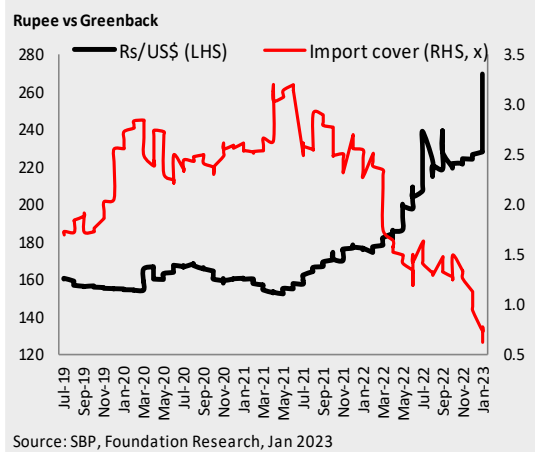
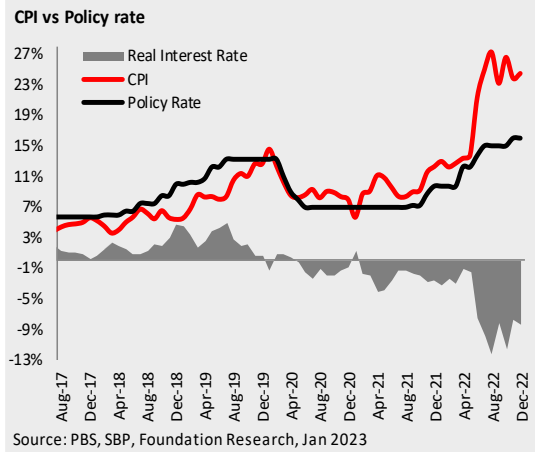


PAKISTAN



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Foundation Securities (Pvt) Ltd
Tuesday, January 31, 2023

Pakistan Economy

January CPI to be 24.7% YoY

MoM inflation to be 0.6%

National CPI is expected to clock in at 24.7% YoY in January 2023 (vs 24.5% YoY last month). In MoM comparison, NCPI would be 0.6% attributable mostly to higher food prices and core inflation.

(1) Elevated food inflation amid disruptions caused by record floods and high global food prices, (2) high fuel and energy prices along with their 2nd round effects given IMF push to escalate prices further amid elevated international petroleum prices on account of Ukraine war and (3) effects of sharp Rupee depreciation would keep FY23 inflation at multi decade high. Thus, we see avg. inflation rising to 24.0% in FY23.

Higher food prices and core inflation to drive CPI

We expect Jan'23 CPI YoY reading to be around 24.7% vs 24.5%/13.0% in Dec'22/Jan'22. CPI on MoM basis is expected to be 0.6% during January accredited to inflation in food prices (~34.6% weight in CPI). Prices of chicken, onions, rice and wheat flour increased significantly during the month.

Steep upsurge in core-inflation (a relatively stable gauge of underlying inflationary pressures which excludes food and energy) to ~16.4% YoY in Dec'22 compared to ~14.7% YoY in previous 6M shows a broadening and entrenchment of inflation across multiple sectors (namely, furnishing & household equipment, clothing & footwear, recreation & culture, and misc goods and services segments).

Moderating CAD to aid external account

The current account would not be of material concern during FY23 as CAD declined by 60% YoY to US\$3.7bn in 1HFY23 amid import restrictions, decline in commodity prices from FY22 highs and slowdown in domestic demand amid high interest rates (policy rate up by 725bps in last 12 months). Thus, we expect CAD to clock in at a manageable US\$7.4bn (2.1% of GDP) during FY23.

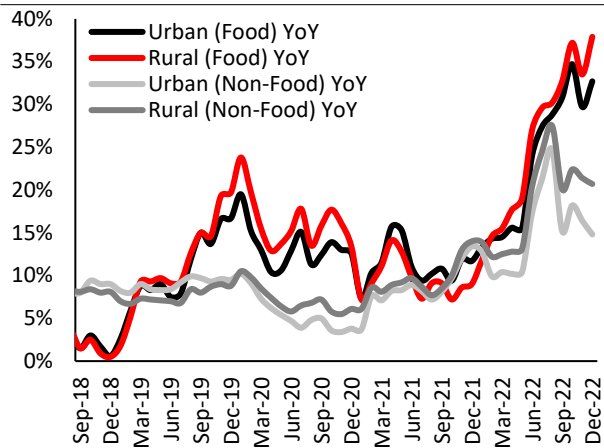
IMF visit to pave way for return to stability

