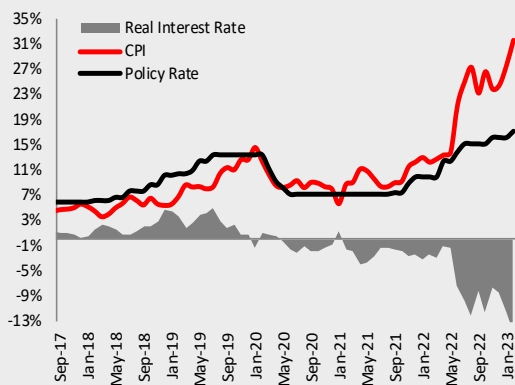


PAKISTAN

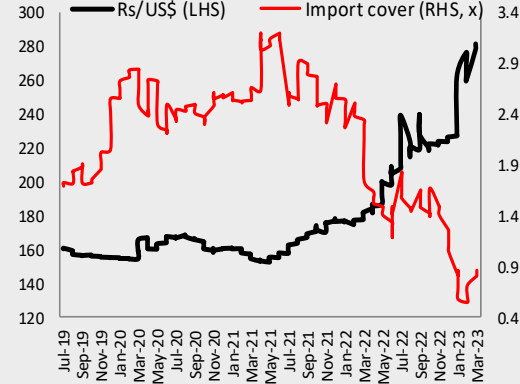


CPI vs Policy rate



Source: PBS, SBP, Foundation Research, Mar 2023

Rupee vs Greenback



Source: SBP, Foundation Research, Mar 2023

Analyst

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

Foundation Securities (Pvt) Ltd
Friday, March 31, 2023

Pakistan Economy

Inflation to hit new record again

MoM inflation to be 3.5%

National CPI is expected to clock in at 35.1% YoY in March 2023 (vs 31.5% YoY last month). In MoM comparison, NCPI would be 3.5% attributable to higher prices of food, clothing and fuel.

(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 28.5% in FY23.

Food, clothing and fuel prices to drive inflation

We expect Mar'23 CPI YoY reading to be around 35.1% vs 31.5%/12.7% in Feb'23/Mar'22. CPI on MoM basis is expected to be 3.5% during March accredited to inflation in food prices (~34.6% weight in CPI), clothing and footwear index (~8.6% weight in CPI) and fuel prices (~4.4% weight in CPI). Prices of tomato, potatoes, wheat flour, bananas, tea, sugar and vegetable ghee increased during the month. Significant inflation was also observed in lawn, shirting, georgette and long cloth prices. Whereas, price of petrol/diesel inclined by 3/6% MoM to record highs given impact of sharp Rupee depreciation.

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

Country teeters on the brink amid delay in IMF tranche

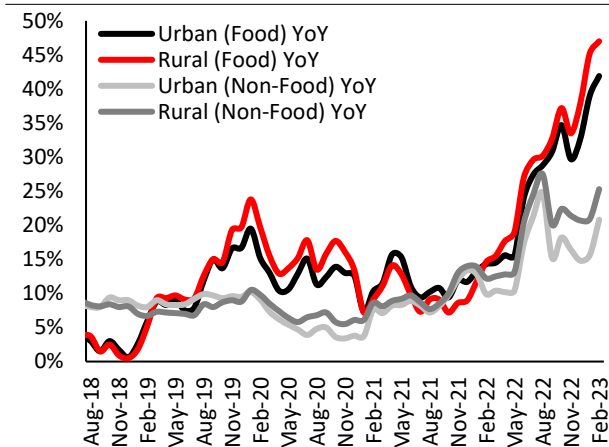
Inordinate delay in completion of the 9th review of the IMF program is causing consternation with each passing day as the country edges ever closer to default. The measures taken so far to comply with IMF conditions (free floating the currency, passing a mini budget to generate Rs170bn additional taxes, imposing austerity on current expenditures, increasing gas prices and discontinuation of concessionary electricity rates for export industries & agriculture) are seemingly insufficient for release of IMF tranche.

