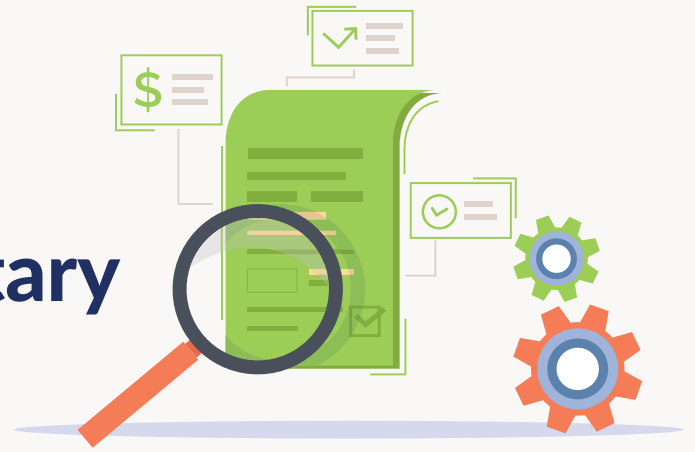




October 2026 Monetary Policy Assessment

Market Expectations, Macroeconomic Conditions and Policy Assessment

PIDE MONETARY POLICY TRACKER: Pre-MPC scorecard, market conditions, and conditional forward guidance

EXECUTIVE ASSESSMENT

PIDE recommends maintaining the policy rate at 11.5 percent at the October 2026 Monetary Policy Committee meeting, with a hawkish bias and readiness for calibrated tightening if inflation risks become more persistent. While the balance of risks has shifted toward tightening, current macroeconomic conditions do not yet establish a compelling case for an immediate rate increase.

Pakistan's inflation outlook remains challenging but mixed. Headline inflation moderated to 10.26 percent in September, while non-food non-energy inflation also eased. However, elevated trimmed-mean inflation, weekly price pressures, and rising household inflation concerns warrant continued vigilance. Importantly, available evidence does not yet demonstrate generalized demand overheating or sufficiently broad-based second-round inflation pressures.

The central policy trade-off is between containing inflation persistence and safeguarding a still-fragile economic recovery. GDP growth moderated sharply in the final quarter of FY2026, large-scale manufacturing growth remains modest, and private-sector credit flows indicate uneven demand conditions. Additional monetary tightening under these circumstances could impose further costs on investment and economic activity without necessarily addressing supply-driven price pressures.

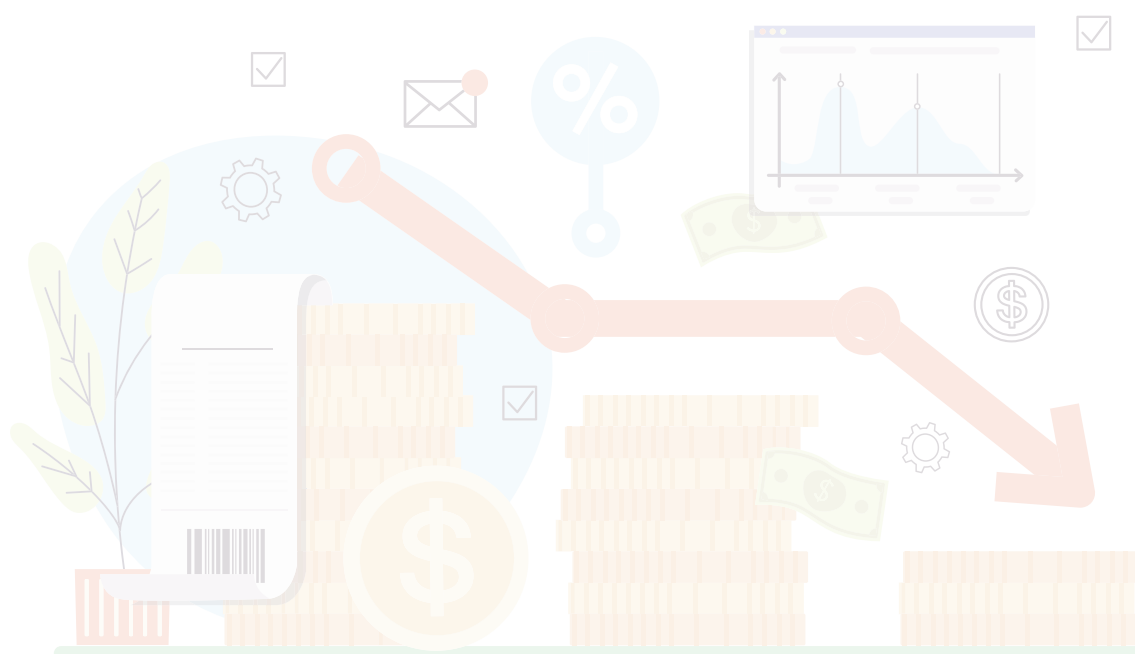
Financial conditions provide mixed signals. Treasury-bill yields and KIBOR have increased, while September lending rates declined. These observations cover different periods and do not establish a uniform tightening of borrowing conditions. Higher market rates may reflect some expectation of further tightening, alongside liquidity conditions, government borrowing and term premia. The policy decision should therefore rest on the inflation outlook and broader macroeconomic conditions. Meanwhile, exchange-rate stability and the reserve position support maintaining the current stance, although rising imports and the durability of external financing require continued attention.

