The great oil rollercoaster

Sharp correction from highs mask a broader ~35% increase?

Oil has witnessed one of the most volatile rides in the last few days, briefly bouncing to a peak US$120/barrel from US$95/barrel, to revert to US$85 – US$90 range—all in a span of 3 days. Nonetheless, **prices remain ~35% higher than the average prices just 3 months ago.**

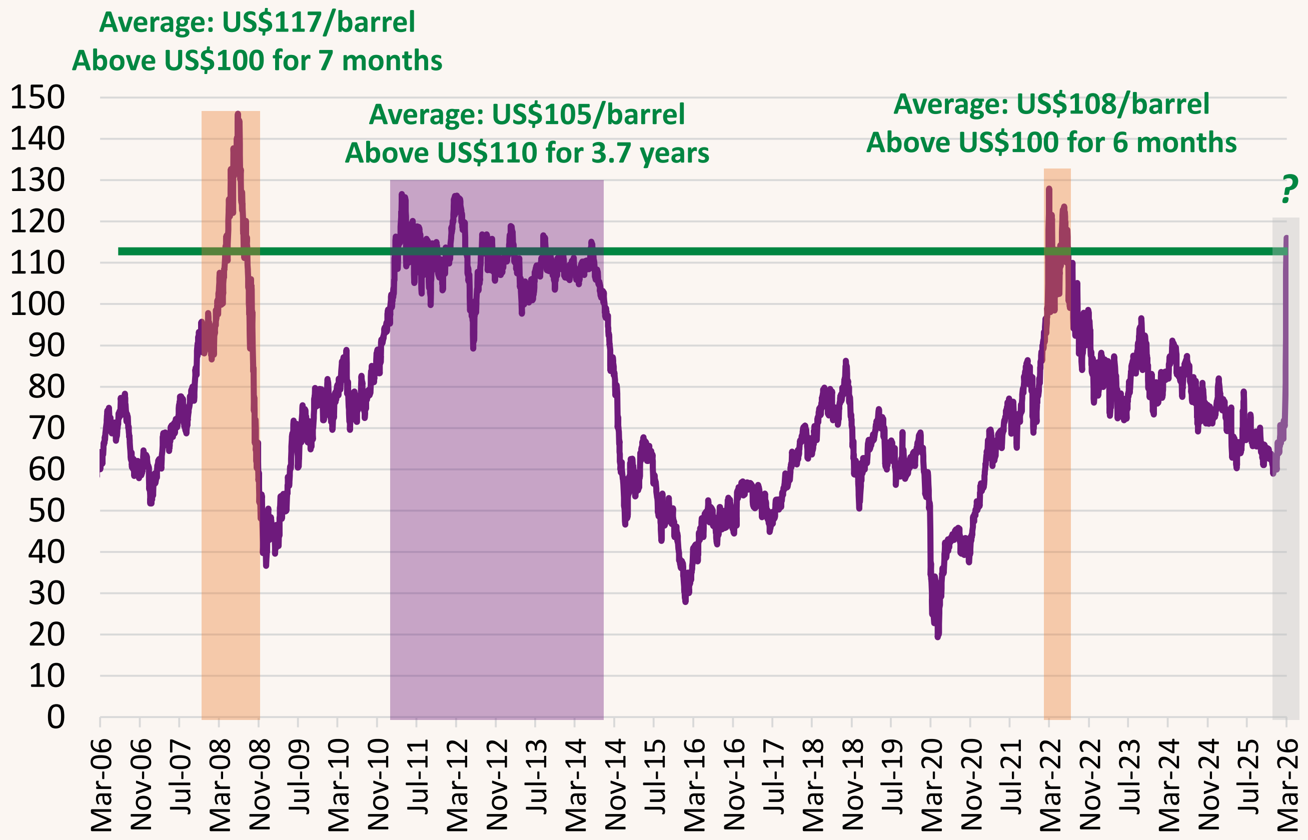
For Pakistan, **a net energy importer**, the price volatility combined with the supply disruption fears make it critical to observe and pre-empt the policy actions of the government to navigate the uncertain situation.

The key areas to track would be i) import strategy and ii) monetary policy measure.

We revisit historical precedents of international oil price spikes, as this is the fourth cycle where oil has hit US$100/barrel in 20 years.

As has historically been the case, the policy response will also depend a lot on whether this current spike (which has been the sharpest in history) proves to be a short-term blip (like 2008/2022) or a multi-year ordeal (like 2011–2014)?

