

**PAKISTAN**



# Pakistan Economy

## November CPI to be 25.5% YoY

### MoM inflation to be 2.1%

National CPI is expected to clock in at 25.5% YoY in November 2022 (vs 26.6% YoY last month). In MoM comparison, NCPI would be 2.1% attributable mostly to higher food prices.

(1) Elevated food inflation amid record floods and high int'l food prices, (2) high fuel and energy prices along with their 2<sup>nd</sup> round effects amid elevated international petroleum prices given Ukraine war and (3) lagged effects of sharp Rupee depreciation of 9.1/21.4% in FY23TD/CY22TD would propel avg. FY23 inflation to ~24.4% YoY. However, likely recession in advanced economies would moderate commodity and oil prices which would exert downward pressure on inflation.

### Higher food prices to push up inflation

We expect Nov'22 CPI YoY reading to be around 25.5% vs 26.6%/11.5% in Oct'22/Nov'21. CPI on MoM basis is expected to be 2.1% during November accredited to inflation in food prices (~34.6% weight in CPI). Prices of Onions, Tea, Eggs, Salt and Bananas increased during the month.

Noticeably, core inflation (non-food, non-energy) has jumped steeply in CY22 to reach ~16.2% YoY in Oct'22 compared to ~12.7% YoY in previous 6M. This points to broadening and entrenchment of inflation across multiple sectors, namely, furnishing & household equipment, clothing & footwear, recreation & culture, and misc goods and services segments.

### Moderating CAD an outcome of domestic demand slowdown

Slowdown in economic activity has been visible since Jul'22 with OMC/Autos/Cement sales showing double digit YoY declines and electricity production also displaying marked drop. As a result, total imports have declined by 12% YoY in 4MFY23 despite petroleum imports increasing by US\$2.1bn or 38% YoY. Whereas, exports have increased by 3% YoY in 4MFY23. The outcome of this import compression is that the current account deficit has declined by 47% YoY in 4MFY23 to US\$2.8bn. We believe timely Gov't actions of (1) import restrictions on ~10% of imports and (2) monetary tightening (policy rate up by 900bps since Jul'22) amid moderating commodity prices would aid in limiting FY23 CAD.

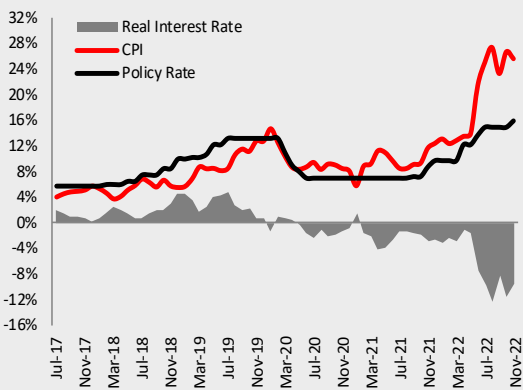
### Precarious FX reserves and slow inflows into financial account feeding uncertainty

One month delay in completion of IMF program's 9<sup>th</sup> Review which would unlock US\$1.2bn tranche and Gov't statements on impending international assistance for flood support and investments/debt rescheduling which have either trickled in at a slow pace or not materialized amid offsetting debt repayments have fed into uncertainty about the country's economic direction. Resultantly, SBP FX reserves have also remained at the uncomfortably low level of ~1.2 months of import cover. However, assistance from World Bank of US\$2.0bn is expected soon.

### Tight monetary stance to continue

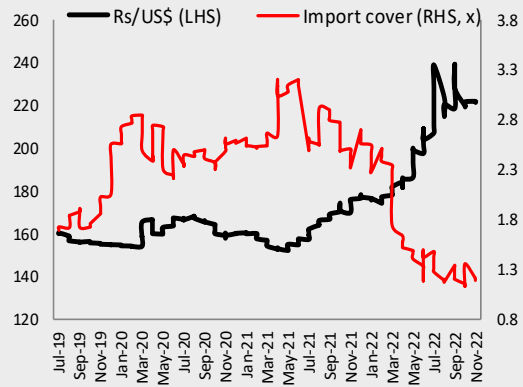
Amid spiraling inflation and weakened Rs-US\$ parity, we expect that the central bank would be compelled to maintain the tight monetary stance till 4QFY23. FSL projects policy rate of 15% at end of FY23.

