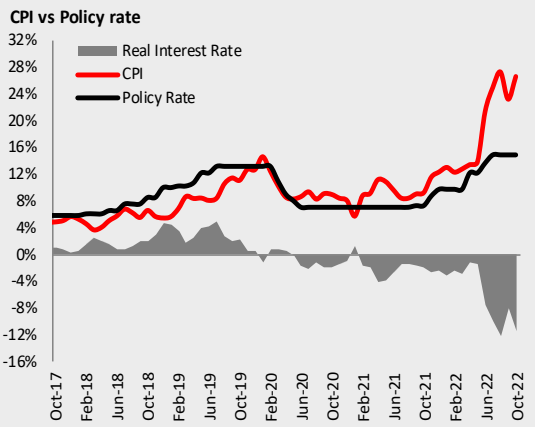
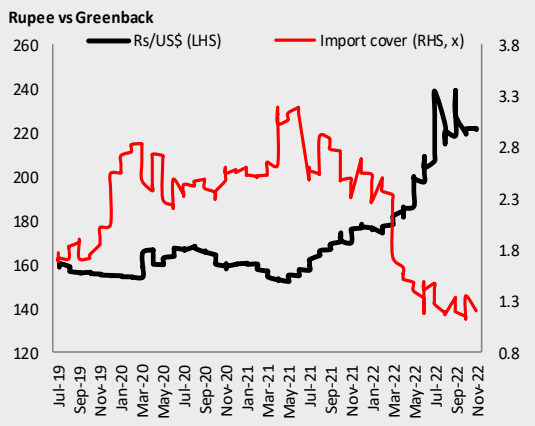


PAKISTAN



Source: PBS, SBP, Foundation Research, Nov 2022



Source: SBP, Foundation Research, Nov 2022

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Foundation Securities (Pvt) Ltd
Thursday, November 24, 2022

Pakistan Economy

Upcoming MPS: Policy rate to remain unchanged

Status quo expected to be maintained

Amid a marked economic slowdown which has been visible for last ~5 months and a hit to domestic economy activity given the devastating floods, along with moderating CAD and the recent stability of US\$-Rs parity, we believe, would force the Central Bank to maintain an appropriate balance between sustaining growth and managing inflation. Thus, we foresee no change in interest rate at the next MPS tomorrow.

Domestic demand compression and lower agri output clouding growth outlook

Slowdown in economy activity amid demand compression has been evident since Jul'22 due to lagged effects of steep monetary tightening and high inflation (OMC/Autos/Cement/Electricity sales down by 16/36/19/5% in Oct'22, down by 22/51/7/11% in Sept'22, down by 22/46/24/13% YoY in Aug'22 and down by 26/50/66/10% YoY in Jul'22). The economy has also been buffeted by the devastating floods with the impact likely more acute in the agriculture sector which makes up ~20% of the GDP and ~40% of total employment. Cotton production has registered a decline of 41% YoY with ~84% of the crop already harvested.

The government's space for providing fiscal stimulus is limited given IMF program constraints amid shortfall in projected revenues due to economic slowdown. Thereby limiting a robust post flood infrastructure spending drive.

Inflation to remain high till May'23

Furthermore, avg. FY23 inflation would be ~24.7% YoY given (1) elevated food inflation amid record floods and high int'l food prices, (2) higher fuel and energy prices along with their 2nd round effects amid elevated international petroleum prices given Ukraine war and (3) lagged effects of sharp Rupee depreciation. However, likely recession in advanced economies would moderate commodity and oil prices which would balance inflation. Whereas, 1-yr forward real interest rates are projected to remain deeply in negative territory.

FSL forecasts interest rate of 13.5% in Jun'23.

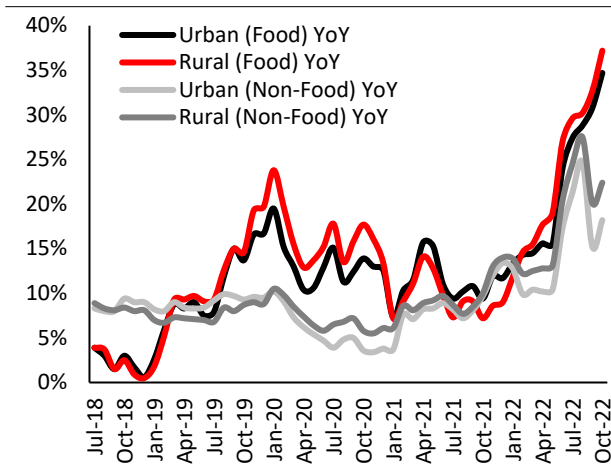
Moderating CAD an outcome of domestic demand slowdown

