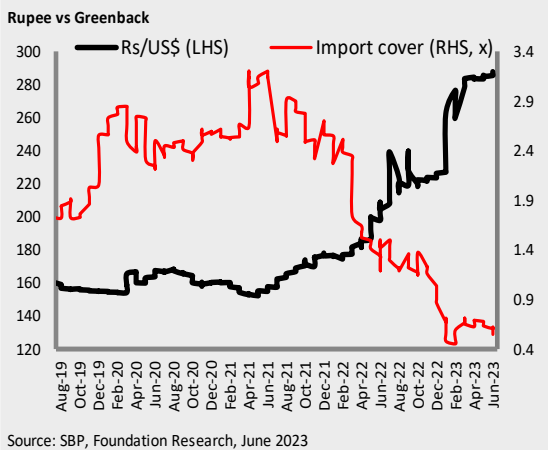
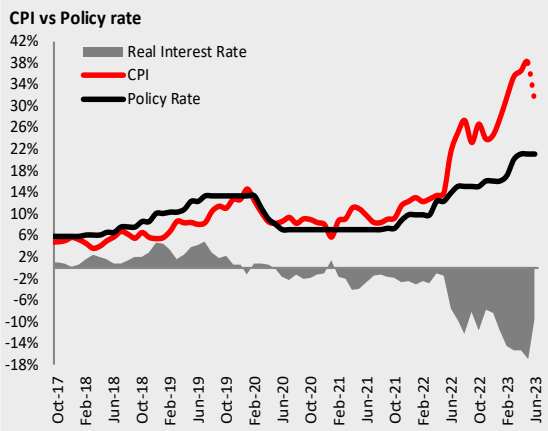


PAKISTAN



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Foundation Securities (Pvt) Ltd
Friday, June 23, 2023

Pakistan Economy

Inflation to finally decline after record 12 months

MoM inflation to be 0.7%

National CPI is expected to clock in at 30.6% YoY in June 2023 (vs 38.0% YoY last month) even though MoM NCPI reading is projected to moderate to 0.7% that is mostly attributable to higher food prices.

Easing fuel and international commodity prices amid high base effect 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 ~21% YoY.

Inflation to rise on higher food prices

We expect Jun'23 CPI YoY reading to be around 30.6% vs 38.0%/21.3% in May'23/Jun'22. CPI on MoM basis is expected to be 0.6% during June accredited to inflation in food prices (~34.6% weight in CPI), and housing, water, electricity, gas and other fuels index (~23.6% weight in CPI). Prices of tomatoes, onion and chicken increased during the month. Moreover, fuel charges adjustment would push up electricity prices by 2.1% during Jun'23. Whereas, price of petrol/diesel declined by 5.1/7.3% MoM in Jun'23.

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

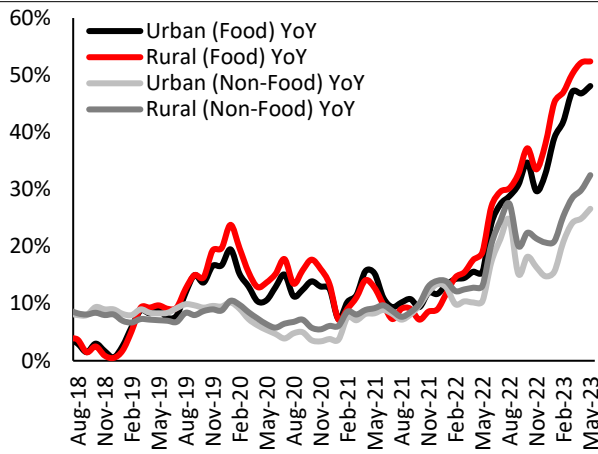
No sign of IMF revival

Amidst continuing good fortunes, the current account has recorded a surplus during the last 3 months of US\$255/78/750mn which has restricted CAD by 81% YoY to US\$2.9bn during 11MFY23 compared to US\$15.2bn in 11MFY22. This is attributable to (1) import restrictions imposed by the Gov't and (2) a slowing economy (GDP growth of 0.3% in FY23) amid high inflation, high interest rates (policy rate up by 7.25/14.0ppts in last 12/24 months) and sharp exchange rate depreciation (28.6% in FY23TD).