CPI vs Policy rate



Source: PBS, SBP, Foundation Research, Nov 2022

Rupee vs Greenback



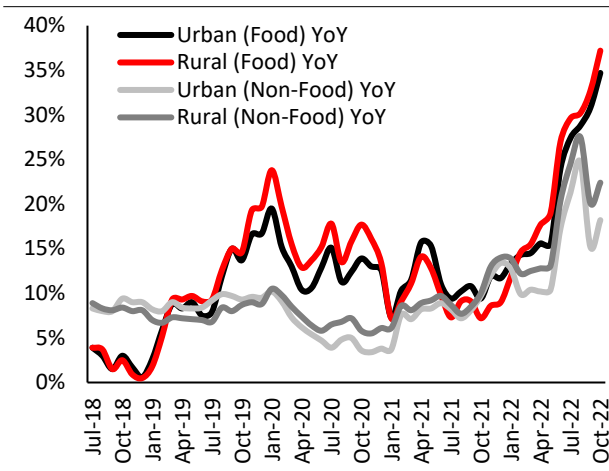
Source: SBP, Foundation Research, Nov 2022

**Analyst**

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

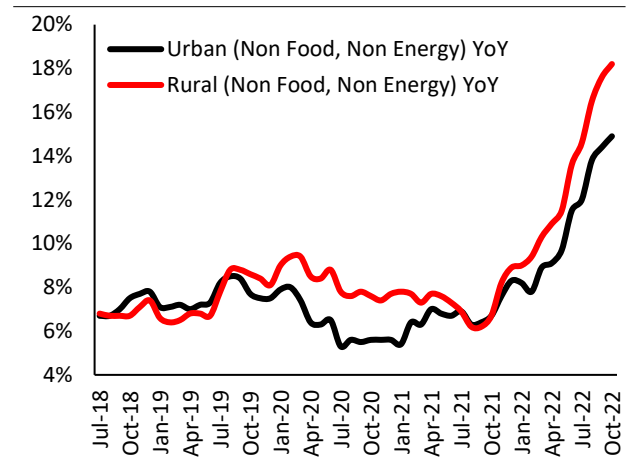
Foundation Securities (Pvt) Ltd  
Wednesday, November 30, 2022

