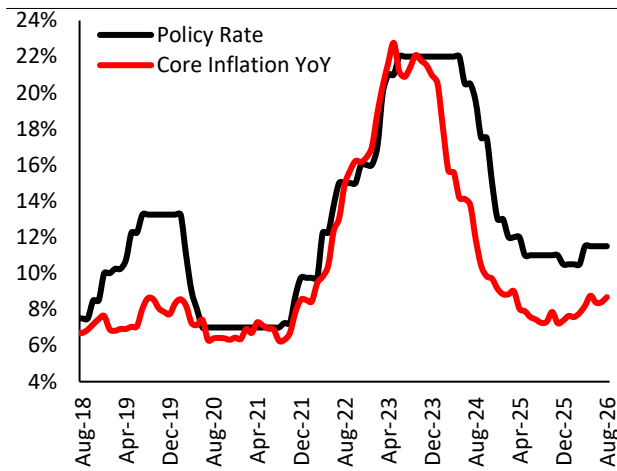
Brent oil price has averaged US\$ 91/bbl during 1QFY27 and prolongation of the recent conflict could push oil prices higher and increase inflationary pressures, as summarized below.

Table: Oil price assumptions and effect on inflation by scenario

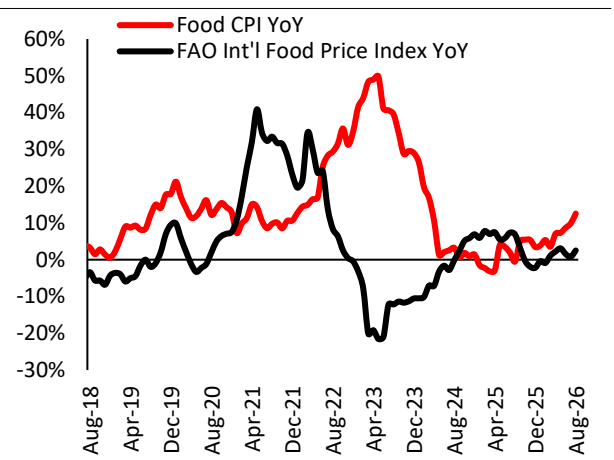
Scenario	Average oil price in Oct'26-Jun'27 (\$/bbl)	% increase in FY27 from FY26 (\$76/bbl)	FY27E average inflation
Base case	90	18%	8.8%
Moderate case	100	28%	9.3%
Severe case	125	54%	10.3%

Monetary policy hinges on Middle East conflict

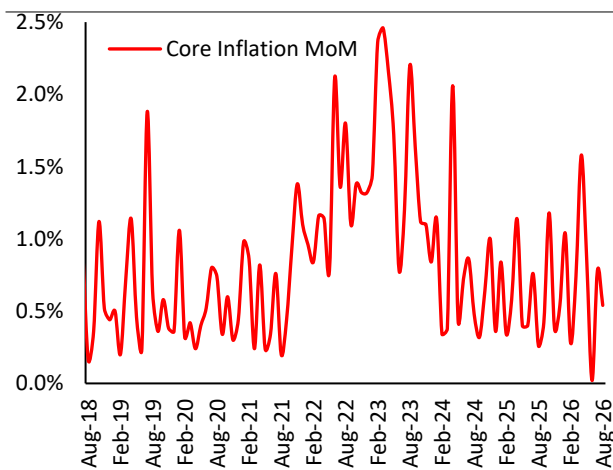
The stop-start nature of the Iran conflict makes the duration and scale of its economic fallout difficult to assess. Persistent disruptions to oil flows could further constrain global oil supply, keeping energy prices higher for longer. Oil at US\$100/bbl could push inflation to 9.3%, while US\$125/bbl could lift it to 10.3%. Persistent oil driven inflation and signs of second round effects would increase the likelihood of tighter monetary policy to keep real interest rates positive and prevent de-anchoring of inflationary expectations.

Fig 1: Core inflation has edged higher

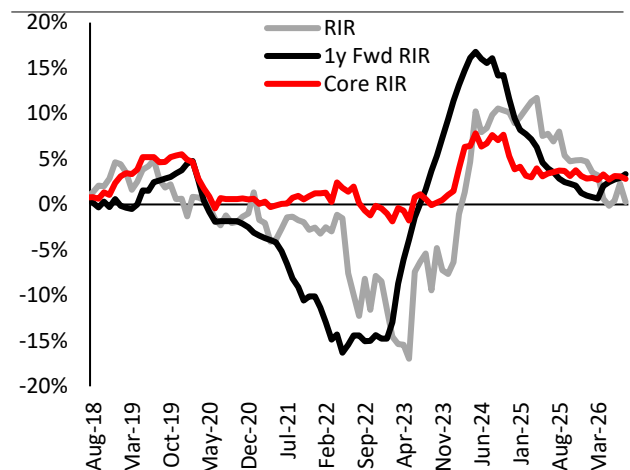
Source: PBS, SBP, FSL Research, Sep 2026

