OICCI Insights on

Inflation

in Pakistan through the Years

DECEMBER '25

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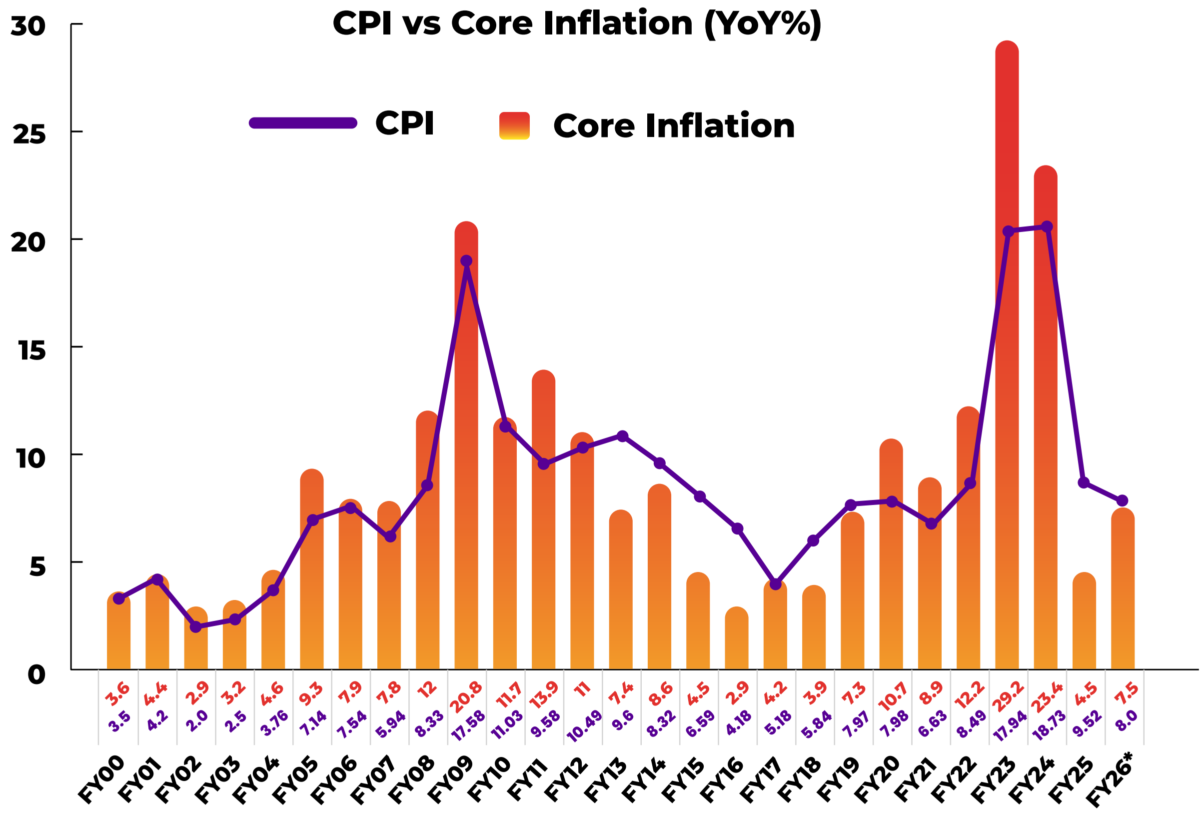
Headline Inflation Performance

From Double-Digits to Near Zero: Understanding FY25's Disinflation Cycle

Over the past 25 years, Pakistan's inflation has moved in repeated boom-bust cycles rather than a stable, gradual path. The early 2000s saw low and steady inflation, followed by a build-up in the mid-2000s and a major spike during the 2008 global crisis, when inflation jumped above 20 percent. A period of relative stability returned between 2012 and 2017 as global oil prices fell, and the exchange rate remained stable. Inflation then re-accelerated from 2018 onward, driven by currency depreciation, rising energy costs, and global commodity pressures. The surge peaked in FY23 at nearly 30 percent, the highest in modern history, amid global shocks, domestic policy adjustments, and severe flooding.



Source: PBS/SBP

FY25, however, delivered one of the most pronounced disinflation episodes in Pakistan's recent economic history, taking the country from double-digit inflation at the start of the year to almost zero inflation by the spring of 2025. Headline CPI opened at 11.1 percent in July 2024 and fell steadily to just 0.3 percent by April 2025, marking the lowest point since FY18. For FY25, inflation averaged around 4.5 percent, significantly below FY24's 23.4 percent inflation.

This decline was not the product of one-off factors, but rather the combined effect of several reinforcing developments. Global oil and commodity prices softened, easing fuel and imported food costs. Domestic crop supplies recovered, helping push food inflation into negative territory for several months. Electricity prices fell for an extended period due to a combination of lower fuel cost adjustments and tariff rationalizations. And earlier monetary tightening, combined with fiscal consolidation, helped suppress demand-side pressures and stabilize the exchange rate.

