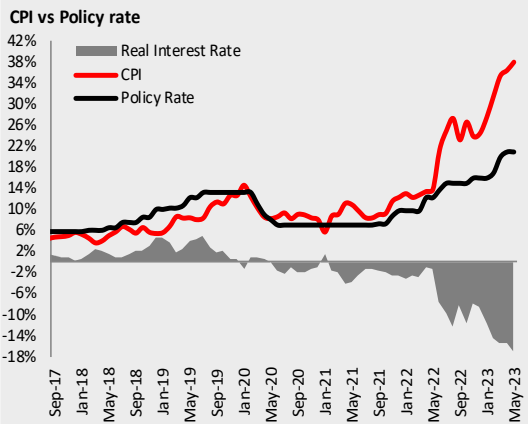
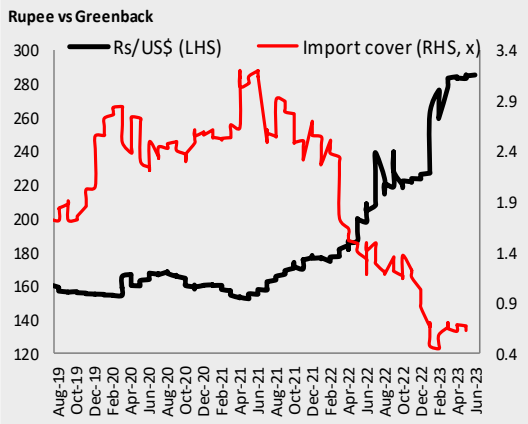


PAKISTAN



Source: PBS, SBP, Foundation Research, June 2023



Source: SBP, Foundation Research, June 2023

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Foundation Securities (Pvt) Ltd
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Pakistan Economy

Upcoming MPS: Policy rate to remain unchanged

Status quo expected

Amid a marked slowdown in economic activity during FY23 as evidenced by a GDP growth rate of 0.3%, along with (1) projected decline in inflation amid high base effect, (2) controlled CAD and (3) the recent stability of US\$-Rs parity, we believe, would cause the Central Bank to maintain the tight monetary policy stance. Thus, we foresee no change in interest rate at the next MPS on Monday, the 12th of June 2023.

Demand slowdown caused industrial activity to recede

Slowdown in economy activity amid demand compression has been evident during FY23TD due to import restrictions, lagged effects of steep monetary tightening, sharp depreciation of US\$-Rs and high inflation. To highlight, OMC/Cement are sales down by 26/15% during 11MFY23 whereas Autos/Electricity sales declined by 53/10% YoY during 10MFY23. The economy has also been buffeted by devastating floods during FY23 which caused a severe decline in cotton and rice production. Additionally, government’s space for fiscal stimulus was limited given IMF program spending constraints. Thereby limiting post flood infrastructure spending.

Inflation on downward trajectory but above LT average

Easing fuel and international commodity prices amid high base effect and slowdown in advanced economies would push FY24 inflation downwards from FY23 highs. However, high food inflation amid import restriction driven shortages and 2nd round effects of high FY23 inflation would keep inflation above LT average. Thus, our forecast of FY24 inflation is ~20.5% YoY. Whereas, 1-yr forward real interest rates are currently projected to be mildly positive. FSL forecasts PR of 21.0% in Dec’23.

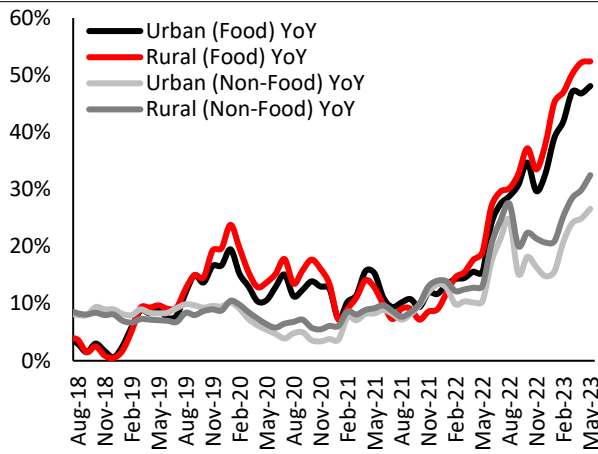
External account in control amid hopes of IMF revival

Amidst a turn in fortunes, the current account has bounced into a surplus during the months of Mar’23 (US\$750) and Apr’23 (US\$18mn) which has restricted CAD by 76% YoY to US\$3.3bn during 10MFY23 compared to US\$13.7bn in 10MFY22. This is attributable to (1) import restrictions imposed by the Gov’t and (2) a slowing economy amid high inflation, high interest rates (policy rate up by 11.25ppts in last 12 months) and sharp exchange rate depreciation (28.6% in FY23TD).