Arrival of IMF staff delegation today would pave the way for completion of the 9th review which would unlock US\$1.2bn tranche. Possibility also exists that IMF would merge the 9th review with 10th one which is now also due. Total debt servicing from Dec'22 to Nov'23 is US\$24.2bn which includes deposits repayments of US\$9.0bn (US\$4.0/3.0/2.0bn from China/Saudi Arabia/UAE). The deposits from Saudi Arabia and UAE have been rolled over for 1 year in Dec'22/Jan'23. Whereas, UAE has agreed to enhance its deposits by US\$1.0bn. Pakistan has requested further enhancement of these deposits which would be needed to pay off the short term commercial loans of US\$9.0bn alongwith support from multilateral creditors. Inflows for flood reconstruction would also bolster the financial account. However, FX reserves build up is likely to remain muted amid high debt repayments. Rs-US\$ has depreciated by 15/11/34% in last 1W/6M/12M after return to market based exchange rate last week to meet IMF conditionality.

Tight monetary stance to continue

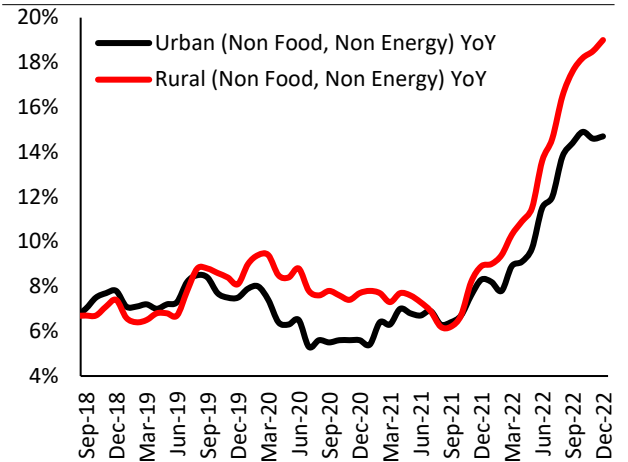
Amid spiraling inflation and weakened Rs-US\$ parity, we expect that the central bank would be compelled to maintain the tight monetary stance till 2HCY23. FSL projects policy rate of 17% at end of FY23.

Fig 1: Food CPI ↑ and non-food CPI ↓



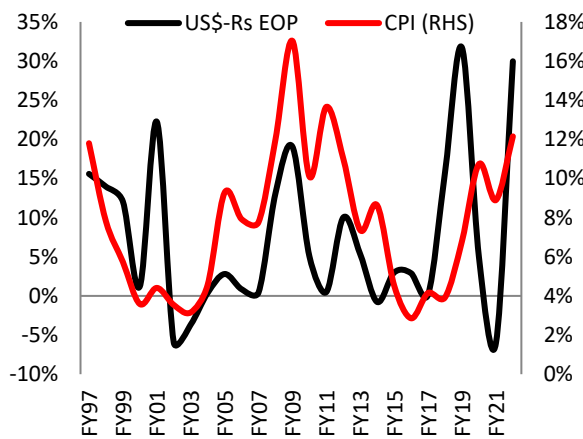
Source: PBS, FSL Research, Jan 2023

Fig 2: Core inflation escalating sharply...



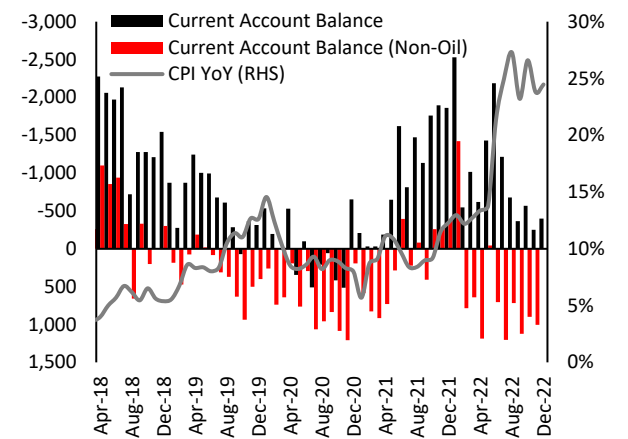
Source: PBS, FSL Research, Jan 2023

Fig 3: Inflation and exchange rate move in tandem...