Fig 2: Domestic food inflation is accelerating

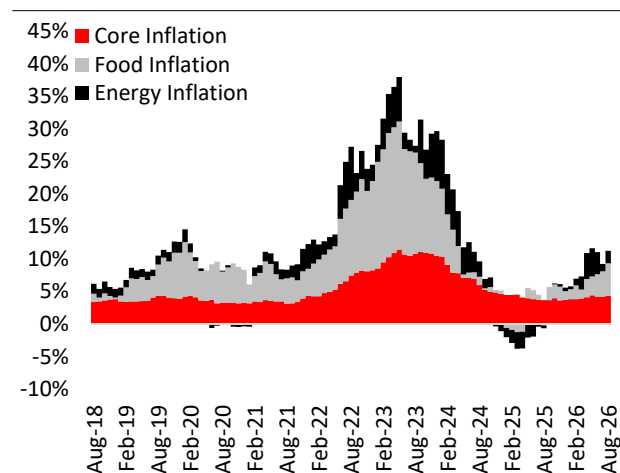
Source: PBS, FAO, FSL Research, Sep 2026

Fig 3: Monthly core inflation remains volatile

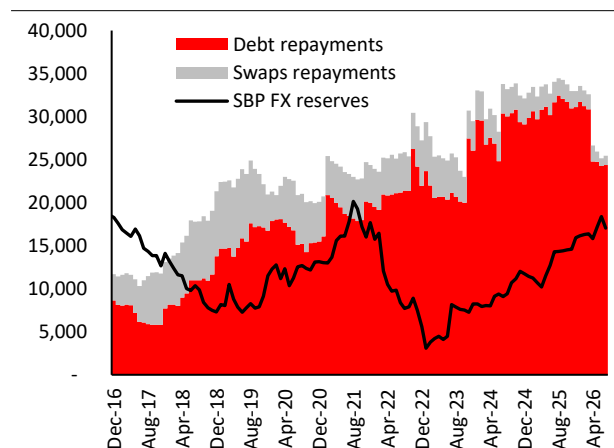
Source: PBS, FSL Research, Sep 2026

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

Source: SBP, PBS, FSL Research, Sep 2026

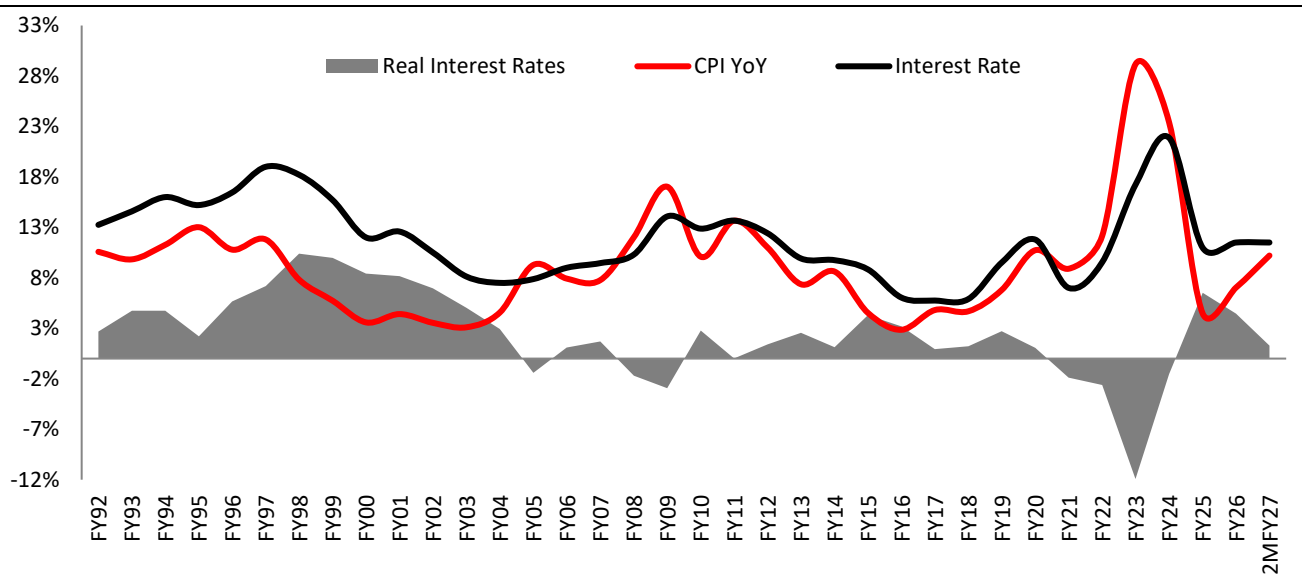
Fig 5: Core, food and energy contributions to CPI

Source: PBS, FSL Research, Sep 2026

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

Source: SBP, FSL Research, Sep 2026

Fig 7: Inflation and Interest Rates since FY92



Source: PBS, SBP, Foundation Research, Sep 2026

Abbreviations

MoM	Month on Month
PR	Policy Rate
RIR	Real Interest Rate
SBP	State Bank of Pakistan
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.