Recent loan inflows of US\$1.7bn from China have provided some breathing space to government (SBP FX reserves at US\$4.2bn). However, completion of IMF review is essential to not only unlock a US\$1.2bn IMF tranche but also open up additional lending and rollovers from international partners (Saudi Arabia, UAE, World Bank and Asian Development Bank). To highlight, Pakistan has external debt maturities of US\$2.0bn in Apr'23 and US\$17.0bn from May'23 to Jan'24. We note that current account deficit has declined by 68% YoY to US\$3.9bn in 8MFY23 amid import restrictions, decline in commodity prices from FY22 highs and slowdown in domestic demand amid high interest rates (policy rate up by 10.25ppts in last 12 months). As such, financing FY23 CAD of less than 2.0% of GDP would not be an onerous burden.

Interest rate to increase by 200bps at next MPS

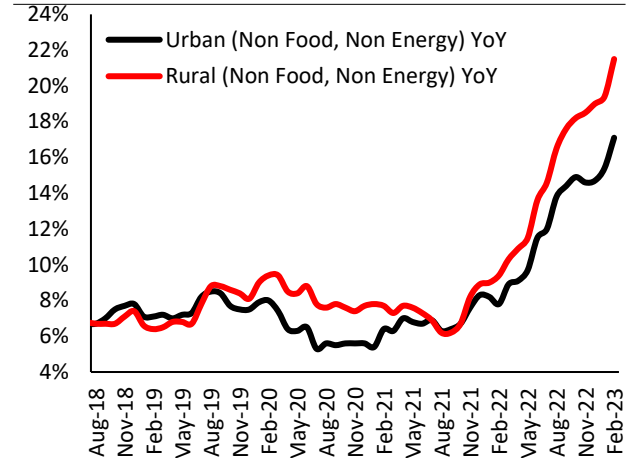
Given spiraling inflation and weakened Rs-US\$ parity (down 20/35% YoY during 3M/1Y), we expect that the central bank would maintain the tight monetary stance till at least 1HCY23. Thus, FSL projects that the policy rate would increase by 200bps to 22% at the next MPS scheduled for April 4, 2023.

Fig 1: Food and non-food CPI ↑



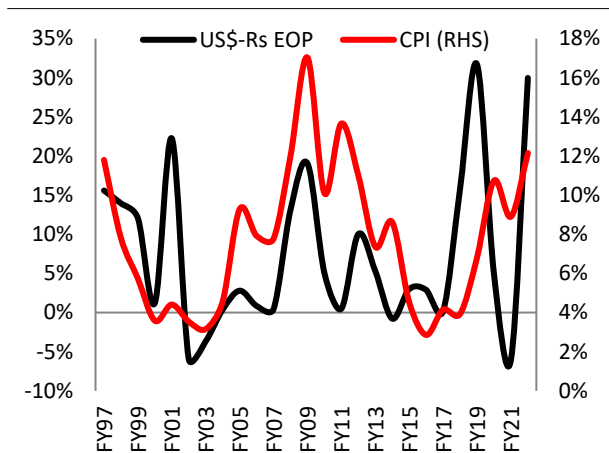
Source: PBS, FSL Research, Mar 2023

Fig 2: Core inflation escalating sharply...