Historical global oil price trend (US$/barrel)



Source: Bloomberg

Oil shocks and inflation

Looking at historical precedents and monetary policy response

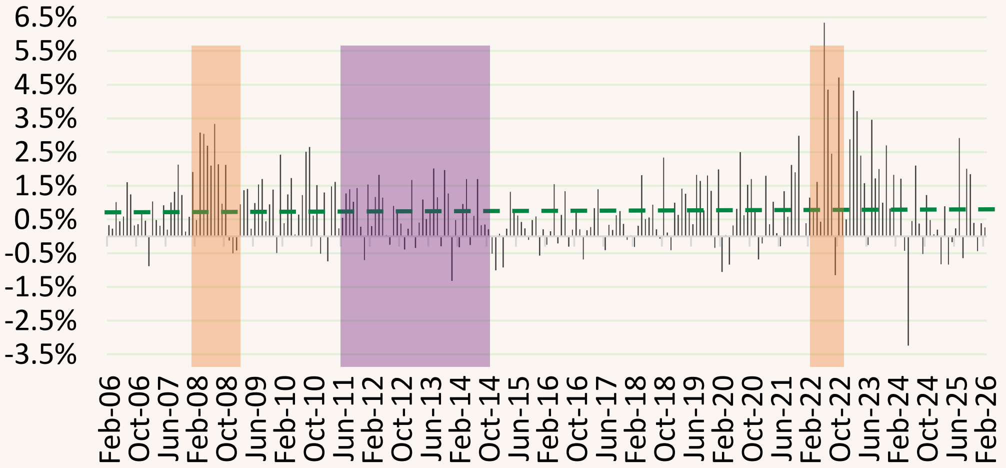
Looking at monetary policy decisions during previous spikes, we draw certain inferences. While other developments (IMF, reforms etc.) would have also played a role in the monetary policy but a direction can be clearly seen.

Abrupt shocks (2008, 2022): In the event of sharp rises, as seen in 2008 and 2022, the SBP seems to have been more tolerant of negative real interest rates. The pronounced MoM increases in CPI were **apparently deemed transitory in nature** and hence monetary policy reaction, while tightening in nature, did not chase the positive real interest rate territory. **In fact real interest rates were allowed to be even 10% negative for brief periods.**

Incremental and sticky elevation (2011–2014): As things stand today, this period is not directly comparable to current situation. Nonetheless, **it is important to keep the precedence in mind, should the current conflict drag at a lower intensity.** The rise towards the US$100/barrel then alone was in the span of 6 months, relatively incremental compared to today's scenario. This allowed the economy to absorb the shock and dampened the inflationary impact, as CPI readings remained in line with average MoM change., maintaining an average real interest rate of ~1.5%.

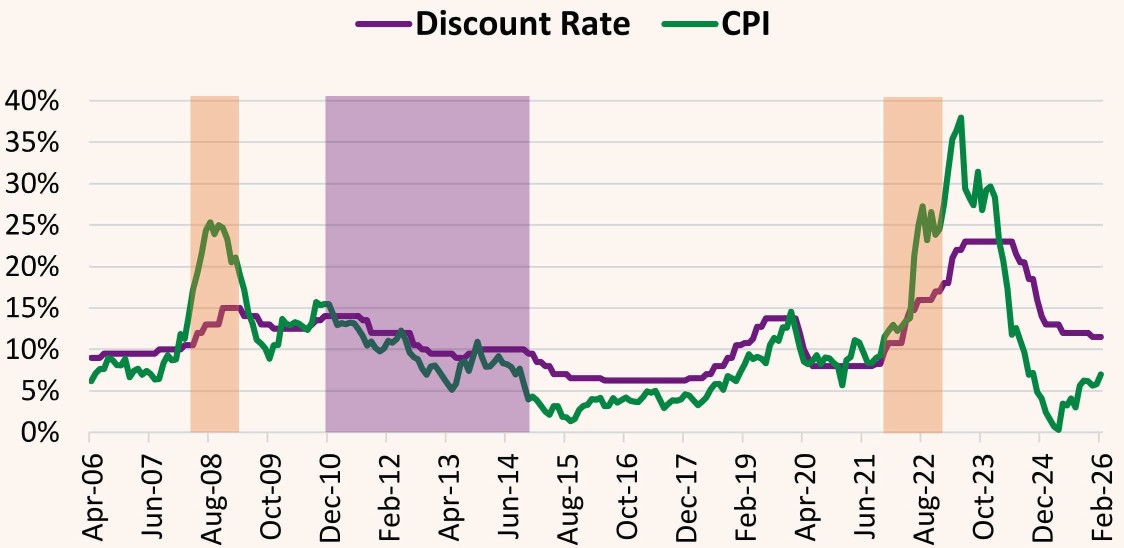
Month-on-Month inflation rate trend

Change in price of goods compared to previous month



Long term average

Source: Pakistan Bureau of Statistics



Source: Pakistan Bureau of Statistics, State Bank of Pakistan

Inflation & Interest rates

What lies ahead?

