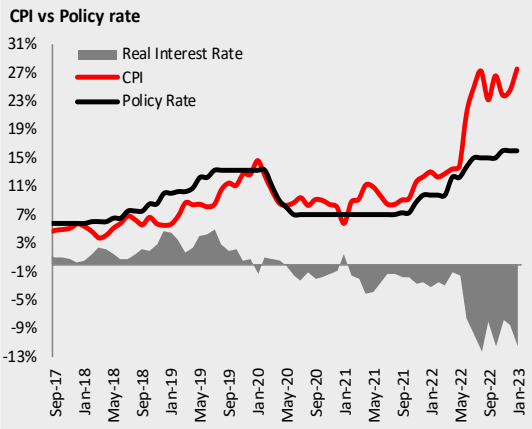
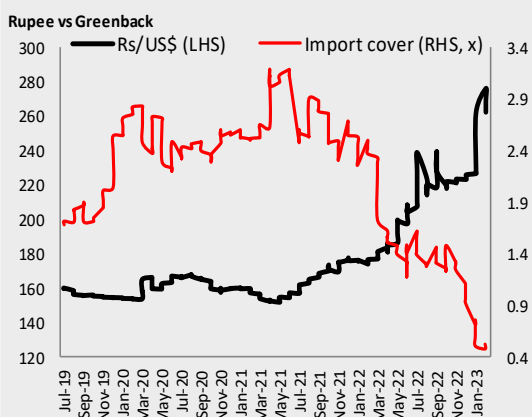


PAKISTAN



Source: PBS, SBP, Foundation Research, Feb 2023



Source: SBP, Foundation Research, Feb 2023

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Foundation Securities (Pvt) Ltd
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Pakistan Economy

Inflation to remain near record highs

MoM inflation to be 1.4%

National CPI is expected to clock in at 27.9% YoY in February 2023 (vs 27.6% YoY last month). In MoM comparison, NCPI would be 1.4% attributable mostly to higher food and fuel prices.

(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 conditionality to increase prices given circular debt management program and Ukraine war and (3) effects of sharp Rupee depreciation would keep FY23 inflation at multi decade high. Thus, we see avg. inflation rising to 25.7% in FY23.

Higher food and fuel prices to push up CPI

We expect Feb'23 CPI YoY reading to be around 27.9% vs 27.6%/12.2% in Jan'23/Feb'22. CPI on MoM basis is expected to be 1.4% during February accredited to inflation in food prices (~34.6% weight in CPI) and petrol/diesel prices (~2.74% weight in CPI). Prices of cooking oil, ghee, bananas, chicken, potatoes, garlic and pulse gram increased during the month. However, these were balanced by significant MoM decline in onion and tomato prices. Whereas, price of petrol/diesel inclined by 21/19% MoM to record highs given impact of sharp Rupee depreciation in late Jan'23.

Steep upsurge in core-inflation (a relatively stable gauge of underlying inflationary pressures which excludes food and energy) over the last 11 months as rising food and energy inflation seeped into broader prices, wages & inflation expectations depicts an entrenchment of inflation across multiple core segments, especially durables.

Ball is stuck in IMF's court

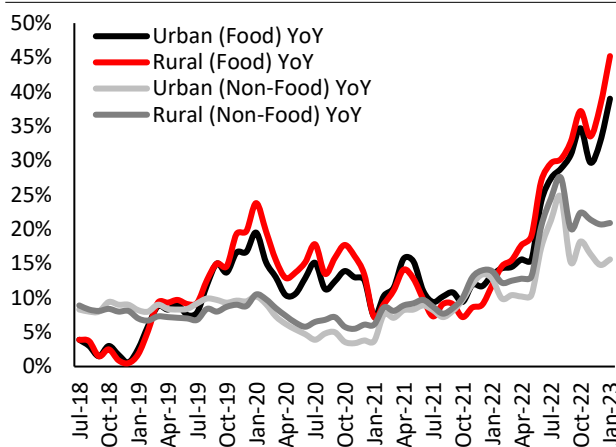
Delays in completion of the 9th review of the IMF program is making the government's position more precarious with each passing day. To please the IMF, Gov't has taken a raft of measures including free floating the currency, passing a mini budget to generate Rs170bn additional taxes, imposing austerity on current expenditures and increasing gas prices. However, lack of green light from IMF indicates that gaps still remain, more so in view of IMF MD's recent statement that Pakistan should tax the rich and help the poor.