PIDE's assessment therefore favours a conditional hold rather than pre-emptive tightening. A 50-basis-point increase to 12 percent remains a credible policy option if the updated inflation outlook indicates delayed convergence toward the 5-7 percent target range, underlying inflation becomes more persistent and generalized, or external-sector pressures intensify.

PIDE POLICY CALL

Maintain the policy rate at 11.5 percent with a hawkish bias. Easing inflation and an uneven recovery favour holding, while persistent price pressures make a cut premature. Further tightening would require stronger evidence of delayed inflation convergence or sustained external stress.

Consideration	Hold at 11.5%	Hike to 12%
Real policy rate	Real policy rate stays positive (about +1.2 pp on headline, +2.1 pp on trimmed inflation); relies on tightening already under way in term rates.	Raises the real rate to about +1.7 pp on headline and +2.6 pp on trimmed inflation; adds restraint beyond what current inflation requires.
Inflation persistence and expectations	Risk that a hold is read as tolerance if household expectations stay high.	Stronger anti-inflation signal, but risks appearing to follow market pricing rather than the underlying data.
Supply-driven inflation	Avoids tightening against first-round energy, food and administered-price shocks that interest rates cannot reverse.	Adds little against first-round supply shocks; works mainly through demand and expectations, with a lag.
Growth and investment	Avoids further strain with Q4 GDP growth at 2.0% and LSM at 1.85%.	Raises borrowing costs when private credit flows are already negative.
Transmission and financial conditions	Allows the 40–51bp rise in MTB yields and higher KIBOR to pass through; bank lending rates fell in September.	Partly duplicates tightening already taking place in term markets.
Fiscal cost	No additional debt-service burden.	Raises interest costs on domestic government debt and adds to borrowing needs.
External stability	Reserves of US\$21.488bn and a stable rupee give room to wait.	Offers an extra buffer if exchange-rate pressure emerges.
Policy credibility	Credible only if paired with explicit hawkish guidance; otherwise, markets may read the hold as tolerance of above-target inflation.	Demonstrates commitment to the 5–7 percent target and aligns with the three MPC members who favoured tightening in September.



POLICY SIGNAL HOLD WITH A HAWKISH BIAS Policy rate 11.5%				
MONEY MARKET PRICING SIGNAL: HAWKISH HOLD / HIKE RISK	11.50% 1M MTB, at policy 14 Oct auction	12.00% 3M MTB, +50bp 14 Oct auction	12.40% 6M MTB, +90bp 14 Oct auction	12.50% 12M MTB, +100bp 14 Oct auction
Takeaway: Higher Treasury-bill yields and KIBOR warrant caution, but mixed lending and credit conditions favour holding the policy rate while assessing inflation persistence and monetary transmission.				
INFLATION & MONETARY SIGNAL: HAWKISH HOLD / +50bp RISK	10.26% Headline CPI YoY Sep 2026	8.6 / 8.1% Core NFNE YoY (urban / rural) Sep 2026	9.4 / 9.4% Trimmed YoY, urban / rural Sep 2026	11.5% Policy rate Effective 28 Apr; held 14 Sep
Takeaway: Holding at 11.5 percent remains appropriate. The policy rate exceeds trimmed inflation by 2.1 percentage points and headline CPI inflation by 1.24 percentage points, supporting continued restraint as recent price pressures suggest an important role for food, energy and other supply-side costs.				
DOMESTIC ECONOMY SIGNAL: HOLD	+2.00% Real GDP YoY Q4 FY26	+1.85% LSM YoY Jul-Aug FY27	+14.15% Private credit YoY 9 Oct	12.73% Broad money YoY 9 Oct
Takeaway: Growth remains uneven. Q4 GDP slowed, and July-August LSM growth is modest. Demand does not show generalized overheating.				
EXTERNAL SECTOR SIGNAL: HOLD	-US\$874m Current account Q1 FY27	US\$10.875bn Remittances Q1 FY27	US\$21.488bn SBP reserves 16 Oct	Rs276.85/\$ PKR/US\$ (M2M) 22 Oct
Takeaway: Reserves and exchange-rate stability provide policy space, but higher imports and financing needs limit room for easing.				