The March spike: Recent Rs55/litre fuel hikes announced till oil reached US$80/barrel (avg of 1st week of March).

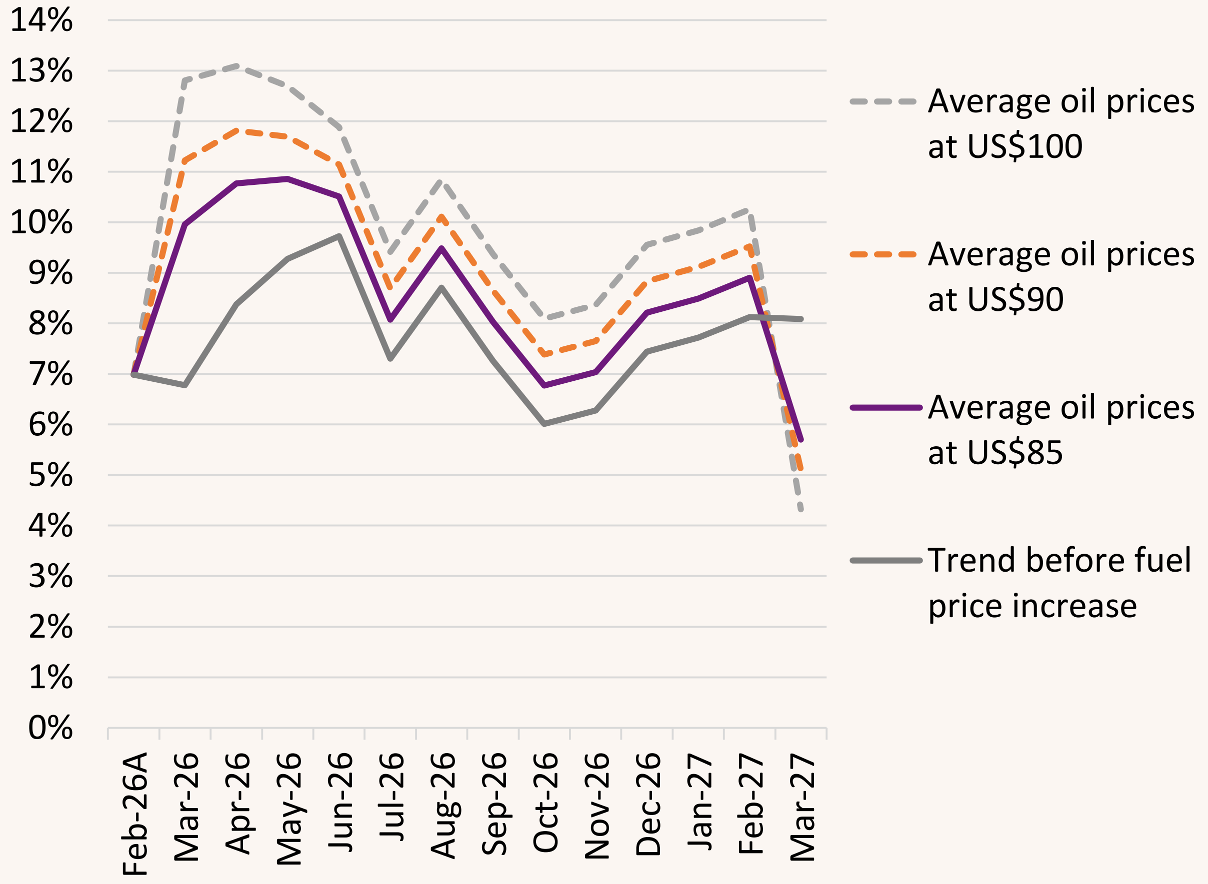
Further escalation, if any in global oil prices (up to US$90/barrel so far) keep rounds of fuel price adjustments on the cards given shift to weekly price cycles, **resulting in immediate inflation spike in March, with secondary cost-push pressure on food and staples.**

The outlook: Inflation may enter and remain the lower double-digit for next few months even if oil prices gradually soften from next month onwards.