Completion of IMF review would not only unlock a US\$1.2bn IMF tranche but also open up additional lending and rollovers from international partners (Saudi Arabia, UAE, China, World Bank and Asian Development Bank). To highlight, Pakistan has external debt maturities of US\$2.5/2.1bn in Feb'23/Mar'23 and US\$13.4bn from Apr'23 to Dec'23. We note that current account deficit has declined by 67% YoY to US\$3.8bn in 7MFY23 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). As such, financing FY23 CAD of less than 2.0% of GDP would not be an onerous burden on the Gov't.

Market expects increase in interest rate

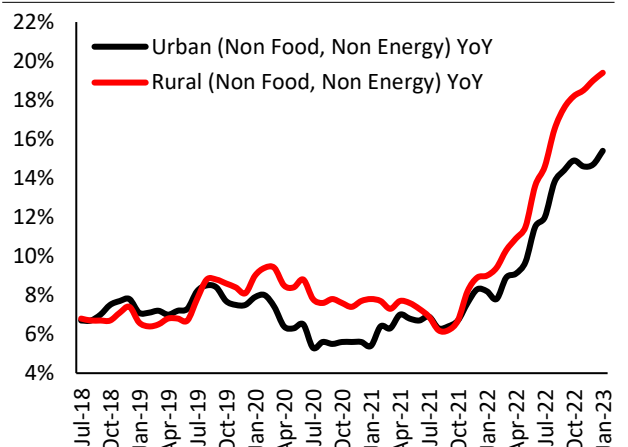
Yields in the recent MTB auction rose by 195/206/184bps for 3/6/12 months which has aided market perceptions of a 200-300bps hike in policy rate to 20% amid IMF pressure. Given spiraling inflation and weakened Rs-US\$ parity (down 12/32% YoY during 1M/1Y), we expect that the central bank would maintain the tight monetary stance till at least 2HCY23. Moreover, FSL projects that the policy rate would remain at 17% till the end of FY23.

Fig 1: Food CPI ↑ and non-food CPI ↓



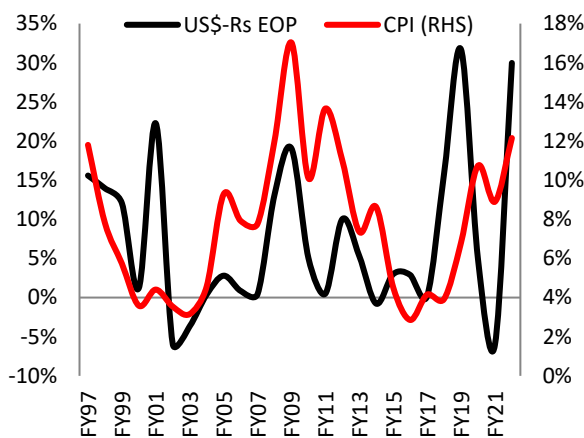
Source: PBS, FSL Research, Feb 2023

Fig 2: Core inflation escalating sharply...