However, this relief was not uniform across all expenditure categories. While food and utilities became significantly cheaper, many core services, such as health, education, personal care, and clothing, remained relatively expensive. As a result, inflation's impact varied markedly across income groups, depending on their spending patterns.

By the end of FY25, the disinflation cycle had started to turn. Inflation began rebounding in May and June 2025 as food prices normalized, electricity adjustments returned, and flood-related disruptions to supply chains emerged. This late-year shift set the stage for renewed inflationary pressures as the economy entered FY26.

Monthly Inflation Patterns in FY25: From Decline to Rebound

Pakistan's monthly inflation trajectory during FY25 can be divided into three clear phases: a sharp early decline, an extended period of exceptionally low inflation, and a mild rebound as base effects weakened and food prices normalized.

July–October 2024: Sharp Early Disinflation

The fiscal year opened with headline inflation at 11.1 percent year-on-year in July, driven mainly by high inflation and earlier tariff adjustments. Inflation began easing immediately as global prices softened and supply conditions improved. By August, CPI dropped to 9.6 percent, and by September, year-on-year inflation fell further to 6.9 percent, accompanied by a –0.5 percent month-on-month decline, the first strong indication of broad-based disinflation. A temporary uptick in October (7.2% YoY, +1.2% MoM) reflected seasonal food demand and adjustments in electricity prices.

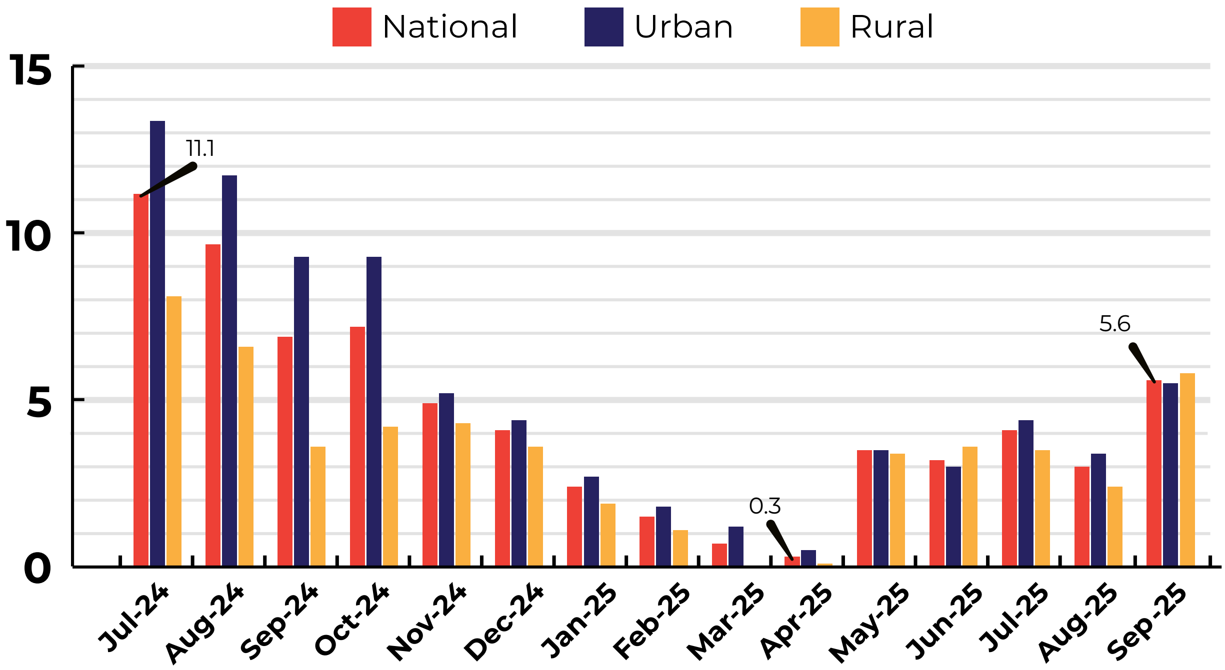
November 2024–April 2025: Deep Low-Inflation Phase

From November onward, inflation fell to its lowest level and stayed there for six consecutive months. November saw CPI at 4.9 percent, and by December, inflation eased further to 4.1 percent. The downward momentum strengthened in early 2025: January slipped to 2.4 percent, followed by February at 1.5 percent, with month-on-month inflation turning negative in multiple months due to food and fuel deflation. By March (0.7%) and April (0.3%), inflation approached zero, marking the deepest trough of the year and reflecting sustained declines in food and electricity prices.