In the scenario of regulators viewing the inflation spike as transitionary, and maintain policy rates, it could translate into a short period of negative real interest rates of 1.5% - 2.5%. *Pertinent to note that SBP decided to maintain its policy rate on 9th March 2026 but reiterated that it will continue monitoring the situation.*

On the other hand, any monetary tightening in a transitionary inflation phase may also immediately be followed by an easing cycle of a similar quantum.

Inflation outlook on various March 2026 oil price averages, with a projected softening in the subsequent months



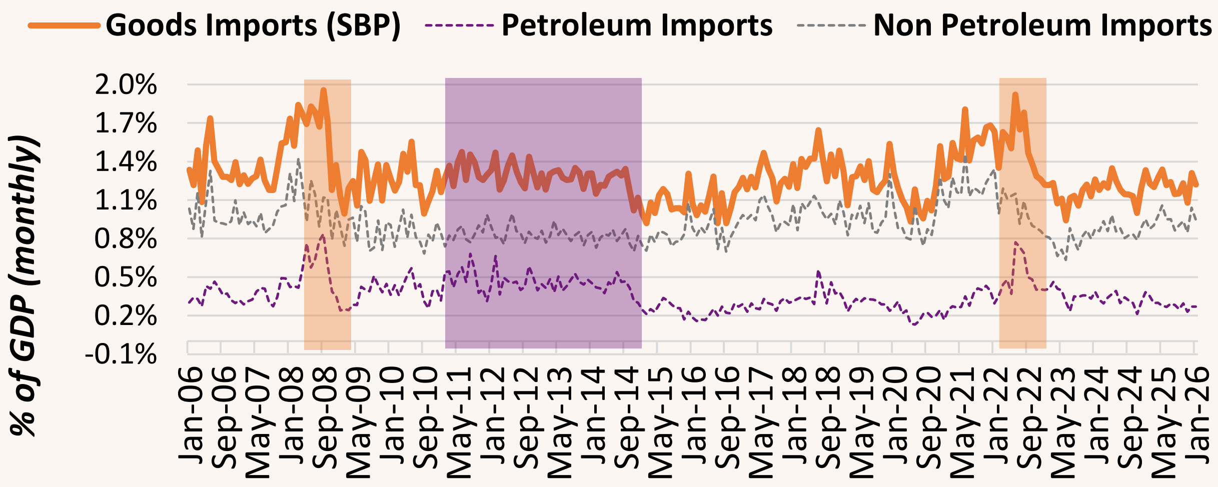
Current account dynamics

Non petroleum imports might have to be moderated in the near term

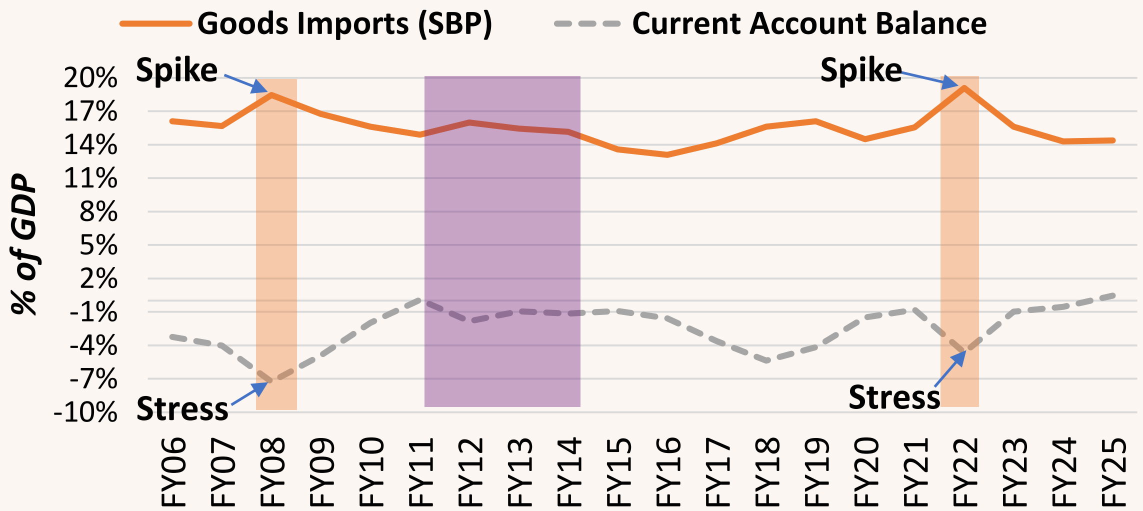
Key to tracking impact on imports and current account is recent active management of import bill to absorb any such shocks – where an elevated oil import bill will likely be countered by curtailing of other imports. Historical data however suggests that general pace of economic activity was the key determinant on how the import bill trended in previous spikes