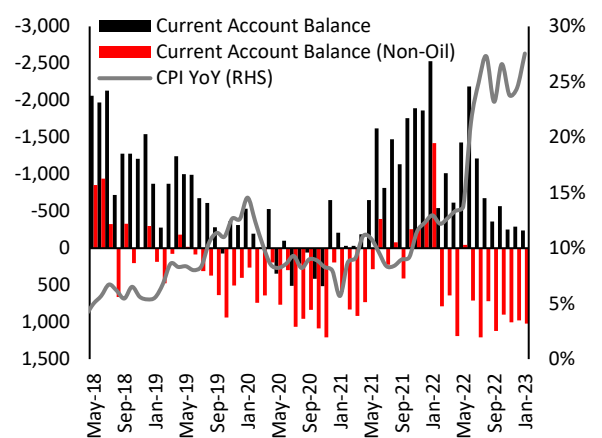
Source: PBS, FSL Research, Feb 2023

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



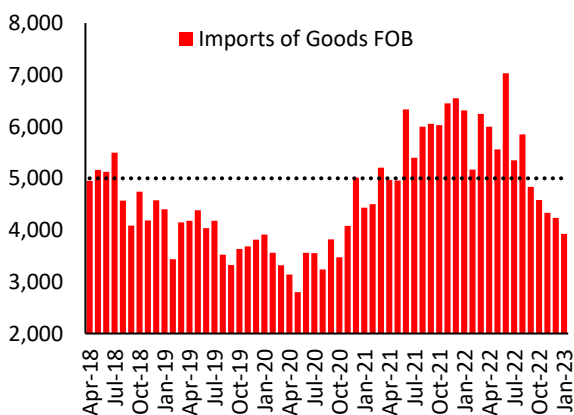
Source: PBS, FSL Research, Feb 2023

Fig 4: Current account and CPI...



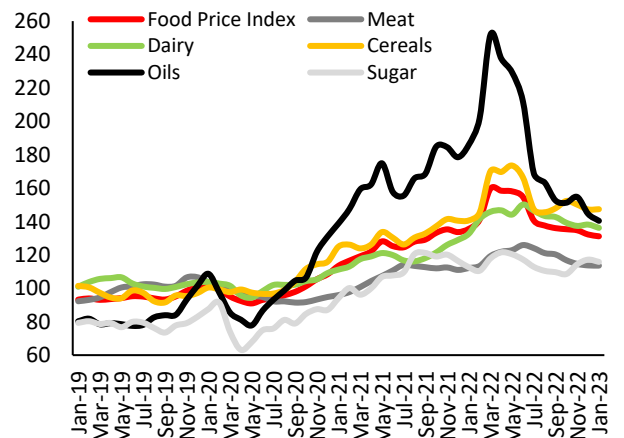
Source: SBP, PBS, FSL Research, Feb 2023

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



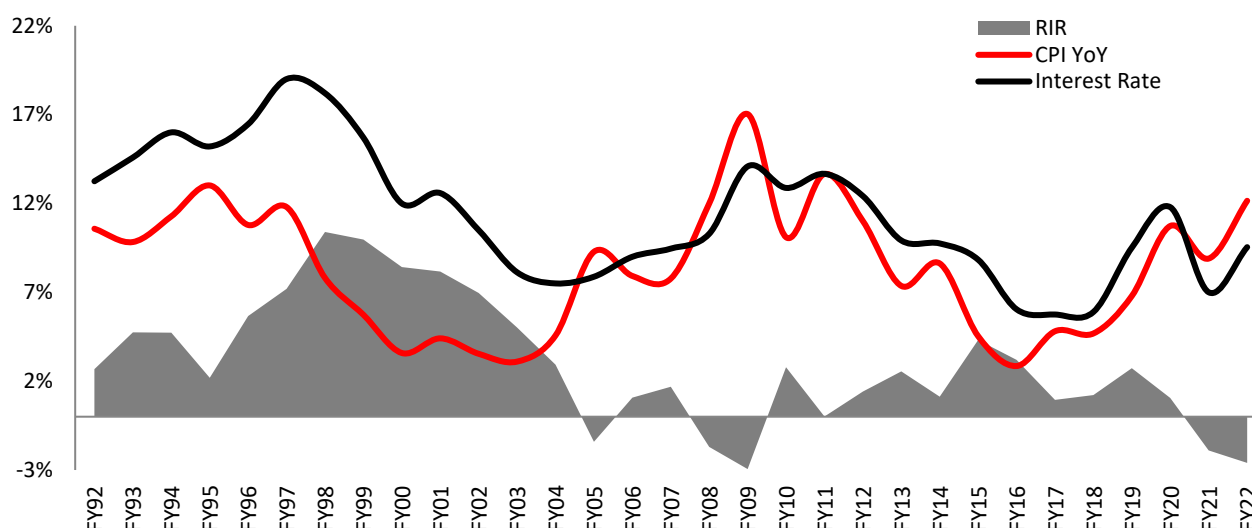
Source: SBP, FSL Research, Feb 2023

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



Source: FAO, FSL Research, Feb 2023

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



Source: PBS, SBP, Foundation Research, February 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.