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20 February 2025

Economy: Feb-25 NCPI expected at 1.8% YoY

The headline CPI is expected to arrive at 1.8% YoY in Feb-24, continuing the declining inflation trend, following a reading of 2.4% YoY in Jan-24. We expect average inflation of 5.2% YoY for FY25 with a run rate of 0.6% MoM. The base effect continues to contribute to the declining inflation trend, bringing the print down to the lowest in two decades. MoM inflation is expected to decrease by 0.6% MoM for the first time since May-24, primarily due to the Food segment (down by 2.4% MoM) and a negative Fuel Charge Adjustment (FCA), reducing the average electricity tariff. The Transport segment is expected to exhibit an increasing trend (up by 1.1% MoM) owing to the rising POL prices.

Food segment to drive the disinflationary trend

The Food segment is expected to decline by 2.4% MoM in Feb-25. Items driving the reduction in prices include: tomatoes (-54.6% MoM), onions (-27.4% MoM) and potatoes (-20.8% MoM). Additionally, wheat prices are expected to reduce by 2.3% MoM due to abolishment of wheat support price, as per the agreement with the IMF.

Negative FCA to reduce average electricity tariff for Feb-25

The Utilities segment is expected to stay flattish (up by 0.1% MoM) on the back of a negative FCA of PKR 1.23/kwh for Dec-24, which is expected to reduce average electricity tariff for consumers in Feb-24.

Transport Segment to exhibit an upward trend

We expect the Transport index to increase by 1.1% MoM in Feb-25, driven by a 0.9% increase in petrol prices to PKR 256.6 per litre and a 2.4% rise in HSD prices to PKR 267.0 per litre due to higher global oil prices.

Outlook

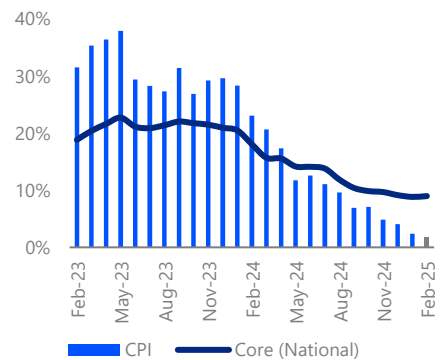
We expect the NCPI print to exhibit a declining trend until Apr-25, beyond which the base effect will retire and average inflation will set closer to the SBP's 5.5%-7.5% for FY25. We note the confluence of price shocks from commodity prices in March (Ramzan), geopolitical tensions affecting oil prices, and import bill pressures as risks to our inflation outlook. The Real Interest Rate (RIR) is currently hovering around 10%, staying adequately positive for a further run rate in the Monetary Committee (MPC) meeting scheduled for Mar-25. However, on the external front, pressures on import bill have started to build up, reflected in the Current Account Balance, turning into a deficit of USD 420mn in Jan-25 compared to a surplus of USD 474mn in Dec-24. Therefore, we believe that the SBP will maintain a stable policy rate post Mar-25, keeping inflation in check.

Feb-25 MoM National CPI Breakdown

Segments	Weight in CPI	MoM	Cont. to MoM CPI
Food & Non-Alcoholic Beverages	34.58%	-2.41%	-0.88%
Housing, Water, Electricity, Gas & Fuel	23.63%	0.09%	0.02%
Clothing & Footwear	8.60%	0.23%	0.02%
Restaurants & Hotels	6.92%	0.75%	0.06%
Transport	5.91%	1.13%	0.08%
Others	20.36%	0.62%	0.08%
MoM Change in CPI			-0.58%
YoY Change in CPI			1.78%

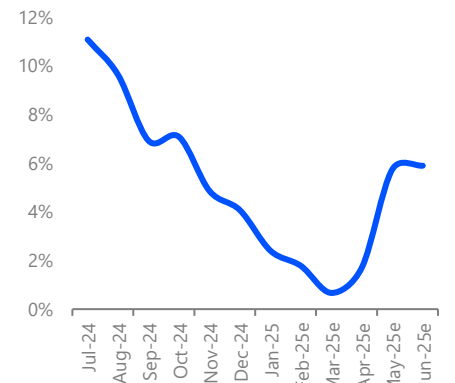
Source: PBS, Akseer Research

NCPI expected lowest in two decades



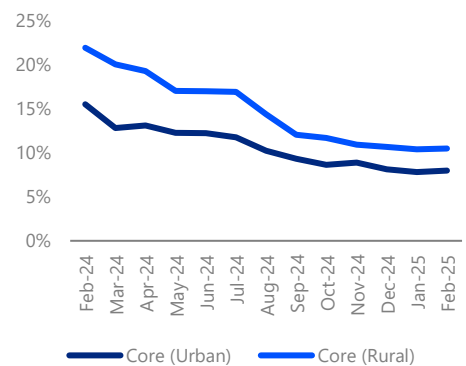
Source: PBS, Akseer Research

NCPI expectation for FY25 (YoY)



Source: PBS, Akseer Research

Urban and Rural Core (YoY)



Source: PBS, SBP, Akseer Research

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