The slowdown in economic activity has also influenced the current account deficit which has declined by 47% YoY in 4MFY23 to US\$2.8bn despite petroleum imports increasing by US\$2.1bn (up by 38% YoY). Whereas, total imports have declined by 12% YoY and exports have increased by 3% YoY in 4MFY23. Timely Gov't action of monetary tightening (policy rate up by 800bps in 10 months from Sep'21 to Jul'22) and moderating commodity prices would aid in limiting FY23 CAD.

Precarious FX reserves and slow inflows into financial account feeding uncertainty

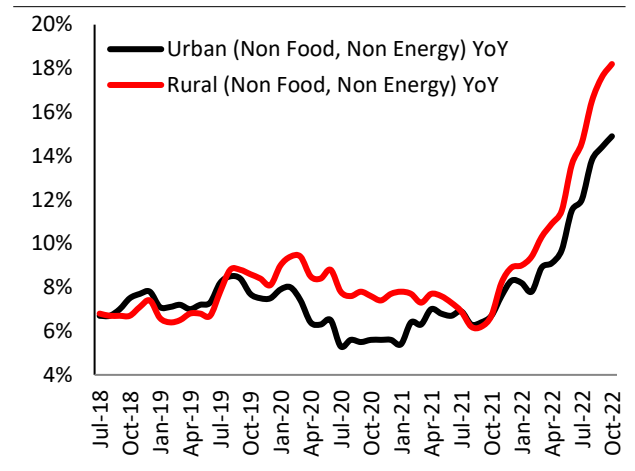
Despite gov't statements on impending international assistance for flood support and investments, foreign inflows have trickled in at a slow pace amid offsetting debt repayments. Resultantly, SBP FX reserves have remained at the uncomfortably low level of ~1.2 months of import cover.

Fig 1: Food CPI ↑ and non-food CPI ↓



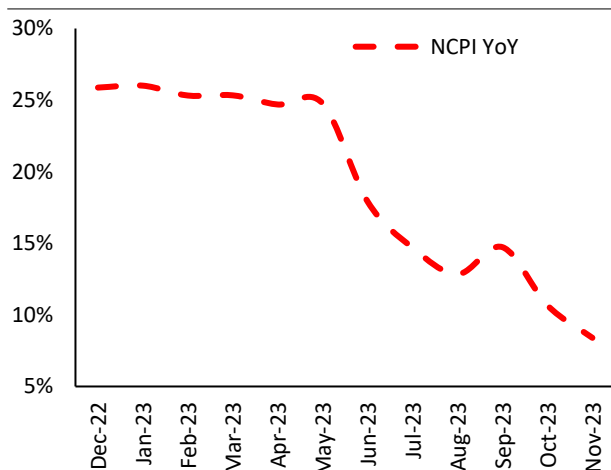
Source: PBS, FSL Research, Nov 2022

Fig 2: Core inflation escalating sharply...