May–June 2025: Mild Rebound

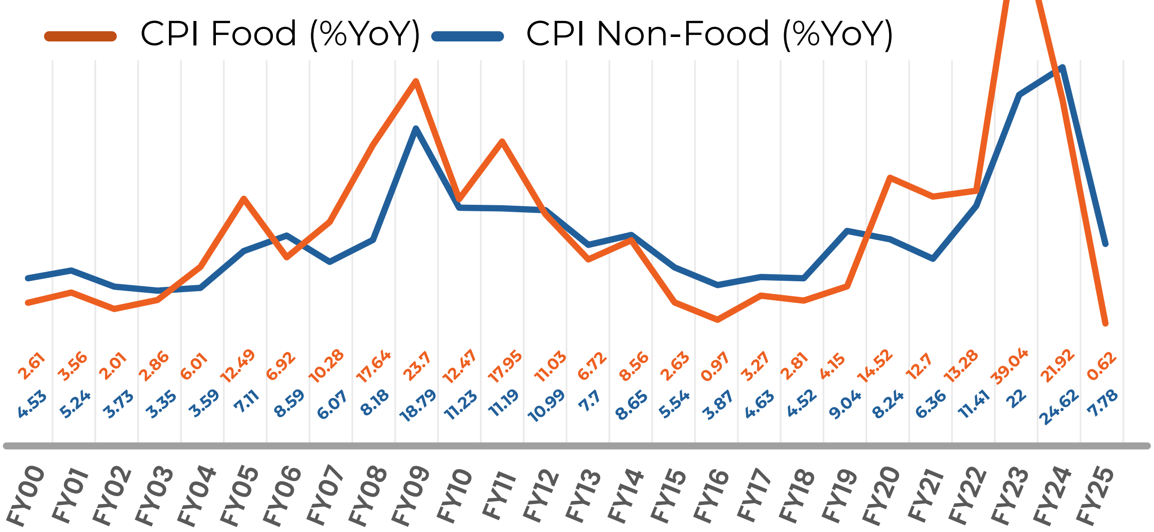
The disinflation cycle bottomed out in April, after which inflation began rising again as food prices normalized and base effects weakened. May 2025 witnessed a sharp month-on-month jump due to increases in wheat and perishables, raising year-on-year inflation to 3.5 percent. In June, CPI moderated slightly to 3.2 percent, although rural inflation began outpacing urban inflation—an early sign that supply pressures were re-emerging.

CPI National, Urban and Rural



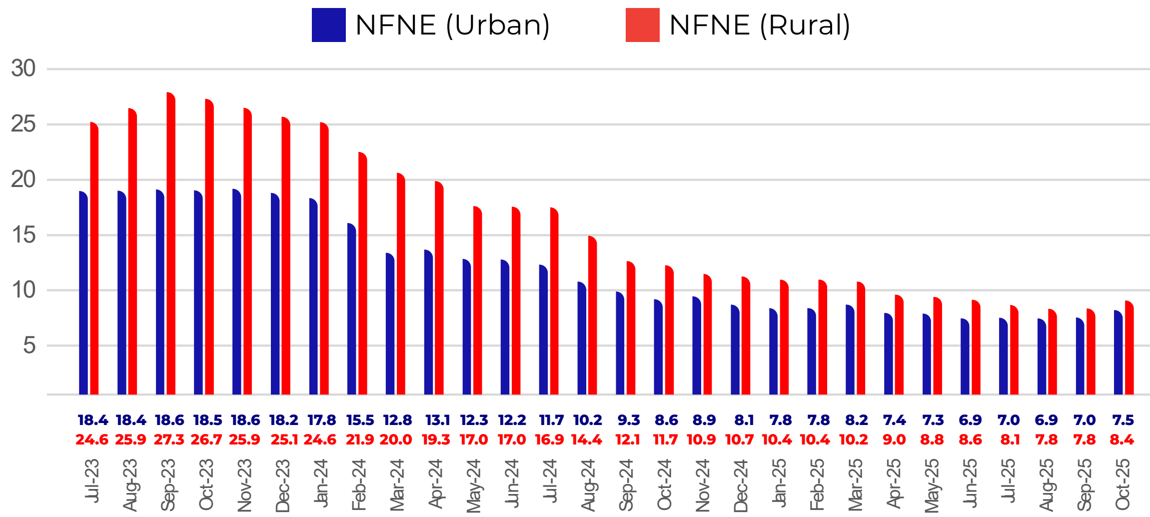
Source: PBS/SBP

Food Inflation versus Non-Food Inflation (YoY%)