However, extraordinary delay in completion of the 9th review of the IMF program is a cause of concern amid precariously low SBP FX reserves of US\$3.5bn. 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 concludes at the end of Jun'23.

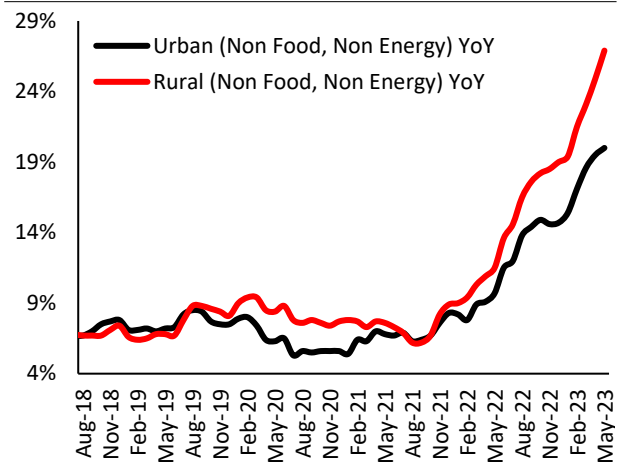
Completing the IMF review is essential to not only unlock a US\$1.2bn IMF tranche but also open up additional lending and rollovers from international partners (Saudi Arabia, UAE, World Bank and Asian Development Bank). As such, financing FY23 CAD of less than ~1 % of GDP (vs 4.5% in FY22) would not be an onerous burden. To highlight, Pakistan has external debt maturities of US\$1.3bn in Jul'23 and US\$17.6bn from Jul'23 to May'24. We believe timely rollovers from China, which have been previously forthcoming, are likely to continue and would help avert a default.

Fig 1: Food and non-food CPI ↑



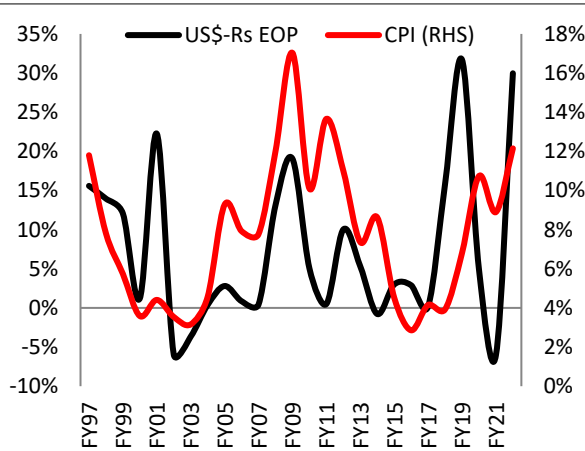
Source: PBS, FSL Research, Jun 2023

Fig 2: Core inflation escalating sharply...



