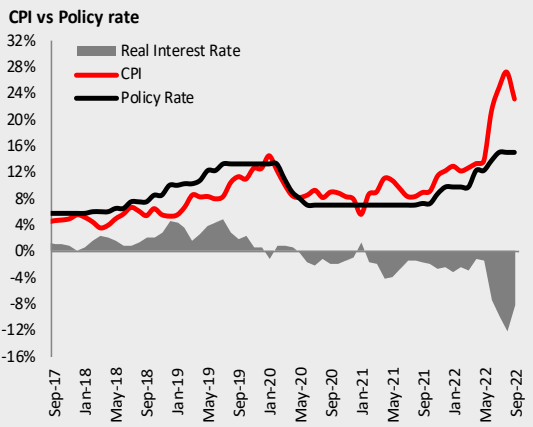
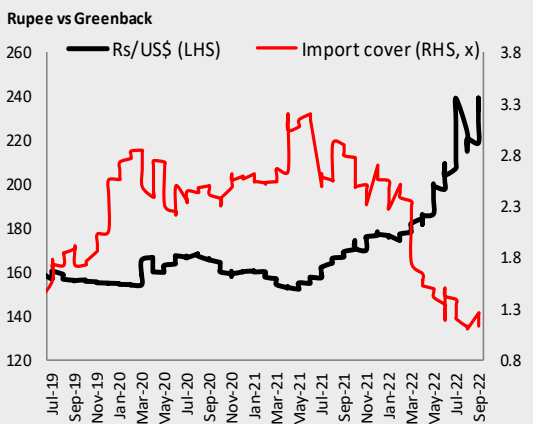


PAKISTAN



Source: PBS, SBP, Foundation Research, Oct 2022



Source: SBP, Foundation Research, Oct 2022

Analyst

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

Foundation Securities (Pvt) Ltd
Monday, October 10, 2022

Pakistan Economy

MPS: Status quo maintained

Policy rate kept unchanged at 15.0%

The State Bank of Pakistan today announced its monetary policy stance for the next 6 weeks in which it decided to keep the policy rate unchanged at 15.0%. The MPS noted the continued deceleration in economic activity and the decline in headline inflation and CAD since the last meeting along with the recent floods have altered the macroeconomic outlook. The MPS was of the view that the existing monetary policy stance strikes an appropriate balance between managing inflation and maintaining growth in the wake of the floods. On the one hand, inflation could be higher and more persistent due to the supply shock to food prices. On the other, growth prospects have weakened, which should reduce demand-side pressures and suppress underlying inflation. In light of these offsetting considerations, the MPS considered it prudent to leave monetary policy settings unchanged at this stage.

The MPS also noted several key developments. (1) The desired moderation in economic activity has become more visible and entrenched, signaling that the tightening measures implemented over the last year are gaining traction. With growth likely to slow further in the aftermath of the floods, this tightening will need to be carefully calibrated going forward. (2) After peaking in August as expected, headline inflation fell last month due to an administrative cut in electricity prices. However, core inflation continued to drift upwards in both rural and urban areas. (3) CAD and trade deficits narrowed significantly in August and September, respectively, and the Rupee has recouped some of its losses following the recent depreciation. Thus, GDP growth could fall to around 2% in FY23, compared to the previous forecast of 3-4% before the floods.

Economic activity declined

The economy has slowed considerably since the last MPS meeting. Most demand indicators were lower in both July and August than in the same period last year - including sales of cement, POL, and automobiles. On the supply side, electricity generation declined for the third consecutive month in August, falling by 12.6% YoY. In July, LSM declined by 1.4% YoY, its first contraction in two years, largely driven by broad-based deterioration in domestically-oriented sectors. Looking ahead, the recent floods are likely to adversely affect the output of cotton and rice as well as the livestock sector this year.

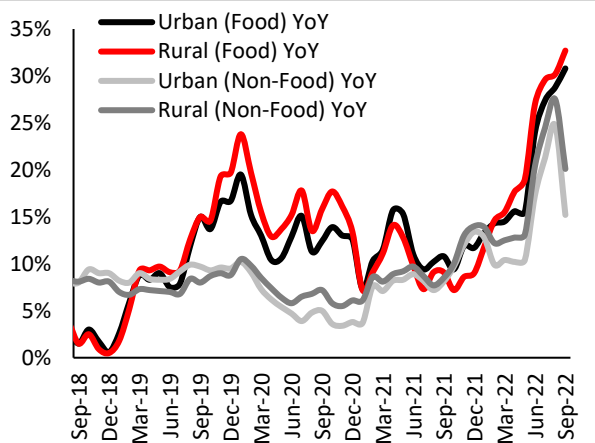
Inflation to remain high in FY23 before declining in FY24

MPS notes that the floods are likely to result in greater need for some agricultural imports. Whereas, exports of rice and textiles are likely to be negatively affected. However, these adverse impacts could be offset by downward pressures on the import bill from lower domestic growth and falling global commodity prices.

Looking ahead, the supply-shock to food prices from the floods is expected to put additional pressure on headline inflation in the coming months. Nevertheless, headline inflation is still projected to gradually decline through the rest of the fiscal year, particularly in the second half. Thereafter, it should fall towards the upper range of the 5-7% medium-term target by the end of FY24. A continuation of prudent monetary policy and orderly movements in the Rupee should help contain core inflation going forward.