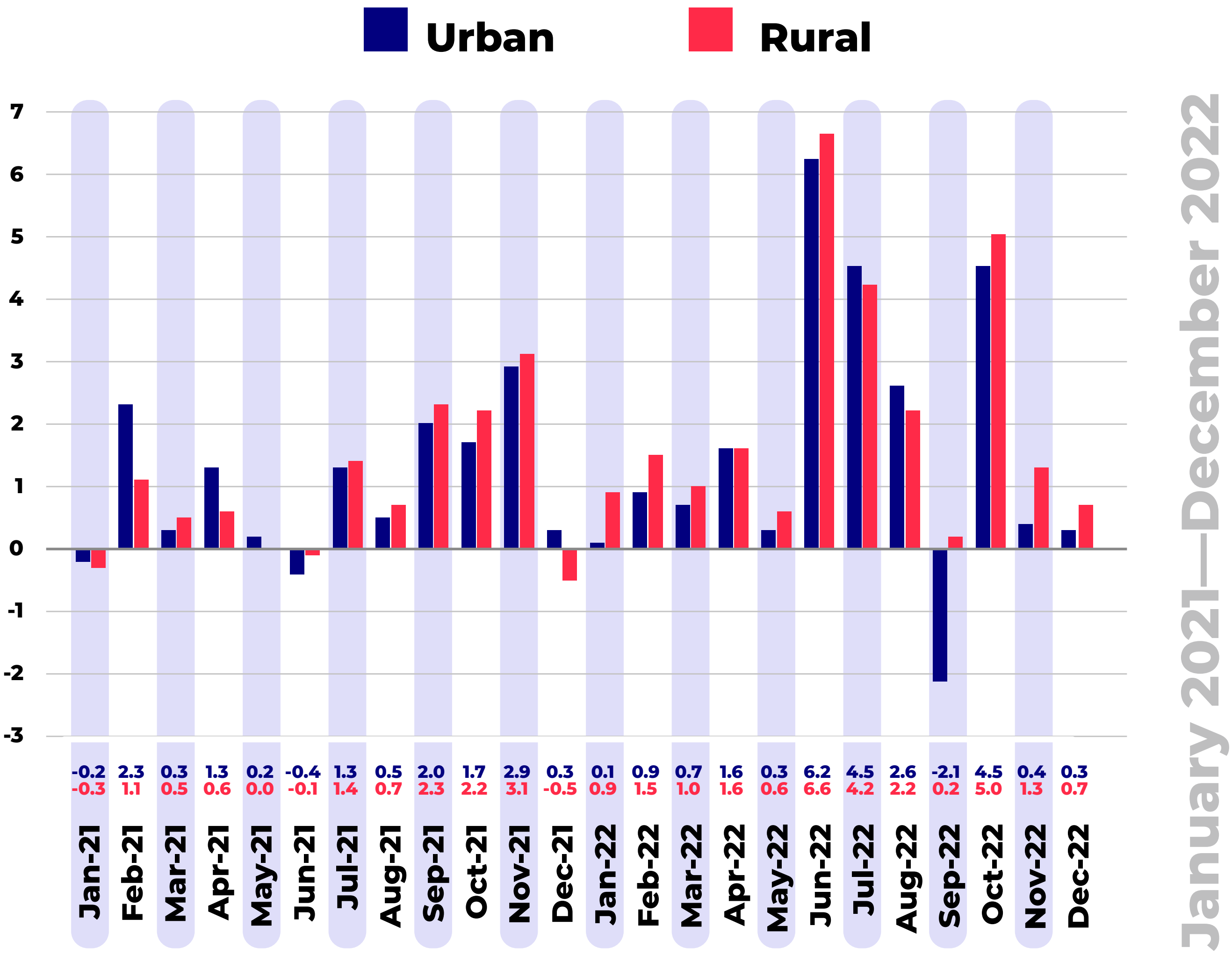
Source: PBS

Non-Food Non-Energy Inflation Trend (YoY%)



Source: PBS

Month-on-Month Inflation - Urban vs Rural (%)



Source: SBP

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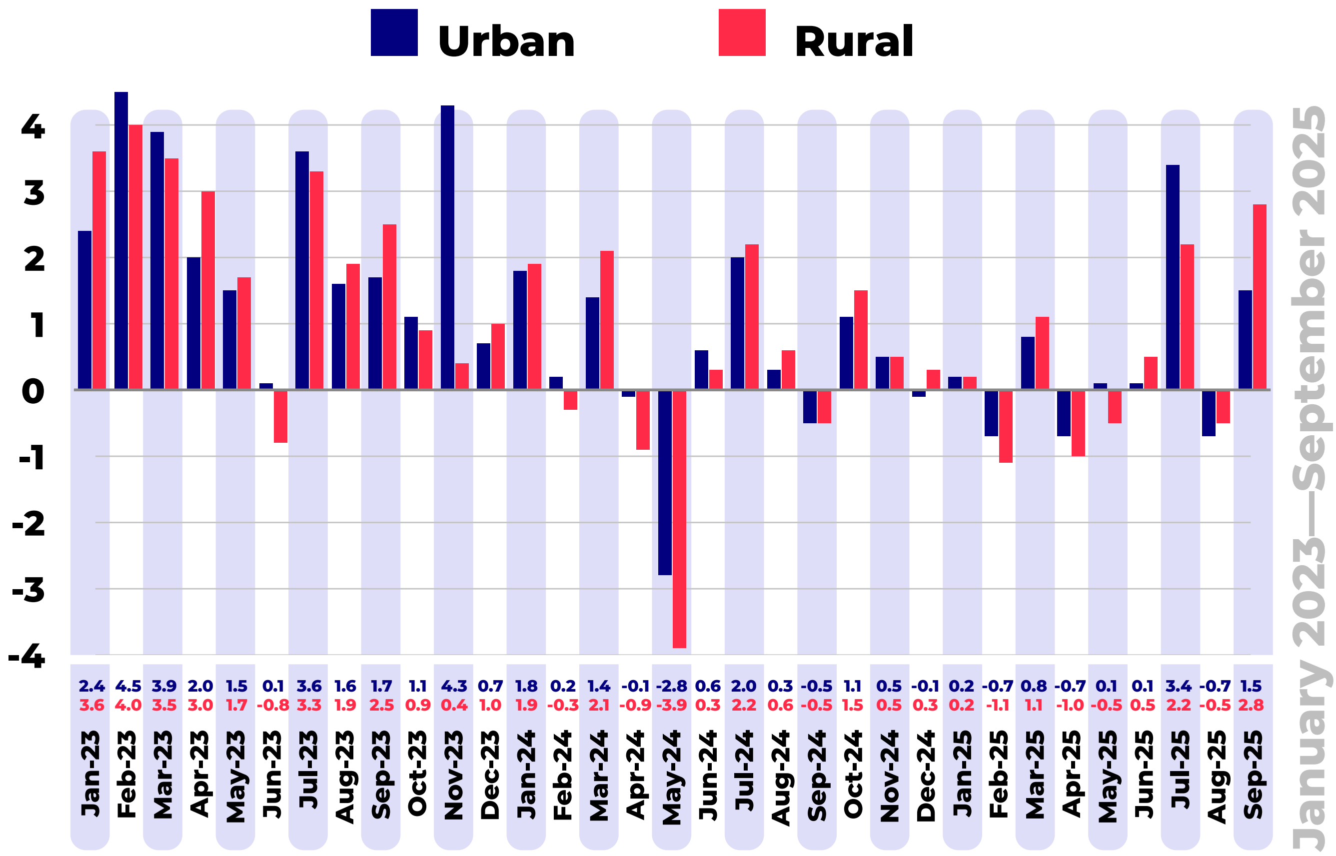