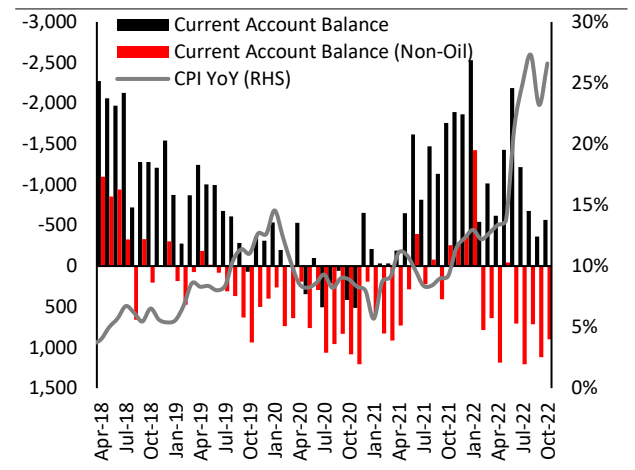
Source: PBS, FSL Research, Nov 2022

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



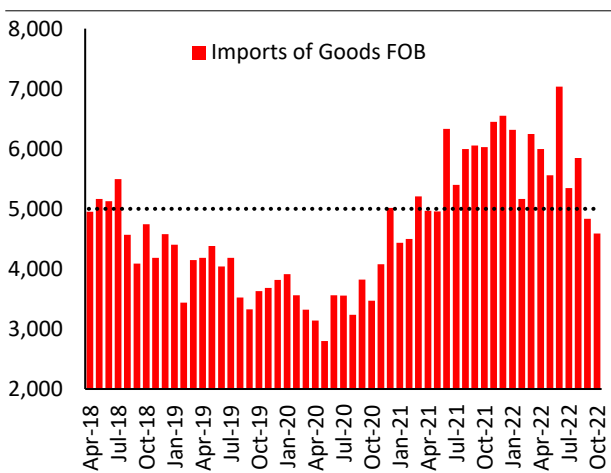
Source: PBS, FSL Research, Nov 2022

Fig 4: Current account and CPI...



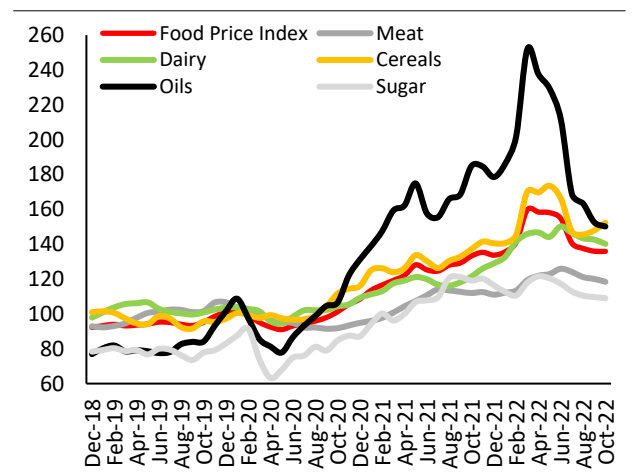
Source: SBP, PBS, FSL Research, Nov 2022

Fig 5: Import compression underway (US\$ bn)



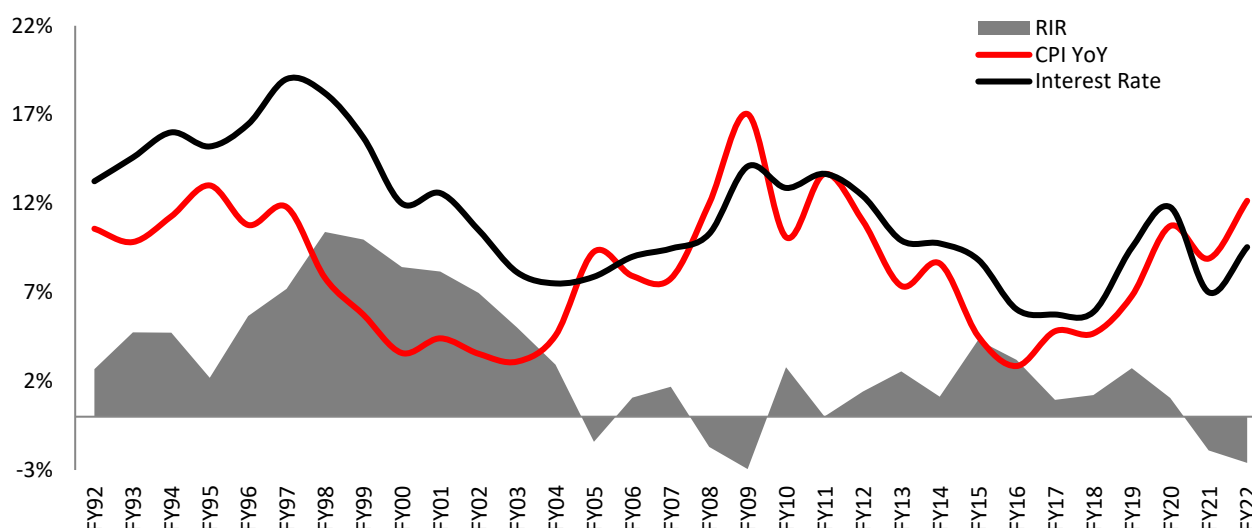
Source: SBP, FSL Research, Nov 2022

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



Source: FAO, FSL Research, Nov 2022

Fig 7: Inflation and Interest Rates over the last 30 years



Source: PBS, SBP, Foundation Research, November 2022

Abbreviations

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

Important disclosures:

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Recommendations definitions

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