Note: YoY = year-on-year; CPI = Consumer Price Index; NFNE = non-food non-energy; LSM = large-scale manufacturing; SBP = State Bank of Pakistan; MTB = Market Treasury Bill.

Sources: Pakistan Bureau of Statistics and State Bank of Pakistan. Latest observations as indicated.

MONEY-MARKET PRICING REFLECTS TIGHTER CONDITIONS

Treasury-bill and KIBOR movements provide useful evidence on financing conditions, but should not be read as pure inflation expectations. These rates also reflect expected policy, banking-system liquidity, government borrowing, auction supply and term premia. The relevant signal is that term financing conditions have tightened since the September assessment. The 3-month MTB is around 50 basis points above the policy rate, while 6- and 12-month yields are around 90 and 100 basis points above it.

Table 1: Market Treasury Bill auction cut-off yields

Auction date	1-month	3-month	6-month	12-month
2 Sep 2026	11.39	11.60	11.90	11.99
16 Sep 2026	Bids Rejected	11.38	11.70	12.00
30 Sep 2026	11.68	11.99	12.45	12.49
14 Oct 2026	11.50	12.00	12.40	12.50
Change: 14 Oct vs 2 Sep (bp)	+11	+40	+50	+51

Source: State Bank of Pakistan, Market Treasury Bill auction results. PIDE calculations.

Table 2: KIBOR offer rates and spreads to the policy rate

KIBOR date	3-month	6-month	12-month	Policy rate	6M spread from policy rate(bp)	12M spread from policy rate(bp)
11 Sep 2026	11.77	11.99	12.31	11.50	+49	+81
17 Sep 2026	11.77	11.98	12.33	11.50	+48	+83
2 Oct 2026	11.95	12.35	12.64	11.50	+85	+114
9 Oct 2026	11.99	12.41	12.73	11.50	+91	+123
20 Oct 2026	12.01	12.43	12.76	11.50	+93	+126
21 Oct 2026	12.01	12.44	12.77	11.50	+94	+127
22 Oct 2026	12.01	12.43	12.76	11.50	+93	+126
Change: 22 Oct vs 11 Sep (bp)	+24	+44	+45			

Note: KIBOR is not a direct measure of expected inflation. Spreads are relative to the 11.5 percent policy rate.

Sources: State Bank of Pakistan, KIBOR rates and September 2026 MPC minutes; KIBOR observations are for 11 September, 17 September, 2 October, 9 October and 20-22 October 2026.

Market rates were broadly stable over the latest comparison period. Between 9 and 22 October, KIBOR offer rates increased by 2 basis points at the three- and six-month tenors and by 3 basis points at the twelve-month tenor. T-bill cut-off yields also changed little between the 30 September and 14 October auctions: the three- and twelve-month yields rose by 1 basis point, while the six-month yield declined by 5 basis points. Term rates have remained above the policy rate. However, this may reflect expectations of a 50-basis-point increase in the policy rate rather than genuine market-driven expectations, given that other economic indicators, particularly inflation and growth, do not support an increase.

LENDING TRANSMISSION IS OPERATING, BUT IS NOT UNIFORM

September gross disbursements and outstanding lending rates declined, while fresh deposit rates increased slightly. The outstanding loan-deposit spread narrowed from 4.06 percentage points in August to 3.93 percentage points in September. Higher October market benchmarks and lower September lending rates cover different periods and should be assessed alongside annual credit growth, seasonal credit flows, and liquidity conditions, rather than taken as evidence of either complete transmission or transmission failure.

