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Economy: Feb-26 Inflation Expected at 6.5% YoY

The National Consumer Price Index (NCPI) is projected to increase by 6.5% YoY in Feb-26. On a monthly basis, inflation is estimated to decline by 0.23% MoM, primarily driven by decline in food prices. Given the prevailing policy rate of 10.5%, the real interest rate is estimated at approximately 4.0%.

For FY26, average inflation is expected to settle at 6.5%. However, inflationary pressures are projected to intensify in the coming months with Jun-26 reading likely to peak in the 9-10% range, largely reflecting the base effect. As these effects fade, inflation is expected to converge towards the SBP's medium-term target range of 5-7%.

Food Prices Drives MoM Decline

Food inflation is projected to decline by 2.2% MoM in Feb-26. The decline is largely attributable to significant price reductions in key perishable items. Prices of chicken are expected to fall by 19.7% MoM, eggs by 19.4% MoM and potatoes by 18% MoM. These downward pressures are partially offset by notable increases in prices of tomatoes and fresh fruits by 17.2% and 24.4% MoM respectively. However, the magnitude of declines in major food staples is sufficient to pull overall food inflation into negative territory on a monthly basis.

Upward Pressure in Transport and Housing Segment

The transport segment is projected to increase by 2.1% MoM, primarily due to higher fuel prices. High-Speed Diesel (HSD) is expected to rise by 5.8% MoM while petrol prices are projected to increase by 1.0% MoM, following a surge in global crude oil prices amid escalating geopolitical tensions in the Middle East. The housing segment is also expected to record an increase of 0.67% MoM due to the increase in electricity and gas prices, contributing additional inflationary pressure.

Future Outlook

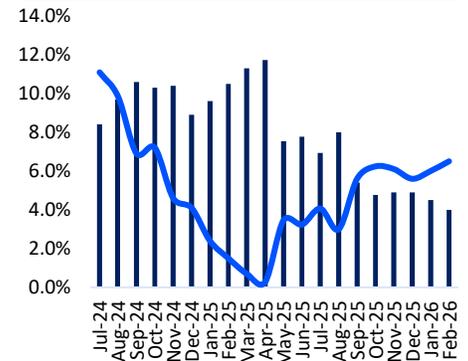
In its latest MPC meeting, the SBP maintained the policy rate at 10.5% noting that the inflation outlook remains broadly unchanged. However, the central bank adopted a cautious stance amid volatile global commodity prices, ongoing geopolitical tensions, and a widening trade deficit driven by strong import growth. Looking ahead, we expect a cumulative policy rate cut of maximum 50bps over the remainder of the calendar year as inflation is likely to breach the upper bound of the SBP's 5-7% target range in the coming months.

Feb-26 MoM National CPI Breakdown

Segments	Weight in CPI	MoM	Cont. to MoM CPI
Food & Non-Alcoholic Beverages	34.58%	-2.17%	-0.78%
Housing, Water, Electricity, Gas & Fuel	23.63%	0.67%	0.14%
Clothing & Footwear	8.60%	0.11%	0.01%
Restaurants & Hotels	6.92%	0.75%	0.05%
Transport	5.91%	2.06%	0.14%
Others	20.36%	0.01%	0.21%
MoM Change in CPI			-0.23%
YoY Change in CPI			6.5%

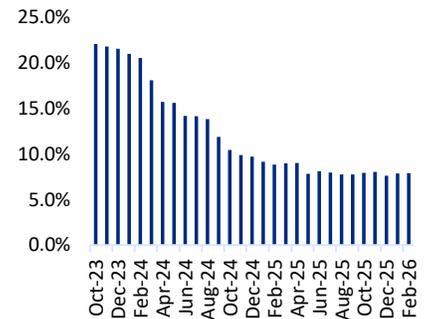
Source: PBS, Akseer Research

NCPI & Real Interest Rate



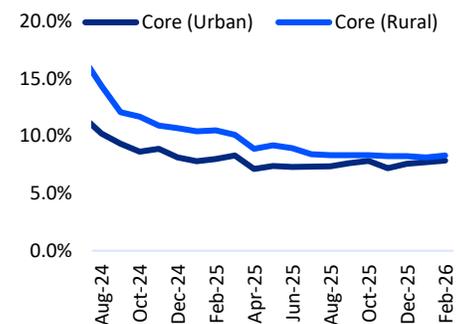
Source: PBS, Akseer Research

NFNE (YoY)



Source: PBS, Akseer Research

Urban and Rural Core (YoY)



Source: PBS, Akseer Research

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