Source: SBP

Drivers of Inflation: Global Prices, Energy Costs, and Policy Action

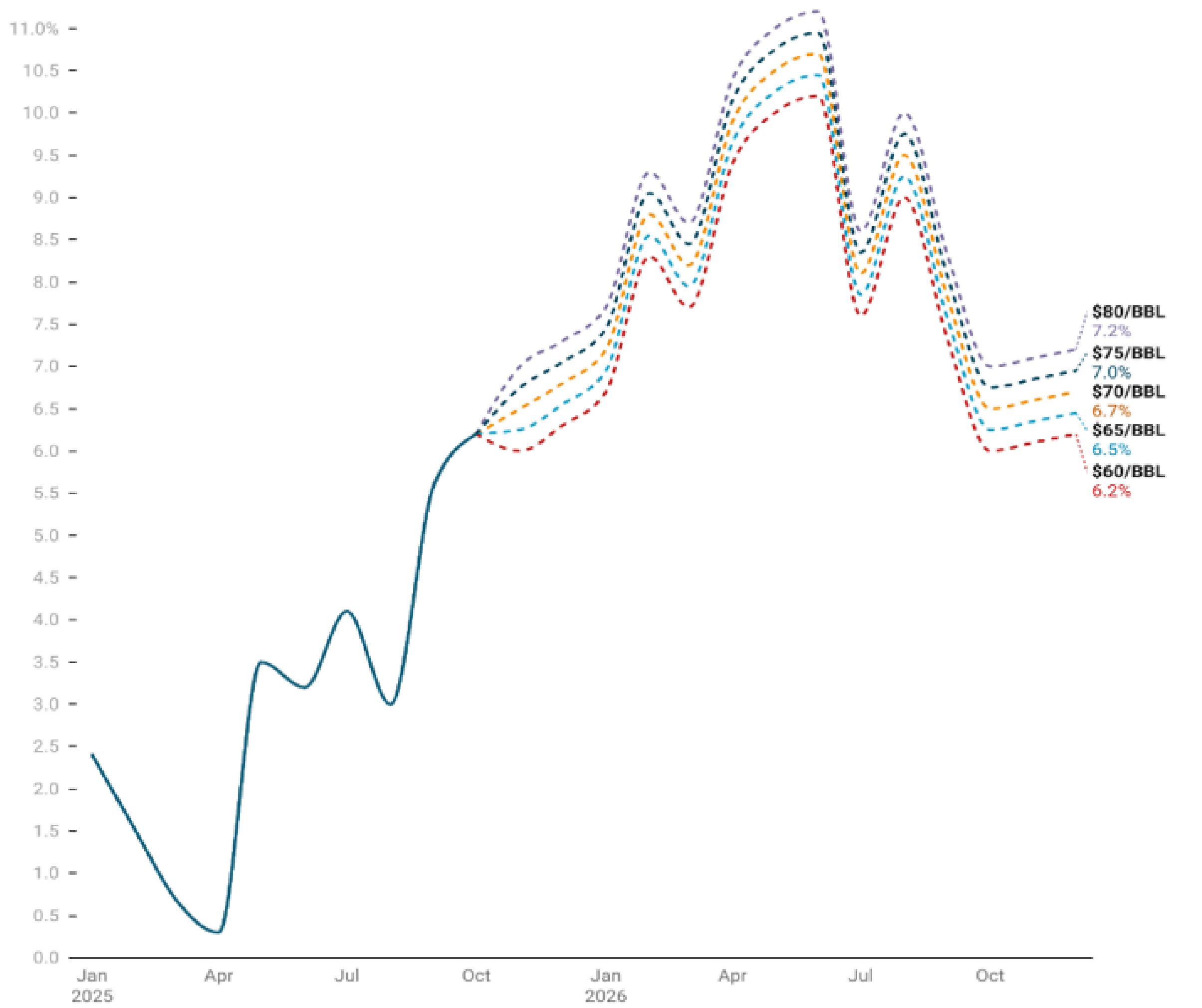
The decline in inflation during FY25 was largely the result of a surge in global prices, domestic energy adjustments, and disciplined macroeconomic policies.