Table 3: Weighted-average lending and deposit rates

Month	Gross disbursements	Outstanding loans	Fresh deposits	Outstanding deposits	Outstanding loan-deposit spread (pp)	Fresh lending-deposit spread (pp)
May-26	13.06	12.74	8.82	8.96	3.78	4.24
Jun-26	12.74	12.87	8.35	9.06	3.82	4.39
Jul-26	12.54	13.11	8.71	9.17	3.94	3.83
Aug-26 (R)	12.67	13.13	8.47	9.06	4.06	4.20
Sep-26 (P)	12.29	12.98	8.57	9.05	3.93	3.71
Change: Sep 2026 vs Aug 2026 (bp)	-38	-15	+10	-1	-13	-49

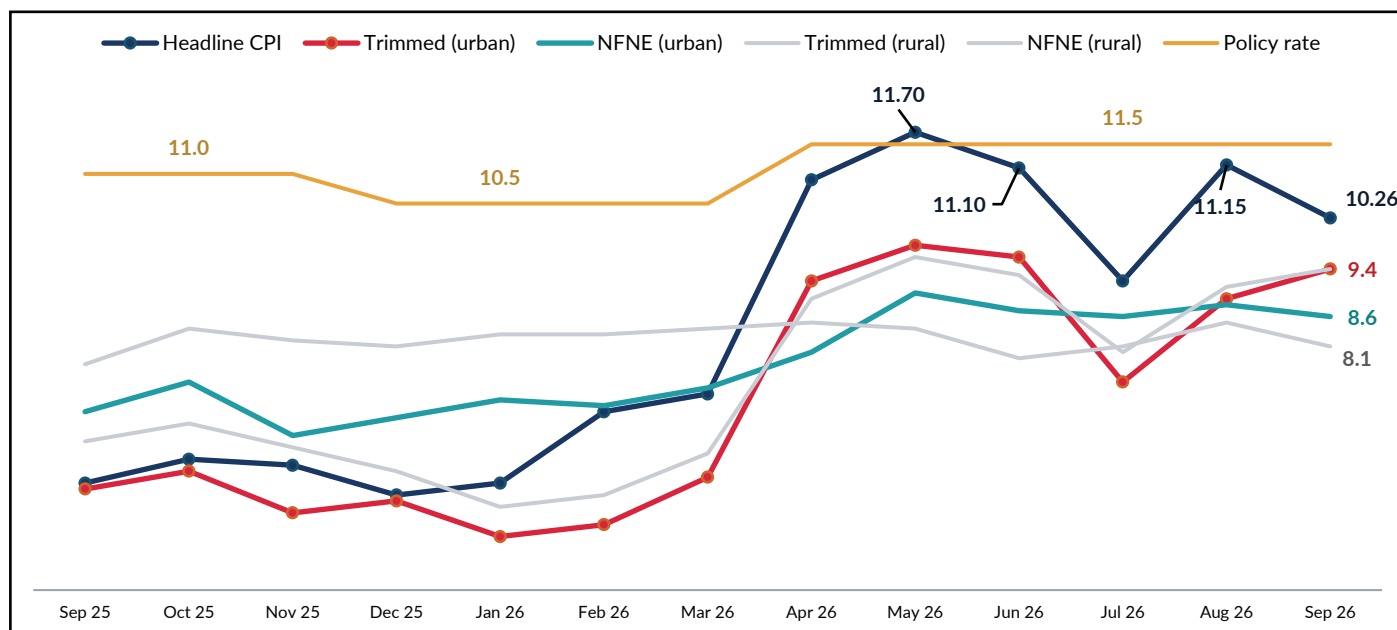
Note: Rates exclude zero-markup and inter-financial-institution transactions; August is revised and September is provisional.

Source: State Bank of Pakistan, Weighted Average Lending and Deposit Rates archive.

INFLATION RISKS REQUIRE CONTINUED VIGILANCE

September inflation provides a mixed policy signal. Headline CPI declined to 10.26 percent, and NFNE inflation moderated, but trimmed inflation increased to 9.4 percent in both urban and rural areas. Monthly CPI increased by 1.27 percent. The policy stance should therefore remain restrictive. Higher household inflation concern and elevated energy and food risks warrant continued vigilance. A 50-basis-point increase would be justified only if these pressures persist and broaden across underlying inflation, expectations or the external position.