Oil blips increase pressure: Rapid oil price have surged spike import bills, creating immediate stress on the current account balance. As evident in the monthly chart below, Petroleum imports increased during the spikes witnessed during 2008/2022, which was a key driver of expanding total import bill during those periods.

Manageable trend in 2011-2014: During sustained high-price periods (e.g., 2011–2014), the economy effectively absorbed the cost, owing to import levels remaining sticky throughout, and keeping deficits within a sustainable range of 0–2% of GDP. In addition, the economy maintained enough cushion for non-petroleum imports to expand during this time.



Source: State Bank of Pakistan



Source: State Bank of Pakistan

Managing external balance

Remittances can be a volatile wildcard

Current Account: Structural resilience

Immediate pressure: Pakistan's current account faces pressure from a rising import bill, but a 2008 or 2022-style crisis is unlikely. Regulators are expected to use proven tactics, discouraging non-essential imports to offset surging oil costs. While the petroleum bill climbs, a contraction in other sectors is expected to balance the scales.

The new normal: Composition of our FX inflows, that has shifted as Remittances, may also provide support to the current account. Remittances have superseded exports as our primary dollar anchor, rising from 3% to 9% of GDP—more than offsetting the two-decade decline in exports (now at 8% of GDP).

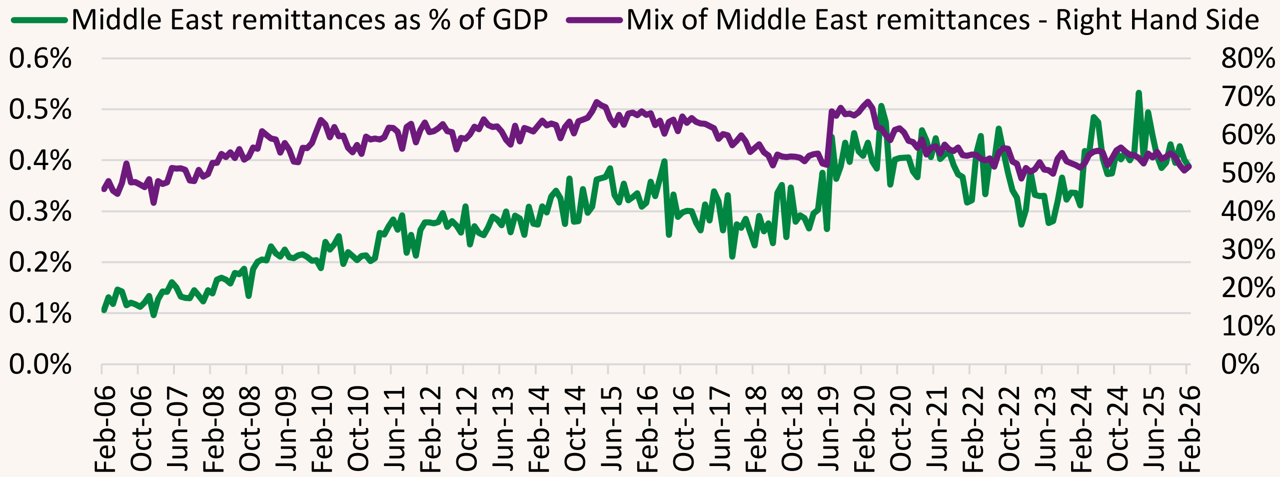
Remittances – A Volatile Wildcard

Given 45-65% of Pakistan remittances emanate from Middle East, the oil price plus security situation of Middle East can be a volatile wild card.

While remittances are a vital cog to the Pakistan economic cycle, the impact on remittances at this point remains unclear. Higher oil prices can bode well for income levels in Middle East, however, stable security is an important requirement to assume the same.

The other aspect is investment outflow to Middle East – through grey channels, which can be impacted if security situation does not stabilize.

Remittances from Middle-East



Source: State Bank of Pakistan

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