A. Global Oil and Commodity Prices

Global fuel and commodity prices fell through much of FY25, lowering Pakistan's import bill for petroleum, edible oil, and grains. Brent crude oil was seen falling from around $80/bbl. in the beginning of FY25 to around $70/bbl. towards the end of FY25. As a result, motor fuel inflation turned sharply negative, reducing transport costs and indirectly supporting lower food prices through reduced distribution margins. Weak global commodity markets also helped Pakistan avoid cost-push inflation during a period of currency stability.

Sensitivity Analysis: Oil Price Impact on Inflation

The analysis captures only the direct impact of global oil prices on Pakistan's energy-related CPI items. It assumes that the baseline forecast already reflects current tariff decisions, domestic fuel pricing formulas, and the existing outlook for electricity and gas adjustments. A $10/bbl oil increase adds ~0.5 ppt to headline inflation, assuming a static exchange rate throughout FY26



Solid line represents actual inflation, dotted line represent forecasts

B. Domestic Energy Prices

Electricity prices fell for seven consecutive months due to negative fuel cost adjustments and tariff rationalization, significantly easing the housing and utilities index. Gas-related inflation, which had surged sharply following the 2023 tariff hike, began to fade from the year-on-year calculations, contributing further to disinflation.

However, this trend reversed toward the end of FY25. In July 2025, post-subsidy tariff adjustments caused gas charges to jump by 23 percent month-on-month, accounting for roughly 41 percent of total inflation in that month. Electricity prices also rose sharply. These developments marked the end of the disinflationary phase and the beginning of a renewed inflation cycle.

Energy Price per kwh in Regional Countries

Pakistan's residential electricity prices (USD 0.065/kWh) sit in the middle of the regional range—higher than Afghanistan, Bangladesh, and Nepal, but lower than Sri Lanka and roughly comparable to China and India. However, Pakistan's business electricity price (USD 0.156/kWh) is the highest in the entire region, significantly above India (0.13), Bangladesh/China/Sri Lanka (0.097), and far above Nepal (0.069).

This highlights a competitiveness problem: households pay average regional rates, but firms face disproportionately high tariffs—raising production costs, discouraging investment, and undermining export competitiveness.

Residential electricity rates in Pakistan are close to regional neighbours, but industrial/business electricity costs are among the highest in South Asia. Costs are driven by five components:

1. **Generation** – heavy reliance on imported fuels, rupee depreciation, and high interest on foreign loans raise costs.
2. **Transmission** – under-invested, poorly designed grid (46,000 MW generation vs only 26,000 MW transmission capacity; geographic mismatch between where power is produced and where it's needed).
3. **Distribution** – high technical losses and theft, plus weak governance of DISCOs.
4. **Government taxes & surcharges** – electricity bills are used as a tax instrument.
5. **Other charges / circular debt** – circular debt leading to repeated surcharges on consumers.

As tariffs rise, households and industry are shifting to solar and off-grid options, shrinking the paying consumer base, and worsening the grid's financial crisis.

Regional Electricity Prices per Kwh

	Residential electricity rates in USD/kWh, (2023–2025 average)	*Business electricity rates in USD/kWh, (2023–2025 average)*
Pakistan	0.065	0.156
India	0.077	0.125
Bangladesh	0.062	0.099
Sri Lanka	0.122	0.097
China	0.076	0.096
Afghanistan	0.050	0.091
Nepal	0.043	0.069
Iran	0.003	-

Source:www.globalpetrolprices.com

C. Monetary Policy

Earlier monetary tightening in FY24 played a crucial role in stabilizing expectations and restraining demand. As headline inflation fell sharply in FY25, the State Bank of Pakistan was able to cut the policy rate by about 1,100 basis points, bringing it down from its peak of 22 percent to around 11 percent. While this easing supported financial conditions, underlying inflation remained sticky: core inflation stayed at 7–8 percent, driven by persistent pressures in health, education, clothing, and personal services, categories insulated from global disinflation. Against this backdrop, the monetary policy outlook remains tightly anchored to inflation risks. Renewed increases in food and administered prices, combined with elevated core inflation, limit the room for additional rate cuts without jeopardizing the inflation target. The SBP now faces a delicate balance between supporting growth and safeguarding price stability, and with inflation projected to remain slightly above target, the policy rate is expected to stay in the 10–11 percent range unless inflation dynamics improve meaningfully.