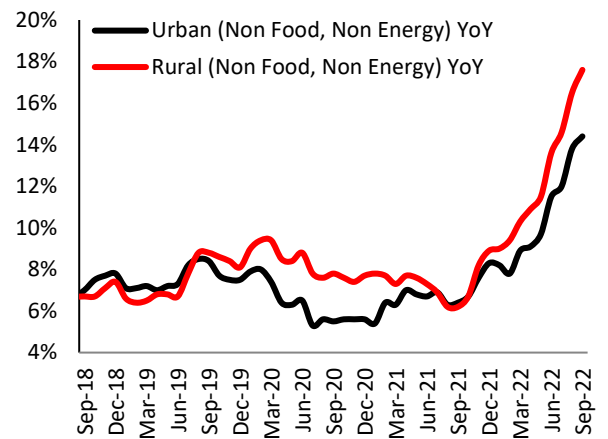
FSL sees avg. inflation of 23.1% in FY23 and interest rate of 13.5% at end of FY23.

Fig 1: Food CPI ↑ and non-food CPI ↓



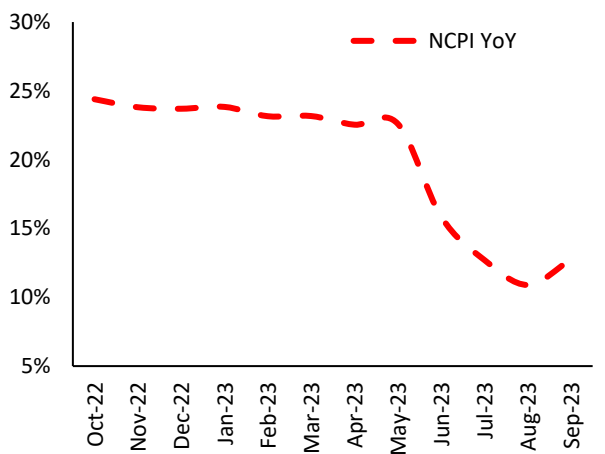
Source: PBS, FSL Research, Oct 2022

Fig 2: Core inflation escalating sharply...



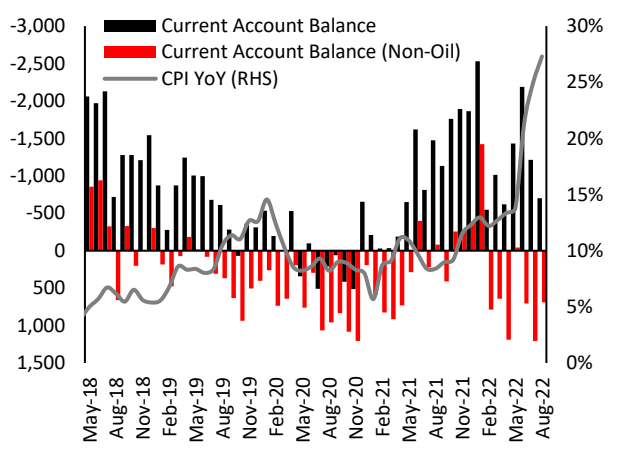
Source: PBS, FSL Research, Oct 2022

Fig 3: Inflation is projected to be on declining path...



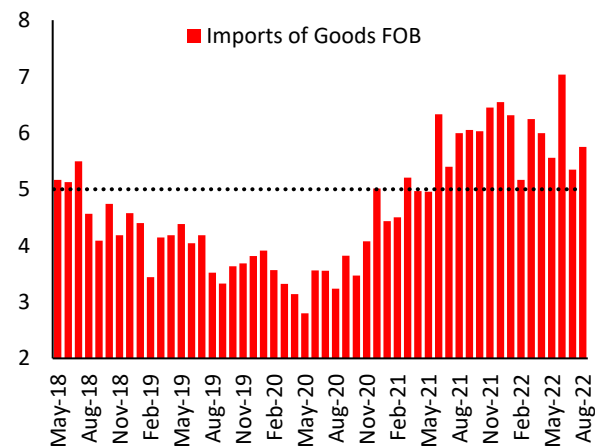
Source: PBS, FSL Research, Oct 2022

Fig 4: Current account and CPI...



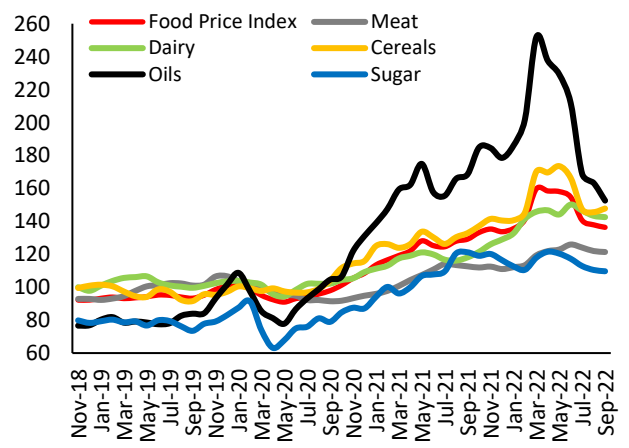
Source: SBP, PBS, FSL Research, Oct 2022

Fig 5: Goods import at elevated levels (US\$ bn)



Source: SBP, FSL Research, Oct 2022

Fig 6: Int'l food prices declined but still elevated



Source: FAO, FSL Research, Oct 2022

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.