Figure 1: Headline and underlying inflation indicators and the SBP policy rate (% year-on-year)



Source: Pakistan Bureau of Statistics, Monthly Review of Price Indices; State Bank of Pakistan.

The decline in headline inflation does not remove the policy concern, as September's increase was concentrated in housing, utilities and transport. However, taking into account favourable base effects over the last few months of the current fiscal year, the fragility of economic activity and projected oil and energy prices, PIDE projects headline inflation to ease to around 8.0-9.0 percent. A further increase would therefore add little to disinflation while raising the fiscal cost of debt servicing. At 11.5 percent, the policy rate implies a forward-looking real rate of about 2.5-3.5 percentage points.

SHORT-TERM PRICE PRESSURES REMAIN ELEVATED

The combined SPI index increased by 3.14 percent between 3 September and 22 October. Year-on-year SPI inflation rose from 8.35 percent to 11.85 percent over the same period, close to its 8 October peak of 11.97 percent. In the week end of 22 October, the index rose by 0.65 percent, reversing the previous week's marginal decline. The renewed increase supports maintaining a hawkish bias – the weekly measure confirms continuing short-term price pressure but should not be compared mechanically with CPI because its basket is narrower and concentrated on essential items.

Table 4: Weekly Sensitive Price Indicator, combined consumption group

Week ended (2026)	Corresponding week (2025)	SPI index 2026	SPI index 2025	WoW %	YoY %
3 Sep	4 Sep	363.42	335.41	0.65	8.35
10 Sep	11 Sep	364.26	335.35	0.23	8.62
17 Sep	18 Sep	366.05	330.84	0.49	10.64
24 Sep	25 Sep	369.69	330.32	0.99	11.92
1 Oct	2 Oct	370.46	332.17	0.21	11.53
8 Oct	9 Oct	372.58	332.75	0.57	11.97
15 Oct	16 Oct	372.43	334.39	-0.04	11.38
22 Oct	23 Oct	374.84	335.14	0.65	11.85

Source: Pakistan Bureau of Statistics, weekly SPI reports.

INFLATION EXPECTATIONS REQUIRE CAUTIOUS INTERPRETATION

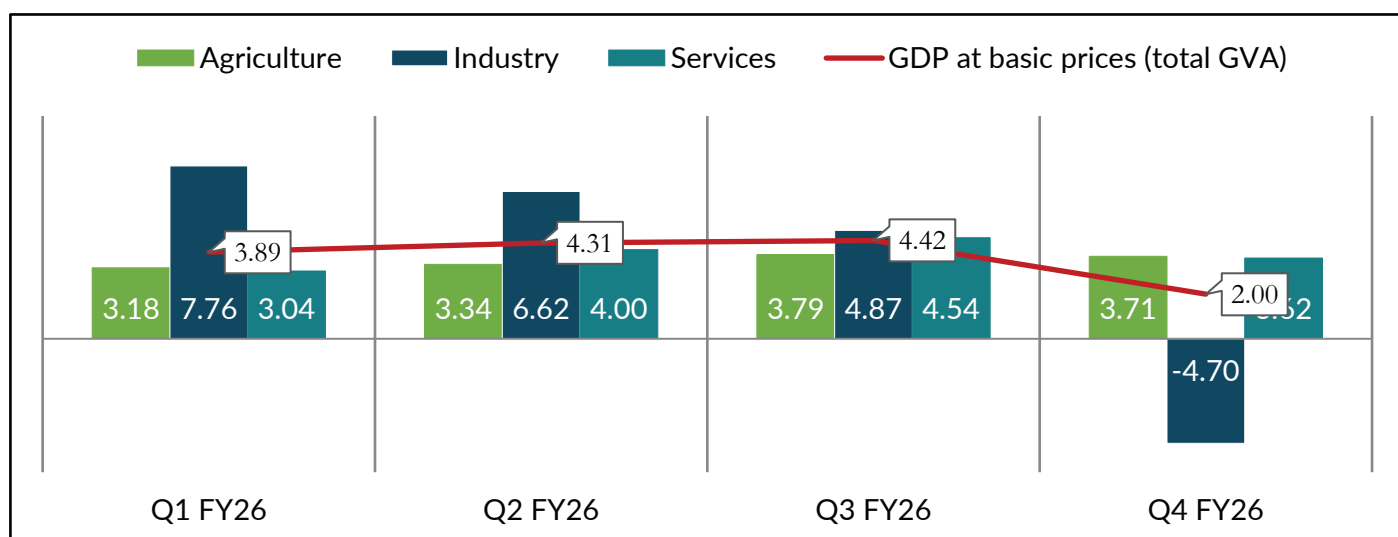
In SBP's September Consumer Confidence Survey, the 5 percent trimmed-mean expectation for inflation over the next 12 months increased to 18.6 percent. The survey is useful because persistent changes in household sentiment can affect wage demands, consumption decisions and price setting. It should, however, be interpreted as a household perception measure rather than a model-based or market-implied inflation forecast.