However, inordinate delay in completion of the 9th review of the IMF program is a cause of concern amid precariously low SBP FX reserves of US\$4.1bn. Gov’t seems to have bent over backwards to comply with IMF conditions but has been unable to achieve a Staff level agreement for release of IMF tranche. Gov’t position is complicated further by the fact that the IMF program expires at the end of this month and 3 tranches are still undisbursed. It is increasingly likely that IMF would either merge the tranches and/or extend the term of the program.

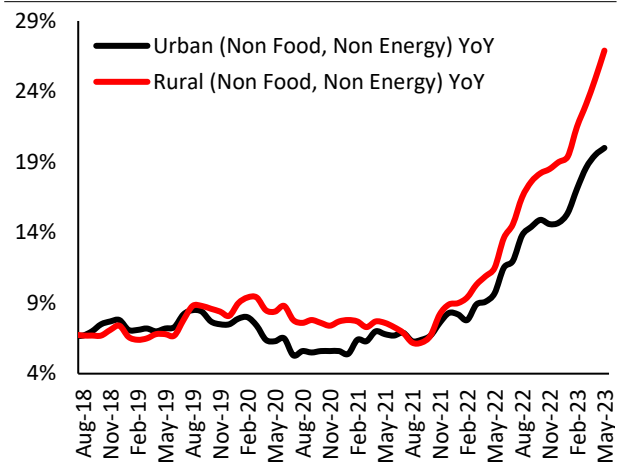
Completing the IMF review is essential to not only unlock an IMF tranche but also open up additional lending and rollovers from int’l partners (KSA, UAE, WB and ADB). As such, financing FY23 CAD of ~1.5% of GDP (vs 4.5% in FY22) would not be an onerous burden. To highlight, Pakistan has external debt maturities of US\$3.1bn in Jun’23 and US\$14.6bn from Jul’23 to Mar’24. We believe timely rollovers from China, which have been previously forthcoming, are likely to continue and would help avoid any delay in repayment of external liabilities.

Fig 1: Food and non-food CPI ↑



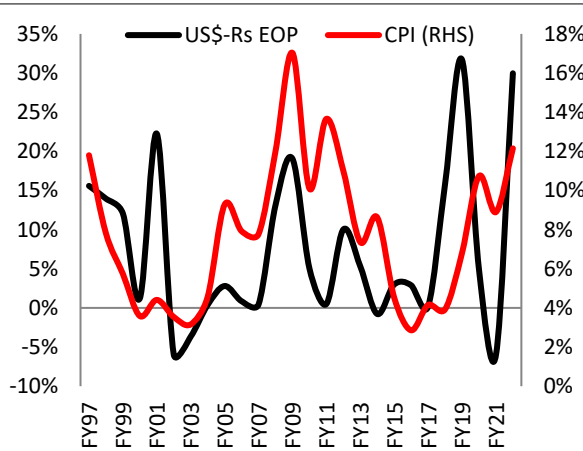
Source: PBS, FSL Research, Jun 2023

Fig 2: Core inflation escalating sharply...



