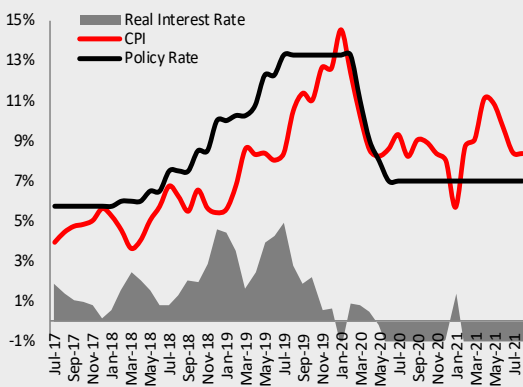


**PAKISTAN**

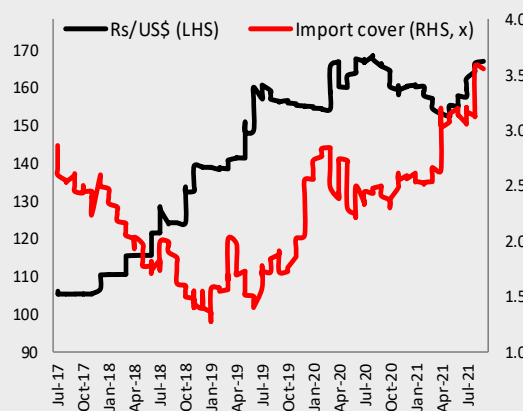


**CPI vs policy rate**



Source: SBP, Foundation Research, Sept 2021

**Rupee against greenback**



Source: SBP, Foundation Research, Sept 2021

**Analyst**

Zeeshan Azhar                      zeeshan@fs.com.pk  
+92 213 5612290                      Ext 331

Foundation Securities (Pvt) Ltd  
Tuesday, September 14, 2021

# Pakistan Economy

## Upcoming MPS: Policy rate to remain untouched amid growth push

### Interest rate status quo

The Central Bank has kept the policy rate unchanged for the last 15 months to support economic growth in the aftermath of the COVID-induced lockdown. We expect the central bank to keep the interest rate unchanged at 7% at the MPS scheduled on 20 September 2021. Our stance is based on (1) SBP's forward guidance from last MPS wherein it stated that "in the absence of unforeseen circumstances, the MPC expects monetary policy to remain accommodative in the near term, and any adjustments in the policy rate to be measured and gradual to achieve mildly positive real interest rates over time", and (2) voting pattern at last MPS where 8 out of 9 members voted to keep the policy rate unchanged and only 1 voted to increase by 50bps. We expect status quo despite (1) deteriorating position of current account given widening trade imbalances and (2) mildly negative projected real interest rates.

### Central bank guidance points to waiting for recovery to become more sustainable

SBP has been providing forward guidance on monetary policy in MPS since January 2021 and at the last MPS nearly 2 months ago it stated that the MPC expects, in the absence of unforeseen circumstances, monetary policy to remain accommodative in the near term, and any adjustments in the policy rate to be measured and gradual to achieve mildly positive real interest rates over time. If signs emerge of demand-led pressures on inflation or of vulnerabilities in the current account, the MPC noted that it would be prudent for monetary policy to begin to normalize through a gradual reduction in the degree of accommodation.

### Inflationary pressures to persist

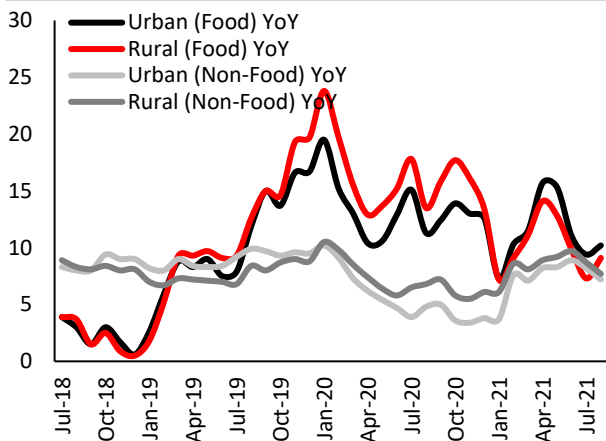
We foresee average inflation of 8.1% in FY22 given higher forecasted YoY International oil prices in our base case of no increase in electricity tariff. In case electricity tariff is increased as per IMF requirements, it would take up average inflation to ~9.3% YoY in FY22.

### Deteriorating CAD to remain manageable

Current account deficit has jumped to US\$3.0bn in the 3 months to July'21 compared to US\$250/350mn in the two preceding 3 months periods. This jump in CAD is underpinned by higher imports (up 14% YoY) and lower exports (down 3% YoY) despite higher remittances (up 2% YoY) during the 3 months to July'21. On an absolute basis, goods imports have been ~US\$5.0+bn for an unprecedented last five consecutive months and have broken the US\$6.0bn mark in June'21 for the first time ever. Even during the 2018 balance of payment crisis, imports were not recorded at this level. This increase in imports is propelled by (1) higher int'l commodity prices and (2) robust domestic demand.