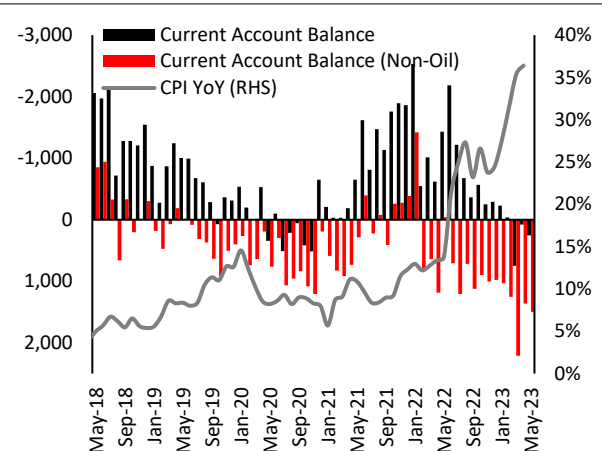
Source: PBS, FSL Research, Jun 2023

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



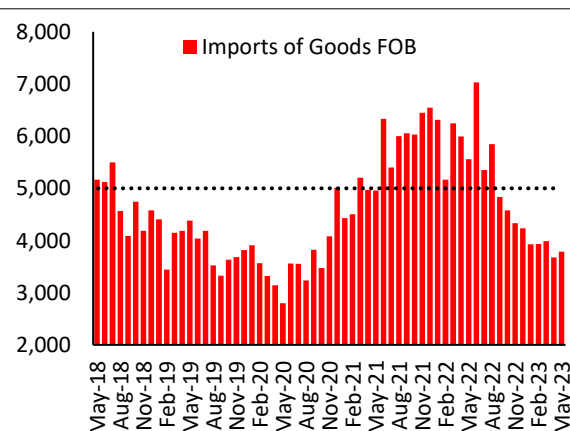
Source: PBS, FSL Research, Jun 2023

Fig 4: Current account restricted amid import curbs



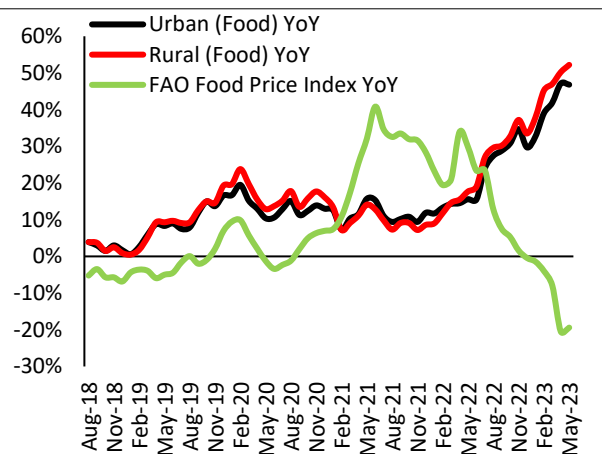
Source: SBP, PBS, FSL Research, Jun 2023

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



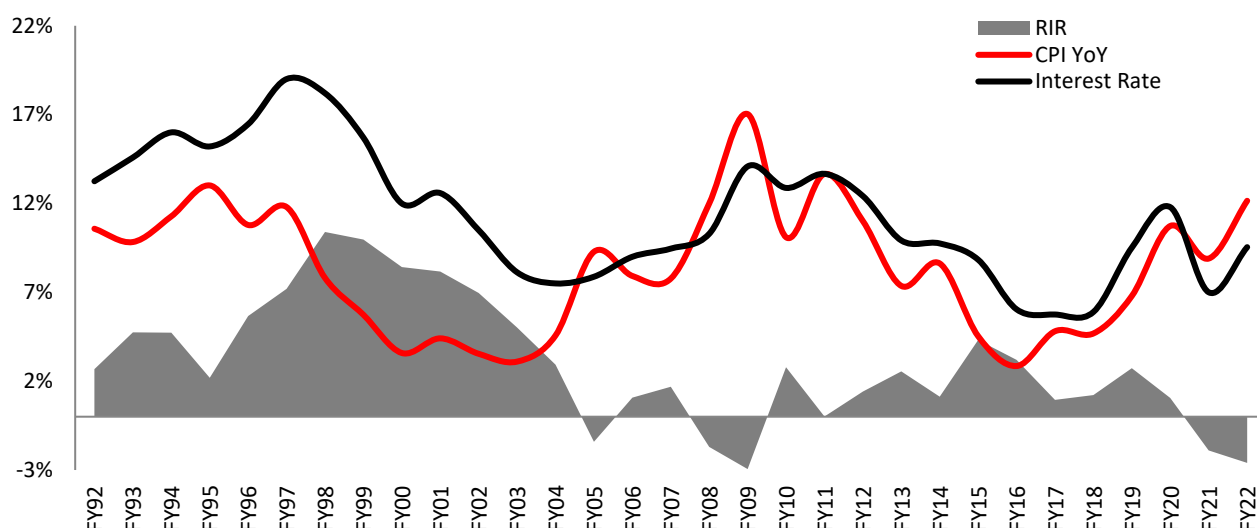
Source: SBP, FSL Research, Jun 2023

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
PR	Policy Rate
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.