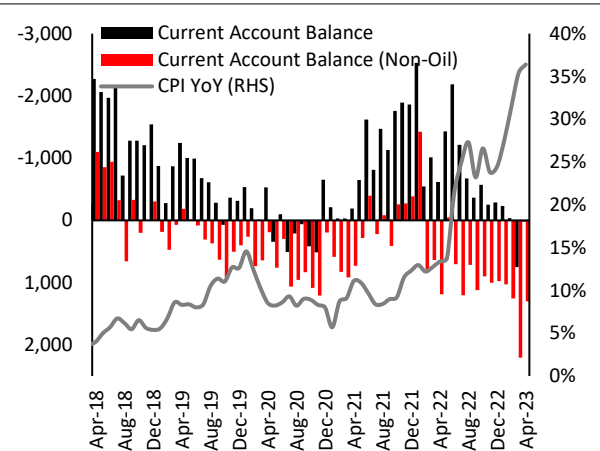
Source: PBS, FSL Research, Jun 2023

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



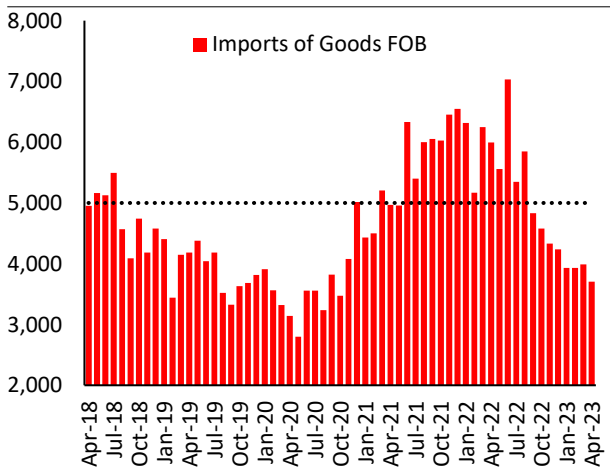
Source: PBS, FSL Research, Jun 2023

Fig 4: Current account restricted amid import curbs



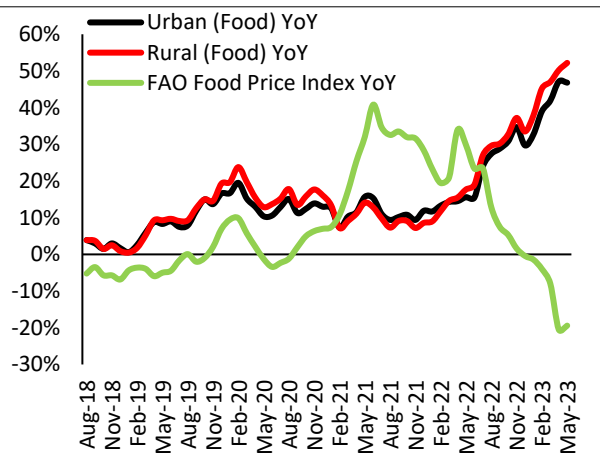
Source: SBP, PBS, FSL Research, Jun 2023

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



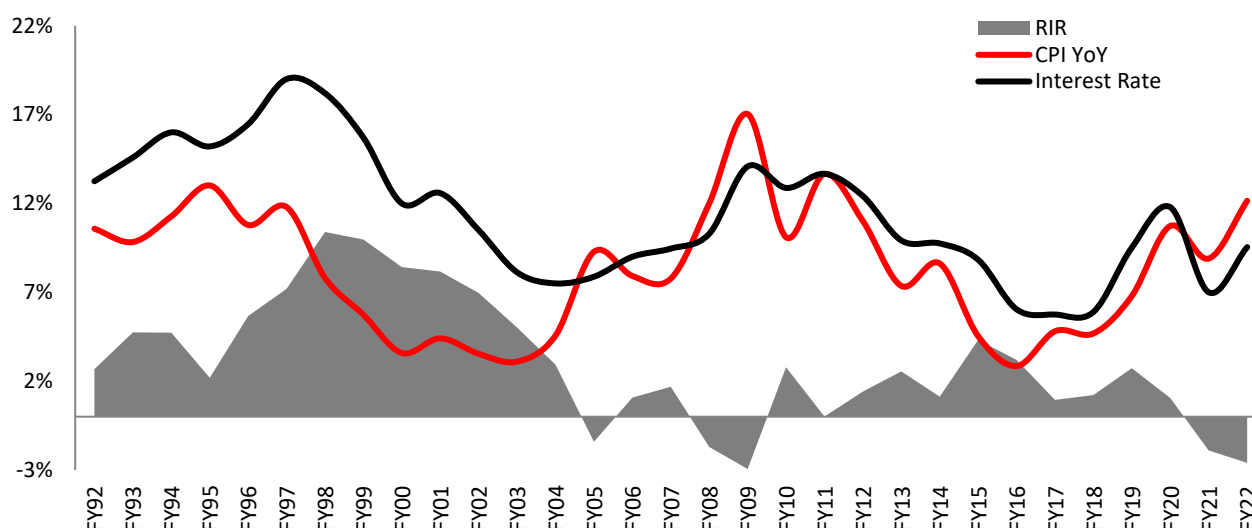
Source: SBP, FSL Research, Jun 2023

Fig 6: Int'l food prices ↓ while domestic food prices ↑



Source: PBS, FAO, FSL Research, Jun 2023

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



Source: PBS, SBP, Foundation Research, Jun 2023

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.