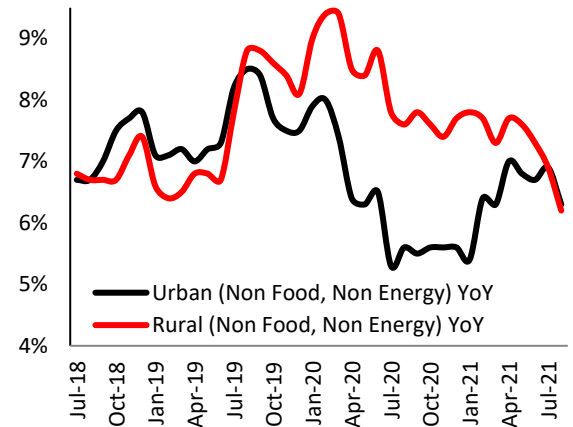
We believe elevated CAD (SBP/FSL forecast of 2-3/2.1% of GDP) would be manageable as first line of defense to rein in imports would be exchange rate (down 2.3/5.1/7.4% in last 1/2/3 months). We also don't foresee immediate pressure on financial account given increasing FX reserves (up 14/16/22% in last 1/2/3 months and import cover of 3.6 months vs low of 1.3 months in 2018) amid RDA inflows, restarting of Saudi oil facility and likely resumption of IMF program in near future.

**Fig 1: Food and non-food inflation converging...**



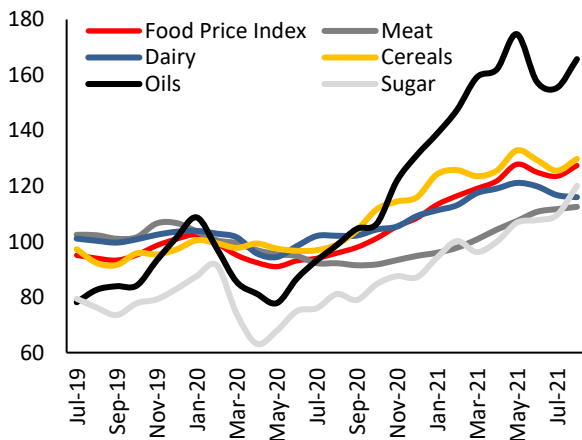
Source: PBS, FSL Research, Sept 2021

**Fig 2: Core inflation trending sharply lower...**



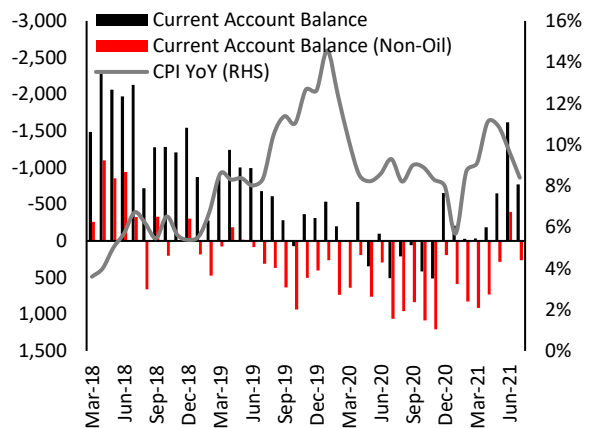
Source: PBS, FSL Research, Sept 2021

**Fig 3: Int'l food prices marching upwards...**



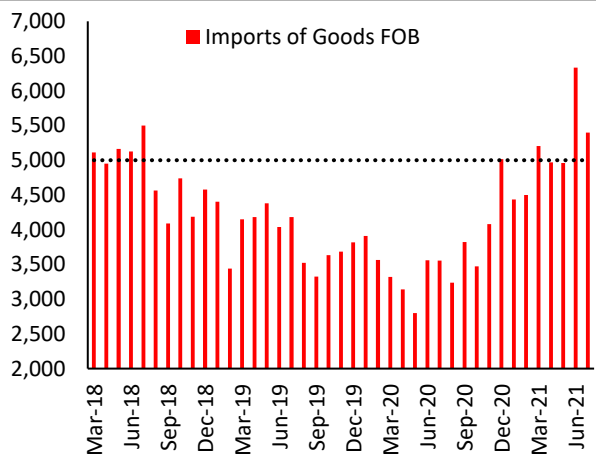
Source: FAO, FSL Research, Sept 2021

**Fig 4: Current account and CPI...**



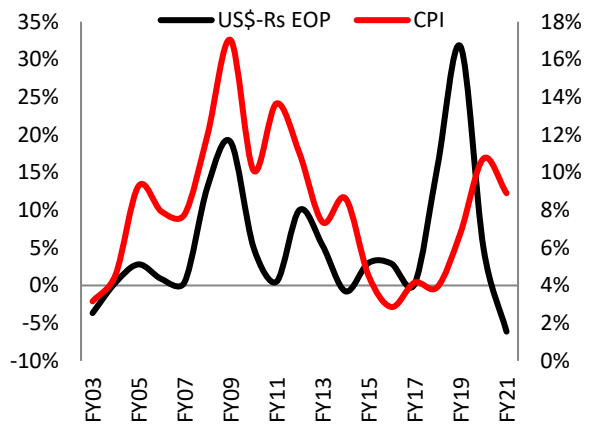
Source: SBP, PBS, FSL Research, Sept 2021

**Fig 5: Goods import rise above FY18 levels (US\$ bn)**



Source: SBP, FSL Research, Sept 2021

**Fig 6: Exchange rate and inflation move in tandem**



Source: Bloomberg, SBP, FSL Research, Sept 2021

**Abbreviations**

CAD	Current Account Deficit
FX	Foreign Exchange
MoM	Month on Month
MPS	Monetary Policy Statement
PR	Policy Rate
RIR	Real Interest Rate
SBP	State Bank of Pakistan
YoY	Year on Year

**Important disclosures:**

**Disclaimer:** This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

**Research Dissemination Policy:** Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

**Target price risk disclosures:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

**Analyst certification:** The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

**Recommendations definitions**

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.