The magnitude of the survey increase is difficult to reconcile directly with the current inflation trend and financial-market pricing. September CPI was 10.26 percent, NFNE inflation was 8.6/8.1 percent, and trimmed inflation was 9.4 percent. Since early September, MTB yields and KIBOR have moved higher, but by less than one percentage point. These instruments are not pure inflation-expectations measures either, yet the divergence indicates that the 18.6 percent survey figure should not be used mechanically in a real-rate calculation or as the central inflation baseline. The policy signal is qualitative: household inflation concern has increased and warrants monitoring.

GROWTH IS RECOVERING, BUT REMAINS UNEVEN

PBS revised FY2026 real GDP growth to 3.65 percent. Quarterly growth was 3.89 percent in Q1, 4.31 percent in Q2, 4.42 percent in Q3 and 2.0 percent in Q4. The final quarter therefore shows a clear moderation in year-on-year momentum. This argues against treating the economy as demand overheated. The Q4 industrial contraction also requires some context. Electricity, gas and water supply fell sharply against an unusually high base in the corresponding quarter, while other industrial components were mixed. The result signals weak industrial momentum, but should not be read as a uniform contraction across all activity. More recent manufacturing data remain modest. LSM increased by 0.67 percent year on year in August and by 1.85 percent during July-August FY2027. The monthly decline in August is not seasonally adjusted and should not be treated as evidence of a new downturn on its own.

Figure 2: GDP at basic prices and sectoral GVA growth



Note: Year-on-year growth at constant basic prices.

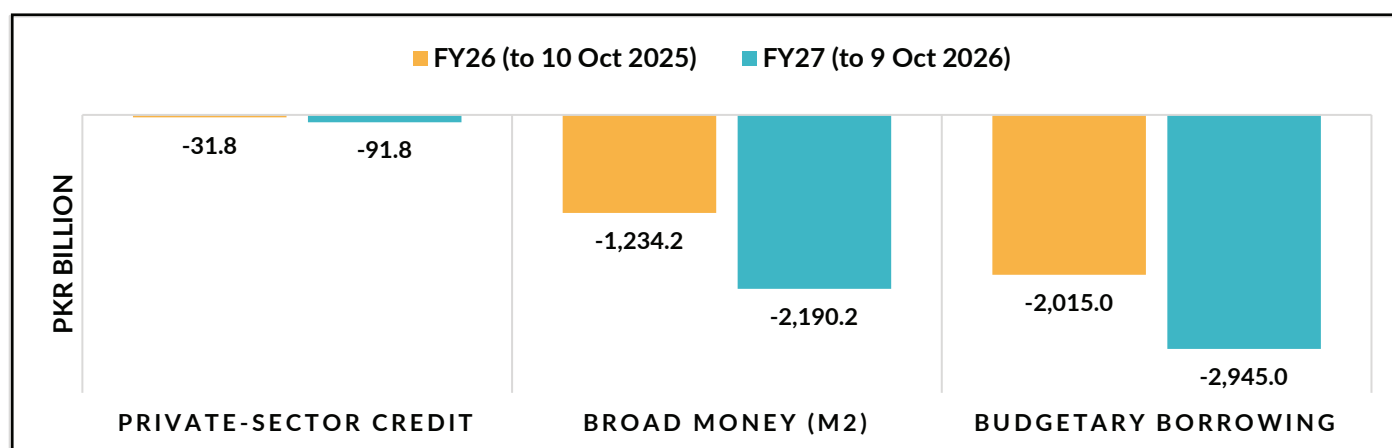
Source: Pakistan Bureau of Statistics, Quarterly National Accounts, released 19 October 2026.