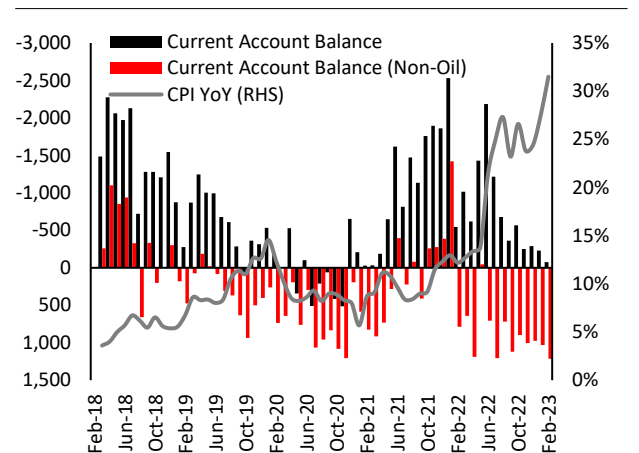
Source: PBS, FSL Research, Mar 2023

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



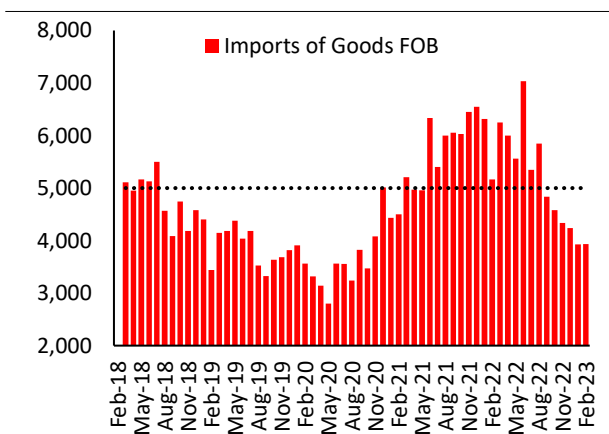
Source: PBS, FSL Research, Mar 2023

Fig 4: Current account restricted amid import curbs



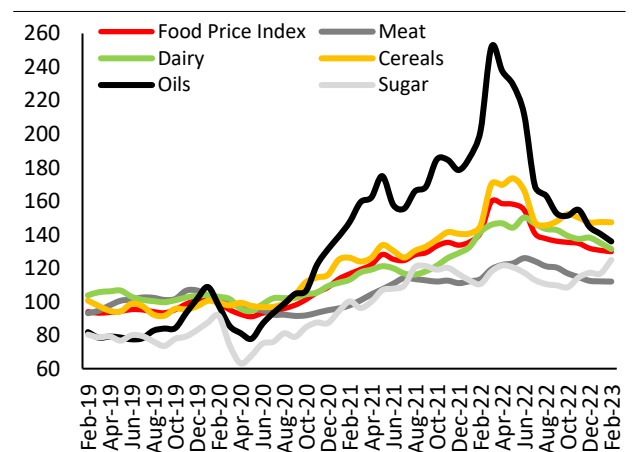
Source: SBP, PBS, FSL Research, Mar 2023

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



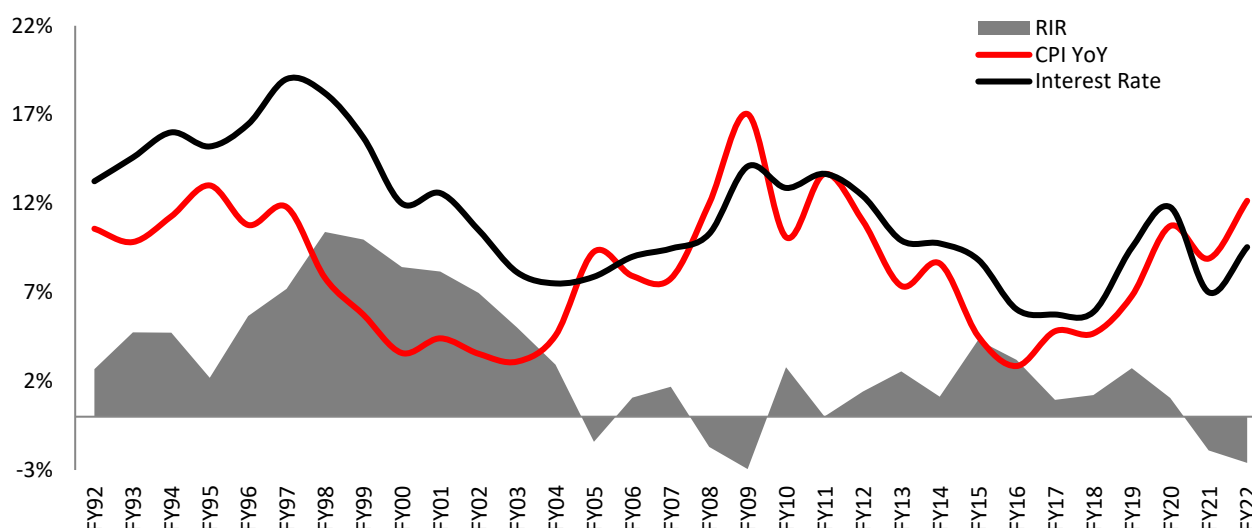
Source: SBP, FSL Research, Mar 2023

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



Source: FAO, FSL Research, Mar 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.