D. Fiscal Policy and Administrative Measures

Fiscal consolidation during FY25 resulted in one of the strongest primary surpluses in years. The government also undertook administrative measures that contributed materially to the disinflation process:

- Wheat imports and procurement reforms led to a sharp collapse in wheat and flour prices.
- Fuel and electricity tariff adjustments were temporarily delayed or smoothed.
- Exchange-rate stability helped limit imported inflation.

Thus, FY25's disinflation was driven by a combination of global relief, administrative price control, and disciplined macro policy. However, many of these factors were transitory and did not address the structural drivers of inflation.

Category-Wise Price Movements and Their Impact in FY25

Inflation patterns during FY25 were largely shaped by movements in a few dominant categories, particularly food, housing & utilities, and transport. Together, these categories explain most of the sharp disinflation early in the year and the subsequent rebound approaching FY26.

A. Food (34.6% of CPI)

Food prices were the single largest driver of FY25's inflation path. Improved domestic crop supply, lower global edible oil and grain prices, and a collapse in wheat and flour costs pushed food inflation into negative territory from January to April. This provided meaningful relief to low- and middle-income households. However, as wheat, tomatoes, onions, and other perishables rose again in May–June, food inflation turned positive and became a key contributor to renewed price pressures entering FY26.

B. Housing & Utilities (23.6% of CPI)

Housing inflation started FY25 at extremely high levels but fell sharply as electricity charges dropped for several months due to negative fuel cost adjustments and fading gas tariff effects. This category played a major role in pulling headline inflation toward zero by April. The trend reversed after July's tariff adjustments, when both electricity and gas prices rose sharply, reinstating cost pressures for urban households and setting the stage for a new inflation cycle.

C. Clothing and Footwear (8.6% of CPI)

This category remained persistently expensive throughout FY25 due to import-intensive inputs and rising wages. Even during the months of very low headline inflation, clothing and footwear inflation stayed elevated in high single or low double digits, exerting steady pressure on middle-income families.

D. Transport (5.9% of CPI)

Transport inflation fell sharply early in FY25 as global fuel prices softened, briefly turning negative and lowering distribution and commuting costs. As global prices stabilized and domestic adjustments resumed, transport inflation turned positive again toward late FY25 and into FY26, removing one of the temporary sources of relief.

E. Education (3.8%), Health (2.8%), and Miscellaneous Goods & Services (4.9%)

Service-sector categories, particularly education and health, showed little sensitivity to disinflation. Education inflation remained in double digits, driven by operational costs and imported learning materials, while health inflation remained strong due to medicine and consultation costs. Personal effects and routine household services saw inflation exceeding 30–40% for certain items, contributing to sticky underlying or "core" inflation.

6. Durables

Durable goods inflation was comparatively moderate. Most durable items,

Monthly CPI INDEX Category-wise (%) - base year: 2015-16

Description	Weights	FY19	FY20	FY21	FY22	FY23	FY24	FY25
General	100.0	117.2	129.8	141.3	158.5	204.7	252.7	264.0
Food & non-alcoholic beverages	34.6	112.2	129.6	146.7	166.5	231.3	279.4	277.5
Non-perishable food items	29.6	112.3	126.5	146.7	167.7	231.8	280.9	279.0
Perishable food items	5.0	114.2	147.8	147.1	159.1	228.8	270.3	268.4
Alcoholic, Beverages & Tobacco	1.0	112.3	135.8	143.4	149.6	248.8	364.6	388.5
Clothing & Footwear	8.6	118.1	129.6	142.6	157.5	187.1	223.4	253.5
Housing, Water, Electricity, Gas & Fuels	23.6	120.1	128.3	136.4	151.0	172.1	222.7	237.1
Furnishing & Household Equipment	4.1	114.0	125.7	136.2	153.4	202.7	259.3	273.8
Health	2.8	122.9	136.8	148.4	162.3	189.6	230.7	263.3
Transport	5.9	125.3	138.7	140.3	174.1	259.7	310.2	306.9
Communication	2.2	103.3	106.8	107.6	110.2	114.0	127.2	134.9
Recreation & Culture	1.6	111.5	118.7	124.0	134.7	191.6	256.8	273.9
Education	3.8	134.7	141.9	143.7	150.6	165.2	186.6	207.8
Restaurants & Hotels	6.9	119.1	127.8	138.7	156.1	207.0	259.5	280.7
Miscellaneous	4.9	118.9	133.0	148.3	164.1	212.4	270.8	306.8

Source:PBS/SBP

furniture, appliances, and electronics, experienced mild price increases but remained overshadowed by services and essentials. Exchange-rate stability helped limit stronger inflation in this segment.

Inflation Across Income Groups: Who Was Hit, and When

FY23–FY24: Poor and Middle-Income Households Were Hit the Hardest

During FY23 and FY24, inflation was extremely regressive. Poor and middle-income households experienced inflation of 28–30 percent, while high-income households faced lower inflation of ~24 percent. The reason is straightforward: inflation during these years was driven largely by food and transport, which dominate the consumption baskets of low- and middle-income groups.