MONEY, CREDIT AND LIQUIDITY DO NOT INDICATE GENERALIZED OVERHEATING

Private-sector credit recorded a cumulative retirement of Rs 91.80 billion from end-June to 9 October, compared with Rs 31.75 billion over the comparable period last year. The outstanding stock was nevertheless 14.15 percent higher than a year earlier. The flow reflects seasonal repayment, while the stock shows continuing annual credit expansion. Neither measure alone establishes overheating.

Broad money declined by Rs 2.19 trillion from end-June but remained 12.73 percent higher year on year. Budgetary borrowing also fell more than in the comparable period last year. These indicators do not show excess monetary expansion.

Figure 3: Cumulative changes in private-sector credit, broad money and budgetary borrowing



Note: Negative values indicate net retirement or contraction.

Source: State Bank of Pakistan, Broad Money archive, through 9 October 2026.

EXTERNAL SECTOR PROVIDES POLICY SPACE, BUT IMPORT PRESSURE HAS RISEN

Goods imports increased by 14.31 percent in Q1 FY2027, faster than export growth of 7.65 percent. Remittances rose by 14.04 percent and partly offset the wider trade gap. The current account deficit increased to US\$874 million from US\$755 million a year earlier. The deterioration is manageable at present, but higher imports can become a constraint if growth strengthens without a corresponding improvement in exports and financing.

SBP reserves stood at US\$21.488 billion on 16 October, while total liquid reserves were US\$26.83 billion. The exchange rate remained stable. The reserve position reduces the need for a defensive rate increase, but financing quality matters because debt-financed reserve accumulation creates future servicing obligations.

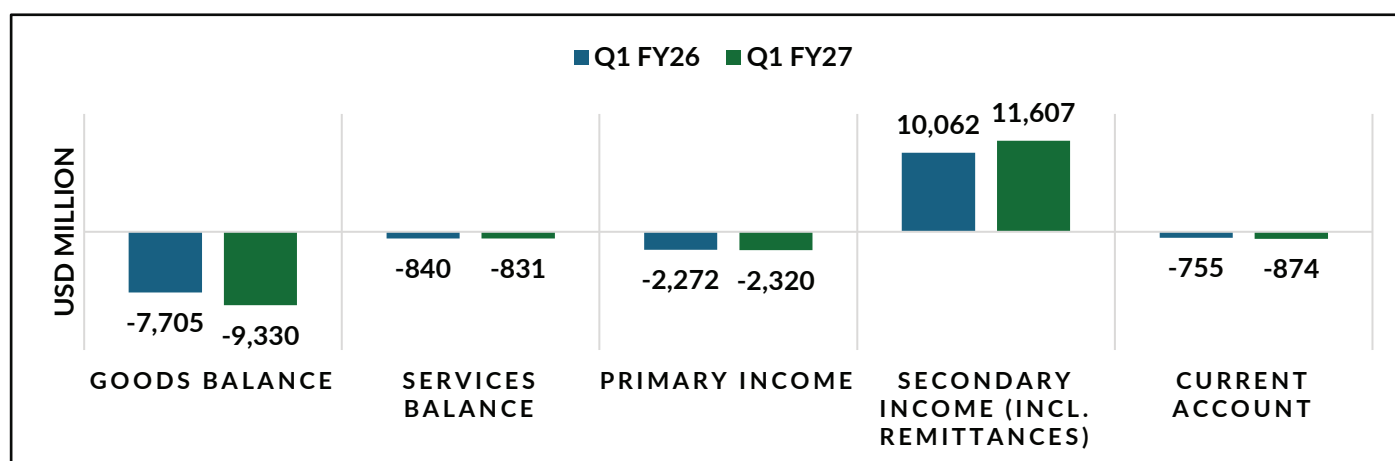
Table 5: Selected balance-of-payments indicators

Indicator (USD million)	Q1 FY 2026	Q1 FY 2027
Goods exports	7,853	8,454
Goods imports	15,558	17,784
Goods and services balance	-8,545	-10,161
Workers' remittances	9,536	10,875
Current account balance	-755	-874

Note: Goods are on the SBP balance-of-payments FOB basis.

Source: State Bank of Pakistan, Balance of Payments, September 2026.

Figure 4: Current-account components and balance, Q1 FY2026 and Q1 FY2027 (US\$ million)



Note: Workers' remittances are included in secondary income and are not added separately to the current account balance.

Source: State Bank of Pakistan, Balance of Payments, September 2026.