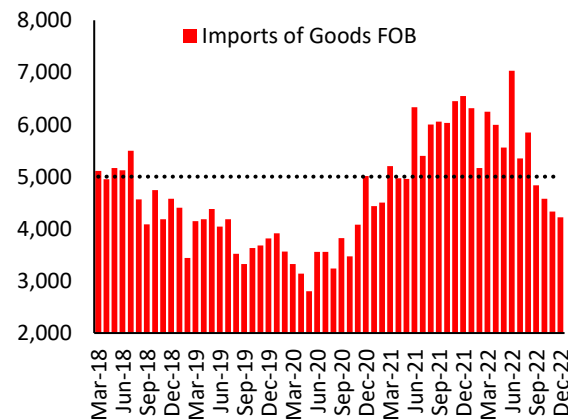
Source: PBS, FSL Research, Jan 2023

Fig 4: Current account and CPI...



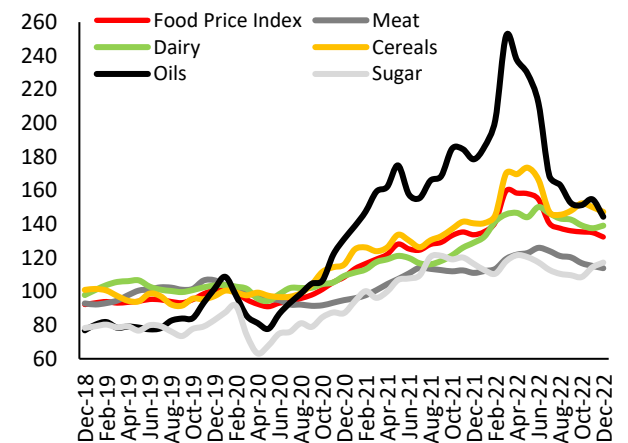
Source: SBP, PBS, FSL Research, Jan 2023

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



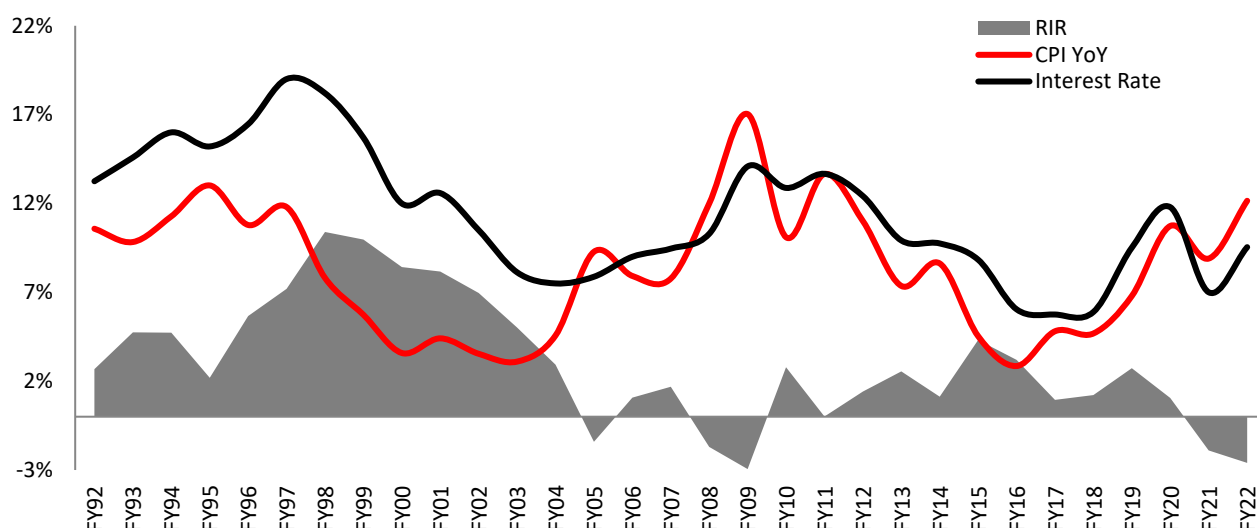
Source: SBP, FSL Research, Jan 2023

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



Source: FAO, FSL Research, Jan 2023

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



Source: PBS, SBP, Foundation Research, January 2023

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.