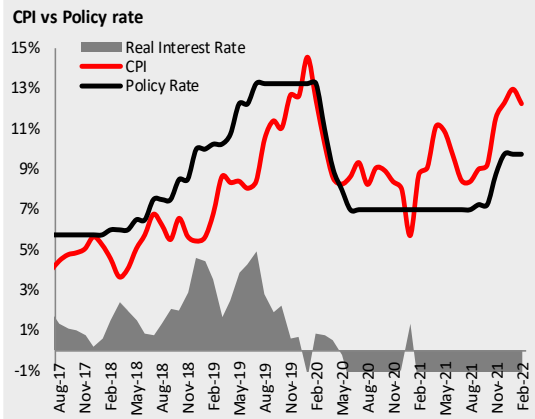
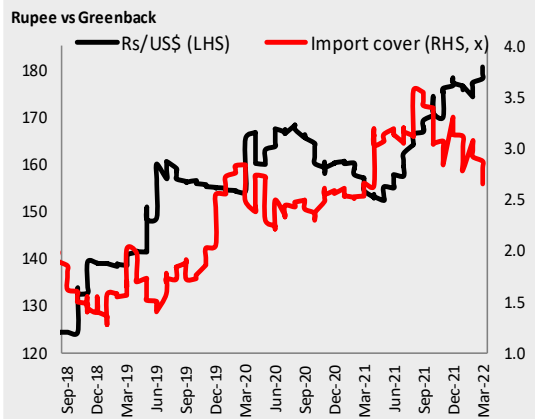


**PAKISTAN**



Source: PBS, SBP, Foundation Research March 2022



Source: SBP, Foundation Research March 2022

**Analyst**

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

Foundation Securities (Pvt) Ltd  
Tuesday, March 29, 2022

# Pakistan Economy

## March CPI to be 11.9% YoY

### MoM inflation to be 0.1%

National CPI is expected to clock in at 11.9% YoY in March 2022 (vs 12.2% YoY last month). In MoM comparison, inflation is estimated to be 0.1% attributed to uptick in food despite decline in electricity and petroleum prices.

Elevated food inflation tracking higher international food prices amid supply chain disruptions coupled with sharp Rupee depreciation over last 9 months would keep FY22 inflation on the higher side. However, Gov't decision to absorb higher international oil prices and freeze electricity tariff till end FY22 would be counterbalancing. Thus, we see average inflation of 11.1% in FY22 vs 8.9% YoY in FY21. We forecast that inflation would continue to remain in double digits till Oct'22.

### Food prices rise

We expect Mar'22 CPI YoY reading to be around 11.9% vs 12.2%/9.1% in Feb'22/Mar'21. CPI on MoM basis is expected to be 0.1% during March due to increase in food index (~34.6% weight in CPI) amid decline in electricity tariff (~4.1% weight in CPI) and petroleum prices (~2.7% weight in CPI). In the food head, increase was observed in prices of chicken, onion, bananas and vegetable ghee. Whereas, decrease in electricity tariff due to government subsidy of Rs5/unit was somewhat offset by higher fuel charges adjustment in March. Petrol and diesel prices decreased by ~1.6/3.5% MoM during March as the government capped their prices despite 23% MoM increase in international crude oil prices.

Core inflation has trended upwards to 8.4/8.5/8.5% YoY in Feb'22/Jan'22/Dec'21 (compared to 7.8/6.7/6.3% in Nov'21/Oct'21/Sep'21) on the back of higher house rents, cloth and garments, medicines, footwear and other components. Digressing further, core inflation showed divergent trend with urban declining to 7.8% in Feb'22 from 8.2% in Jan'22 whereas rural increased to 9.4% in Feb'22 compared to 9.0% in Jan'22.