FY25: A Complete Reversal in the Burden of Inflation

The distribution of inflation changed radically in FY25. Low-income households, the most vulnerable segment, benefited the most from food deflation and falling transport costs. Their inflation rate was just 2.31 percent between July and April 2025. Middle-income households saw inflation of 3.6–5.3 percent, while high-income households faced the highest inflation at 7.03 percent.

This reversal occurred because wealthier households spend more on education, healthcare, clothing, and personal services, categories that remained expensive even when inflation fell overall.

Implications for Household Welfare

Poor households received meaningful relief for the first time in years, while high-income households continued to experience cost pressures. The composition of inflation—in terms of which items became cheaper and which stayed expensive—therefore shaped its distribution across the population.

Outlook: Where is Inflation Headed?

For FY26, the SBP projects inflation to stay within the 5–7 percent target band, but market expectations are slightly higher, with headline inflation anticipated to average around 7–7.5 percent and exceed the upper bound in several months, particularly in the second half of the fiscal year. Early data already point in this direction: inflation has climbed steadily from 4.1 percent in July to 6.2 percent by October, indicating that price pressures are firmer than expected.

The outlook builds on the structural pressures described in earlier sections, also faces substantial risks from global oil markets, energy tariff revisions under IMF programs, climate-related disruptions, and the lagged impact of earlier monetary easing. Any significant shock to food supplies or energy prices may push inflation beyond the target range.

Inflation is projected to return to the 5–7 percent range by FY27 as supply conditions normalize and the effects of temporary energy shocks diminish. The expected stabilization reflects assumptions of a normal harvest, steady global commodity prices, and disciplined fiscal and monetary policies.

How Household Spending Patterns Shaped Inflation

Pakistan's CPI basket reflects the spending pattern of a typical household, capturing how different categories contribute to overall inflation. These expenditures not only show what households spend most on but also explain why inflation feels different across income groups and why changes in specific categories, such as food and utilities, have such a large effect on the cost of living.

Consumption Pattern of a Typical Household (CPI Weights)

Category	Weight (%)
Food & Beverages	34.6
Housing + Utilities	23.6
Clothing & Footwear	8.6
Transport	5.9
Restaurants & Hotels	6.9
Miscellaneous Goods & Services	4.9
Health	2.8
Education	3.8

Source: PBS

Conclusion: Inflation Pressures Returning

Pakistan's inflation trajectory across FY25 and into early FY26 reflects a clear cycle: a sharp and temporary disinflation, followed by a steady and broad-based reacceleration. FY25's inflation collapse was substantial driven by falling electricity charges, negative food inflation, lower global commodity prices, and strong base effects. But this decline was not rooted in structural improvements. Core inflation remained firm throughout the year, and essential services such as education, health, clothing, and personal care continued to rise, signalling that underlying price pressures never truly eased.

By mid-2025, the conditions that produced this disinflation had been largely unwound. Food prices rebounded, housing and utilities inflation turned sharply upward with tariff adjustments, and flood-related disruptions reintroduced supply pressures. Headline inflation rose from 0.3 percent in April to 6.2 percent by October, while three of the last four months recorded monthly inflation above 1.5 percent, confirming that the disinflation phase had ended and the economy had entered a firmer inflation environment.

Food is once again at the centre of the inflation story. The recent surge in perishable prices and the upward turn in wheat and wheat flour—after nearly two years of softness—represent a meaningful shift in the food basket. At the same time, administered prices remain a persistent source of inflation:

electricity tariffs continue to adjust upward, gas charges remain high, and while lower global oil prices offer some relief through negative FCA, they are not enough to offset domestic tariff pressures.

Looking ahead, FY26 inflation is expected to average around 7–7.5 percent, slightly above the SBP's 5–7 percent target range, with risks tilted upward due to food volatility, energy adjustments, and climate-related supply constraints. Core inflation is projected to remain around 7.5–8 percent, reflecting persistent service-sector costs. With the policy rate already cut sharply earlier in the calendar year, the SBP has shifted to a cautious stance, balancing growth concerns against the need to anchor expectations.

Overall, Pakistan's price dynamics remain heavily shaped by three elements: (1) expenditure patterns dominated by food and housing, (2) price movements concentrated in essentials and administered items, and (3) structural rigidities in core categories. FY25's temporary relief underscored how quickly inflation can fall when food and energy align—but also how quickly it can return when these drivers reverse.

Achieving durable, low, and stable inflation will require more than administrative price management. It will depend on strengthening agricultural supply chains, ensuring predictable and cost-reflective energy pricing, addressing service-sector cost rigidities, and maintaining macroeconomic discipline. Only with these reforms can Pakistan move from short-lived disinflation cycles toward lasting price stability.

Sources: All Data and Facts from SBP Inflation Monitors; SBP Monetary Policy Statements and Monetary Policy Compendium; PBS Price Statistics; PBS Monthly Reviews; Ministry of Finance – Economic Survey of Pakistan; World Bank Pakistan Development Update