POLICY RISK MATRIX

Risk	Transmission	Policy implication
Geopolitical and energy shock	Higher oil, freight and import costs; possible exchange-rate pass-through.	Maintain a restrictive stance. A 50-basis-point increase becomes appropriate if the shock persists and broadens underlying inflation or external stress.
Persistent underlying inflation	Broader price increases and weaker anchoring of expectations.	Do not ease. A 50-basis-point increase is justified if persistence strengthens across multiple indicators.
Weak industrial recovery	Lower investment, output and employment.	Argues against unnecessary tightening.
Fiscal or financing slippage	Higher government borrowing, liquidity demand and reserve pressure.	Fiscal adjustment should carry the burden; monetary policy should respond if inflation or external stability is affected.

Geopolitical risk should be assessed through inflation, output and external-sector channels. International oil prices and related freight and import costs remain important upside risks. The monetary response should depend on whether these shocks persist, broaden underlying inflation, weaken expectations or place pressure on the external account. Current evidence supports a restrictive stance and, compared with the September assessment, a higher probability of a calibrated 50-basis-point increase if these channels strengthen.

POLICY ASSESSMENT

The case for holding:

Maintaining the policy rate at 11.5 percent offers a better balance between containing inflation and avoiding unnecessary restraint on economic recovery. Headline and NFNE inflation have eased, growth remains uneven, and the external position is orderly. The policy rate exceeds current trimmed inflation by 2.1 percentage points and headline inflation by 1.24 percentage points. These backward-looking margins support maintaining restraint, although they do not substitute for a forward-looking assessment. Further tightening would raise borrowing costs without directly reversing initial food, energy and other supply-side price increases. Its additional benefit is therefore not yet sufficiently established.

The case against a rate cut:

Inflation remains above the medium-term objective, while elevated trimmed inflation, weekly price pressures and household inflation concerns warrant continued vigilance. Easing should await sustained moderation in headline and underlying inflation, improving expectations, and a forecast showing convergence toward the 5–7 percent target range and stability within it. External financing and exchange-rate conditions must also remain supportive.

Overall policy judgment:

Hold at 11.5 percent with a hawkish bias. Reassess this recommendation at each MPC meeting using successive inflation releases, available expectation surveys and external-sector developments. Current evidence provides limited justification for a 50-basis-point increase to 12 percent. The case for tightening would strengthen if updated forecasts indicate a material delay in inflation convergence, underlying price pressures broaden persistently, or inflation expectations deteriorate across indicators. Sustained depreciation accompanied by reserve losses beyond scheduled repayments or external-financing shortfalls would also strengthen the case. Temporary price movements or market-rate repricing alone should not determine the decision. Substantial forecast deterioration or acute external stress may require an earlier response.

FORWARD GUIDANCE CONDITIONS FOR HOLD, CUT OR HIKE

Policy decision	Indicators and conditions	Monitoring period
HOLD at 11.5 percent with a hawkish bias	Updated forecasts continue to show inflation converging toward the 5–7 percent target range under an unchanged policy rate. NFNE and trimmed inflation show no sustained, broad deterioration. Inflation expectations do not worsen consistently across available surveys. Exchange-rate movements remain orderly, and reserves remain broadly consistent with scheduled repayments and expected inflows.	Reassess at each MPC meeting using successive monthly inflation releases, available expectation surveys, and weekly external-sector data.
Consider a 50-basis-point INCREASE to 12 percent	Updated forecasts show a material delay in inflation convergence under an unchanged rate. A stronger case would arise from rising NFNE and trimmed inflation across successive releases, wider price increases across categories, or worsening expectations across household, business and professional surveys. Sustained depreciation accompanied by reserve losses beyond scheduled repayments or external-financing shortfalls would also strengthen the case.	Assess inflation persistence over at least two consecutive monthly releases where available. Review exchange-rate and reserve developments over approximately four weeks. A substantial forecast deterioration or acute external stress may warrant earlier action.
Consider gradual EASING	Headline and underlying inflation decline consistently, and forecasts show convergence toward—and subsequent stability within—the target range. Expectations improve across available indicators. The exchange rate remains orderly, external financing is sufficient to meet near-term obligations, and reserve stability does not depend on exceptional temporary inflows.	Seek confirmation across several monthly releases, supported by the latest forecast and available expectation surveys. Reassess external financing and reserves at each MPC meeting.

Follow us



PIDEpk



PIDE Islamabad



PIDEOfficial

Visit our Website

pide.org.pk