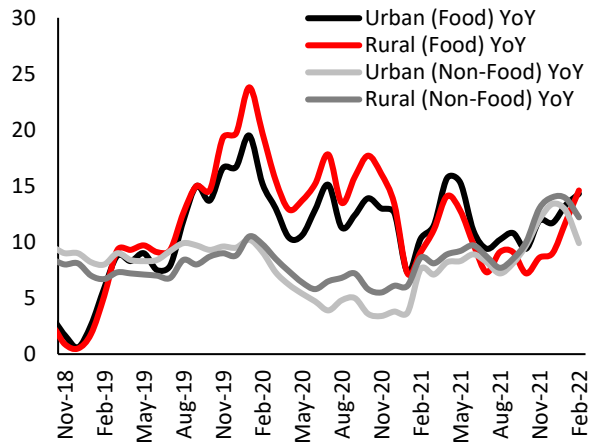
### External account challenges persist

Monthly CAD swung to US\$0.5bn during Feb'22 from record US\$ 2.5bn in Jan'22. This takes 8MFY22 CAD to US\$12.1bn vs surplus of US\$1.0bn in 8MFY21 which is driven by higher commodity prices and robust domestic demand. It is mainly an outcome of higher imports (up 48% YoY in 8MFY22) despite support from higher exports (up 26% YoY) and higher remittances (up 8% YoY). During the remainder of FY22, we expect (1) higher oil/commodity prices to persist given the Ukraine war despite resurgence of COVID in China and (2) normalization of remittances as int'l travel resumes. However, some respite is expected from slowdown in domestic economic activity given Gov't policy tightening under IMF program.

### Delays in IMF program review to impinge on financial account

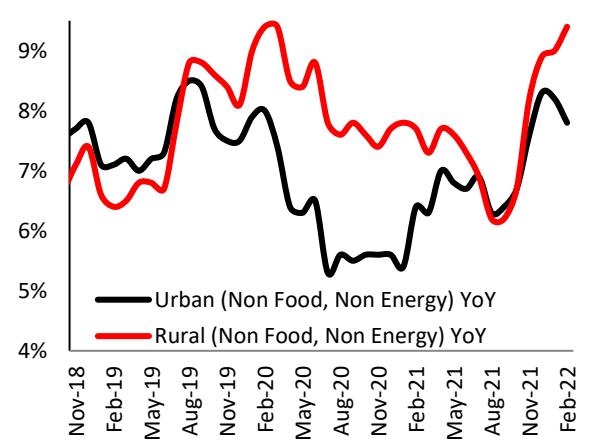
The 7th review of the IMF EFF program has stalled amid government package which provides (1) subsidies on fuel and electricity and (2) incentives for industries which include no questions asked on industrial investment, revival of sick units through tax benefits and 5 year tax holiday to overseas investments in joint ventures. These conflict directly with IMF program conditionality which requires (1) no further tax amnesties and (2) avoidance of issuing new preferential tax treatments or exemptions. Funding for the fuel and electricity subsidies which would cost ~Rs340bn or 0.5% of GDP in FY22 is also a point of contention with the IMF.