**Fig 1: Food CPI ↑ and non-food CPI ↓**



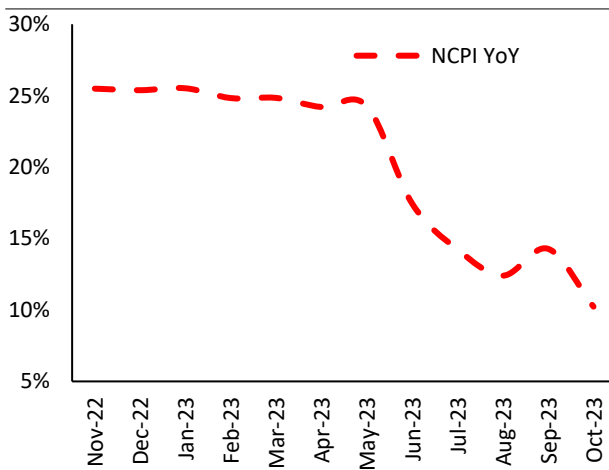
Source: PBS, FSL Research, Nov 2022

**Fig 2: Core inflation escalating sharply...**



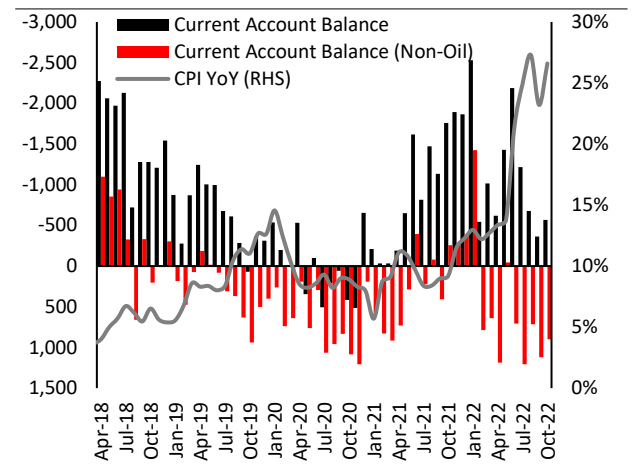
Source: PBS, FSL Research, Nov 2022

**Fig 3: Inflation projected to decline from June 2023...**



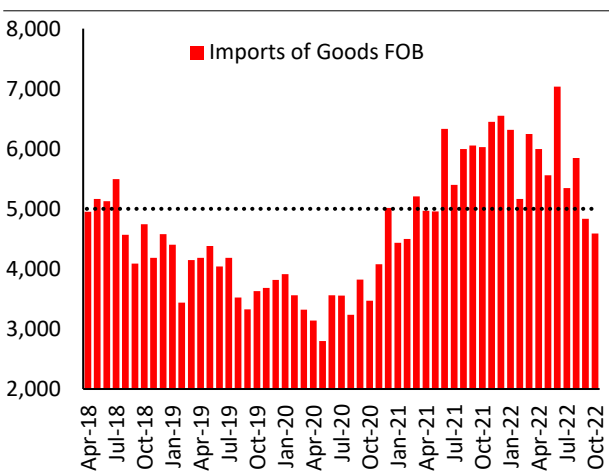
Source: PBS, FSL Research, Nov 2022

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



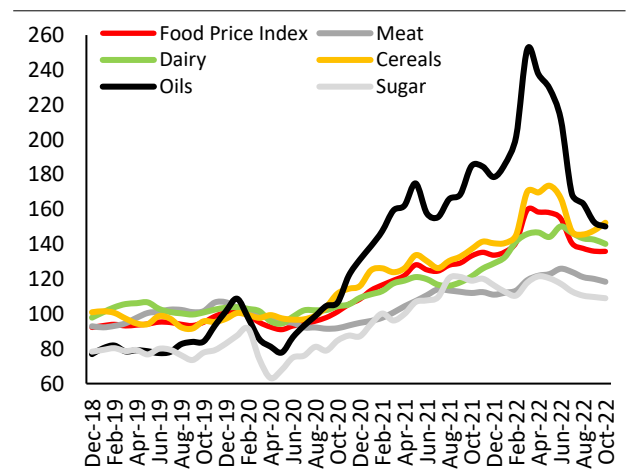
Source: SBP, PBS, FSL Research, Nov 2022

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



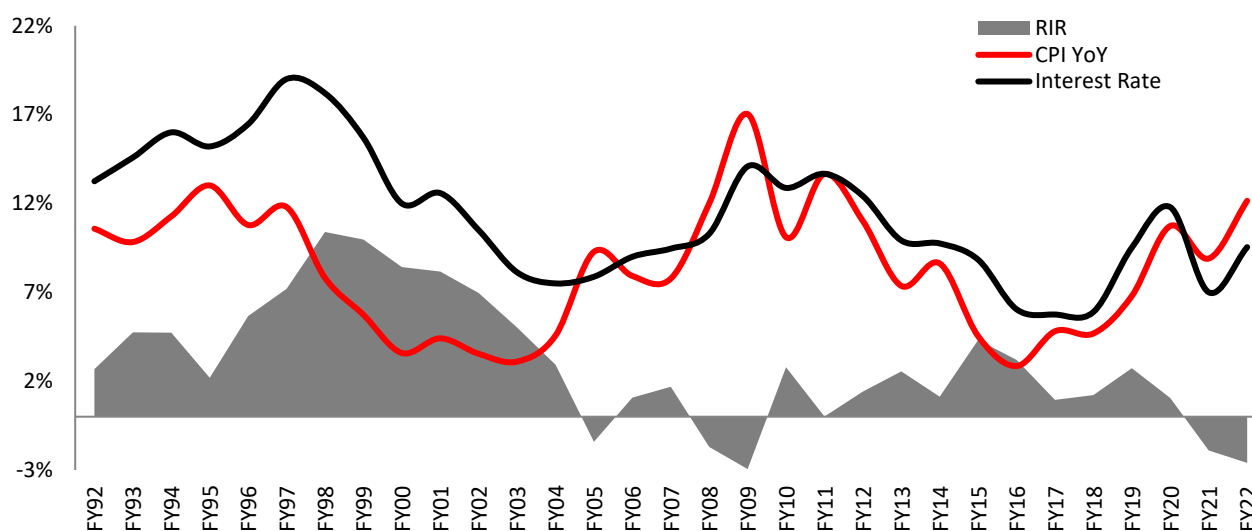
Source: SBP, FSL Research, Nov 2022

**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
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.