**Fig 1: Food inflation ↑ and Non-Food inflation ↓**



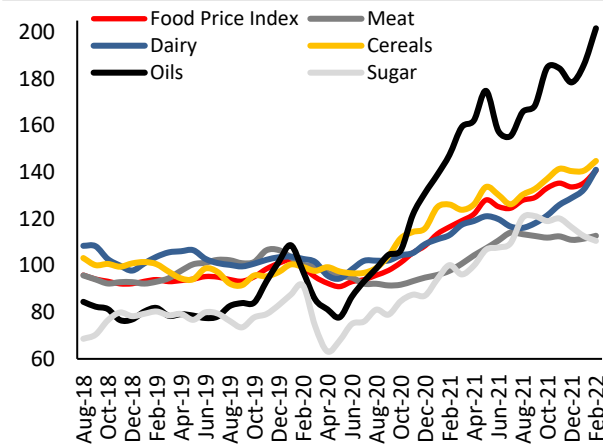
Source: PBS, FSL Research, Mar 2022

**Fig 2: Urban and Rural core inflation diverging...**



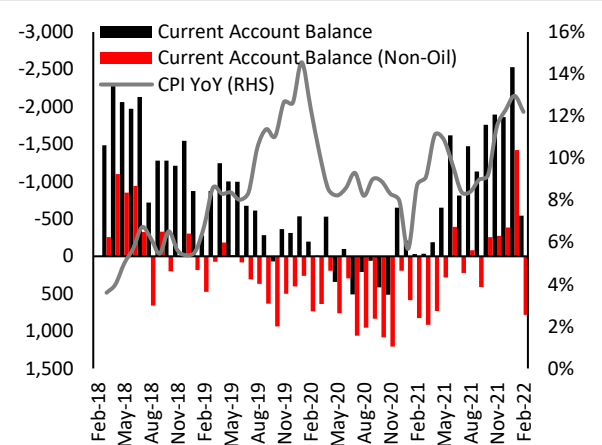
Source: PBS, FSL Research, Mar 2022

**Fig 3: Int'l food prices mostly going upwards...**



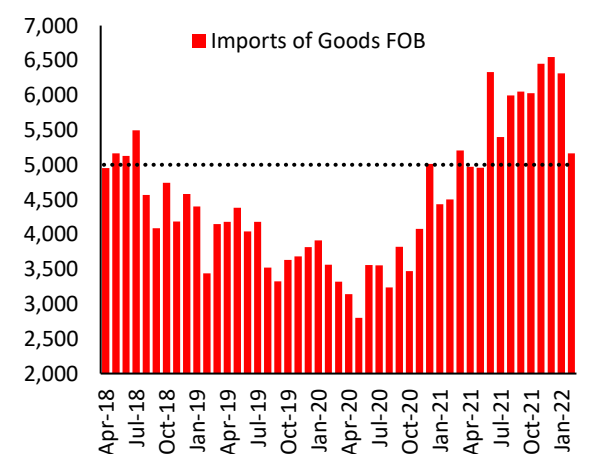
Source: FAO, FSL Research, Mar 2022

**Fig 4: CAD showed marked decline in Feb'22...**



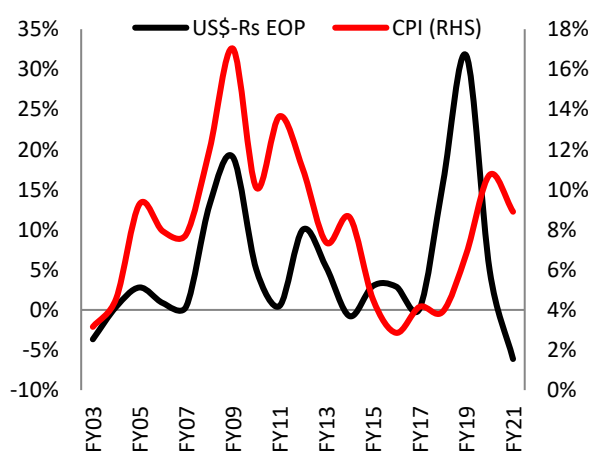
Source: SBP, PBS, FSL Research, Mar 2022

**Fig 5: Goods import remain elevated (US\$ bn)**



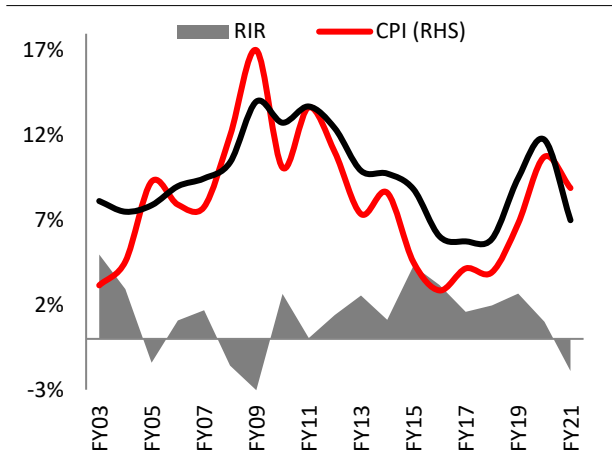
Source: SBP, FSL Research, Mar 2022

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



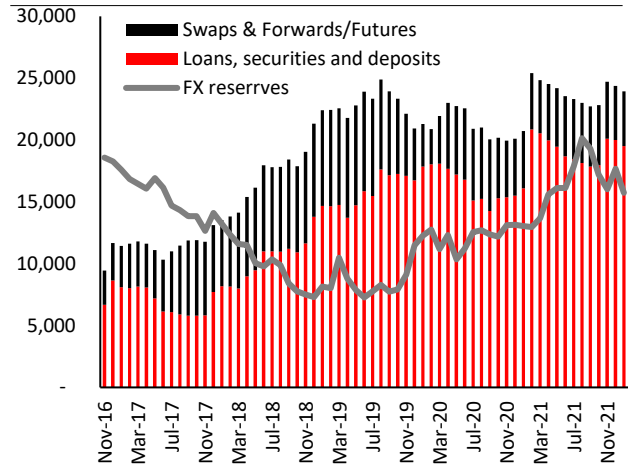
Source: Bloomberg, SBP, FSL Research, Mar 2022

**Fig 7: Inflation and interest rate over the long run**



Source: PBS, SBP, FSL Research, Mar 2022

**Fig 8: SBP FX reserves lower than o/s 1yr liabilities**



Source: SBP, FSL Research, Mar 2022

**Abbreviations**

- FX Foreign Exchange
- MoM Month on Month
- 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.