

## Economy

February 28, 2023

### Key Points

- We estimate NCPI inflation for Feb'23 at 30.3% taking the 8MFY23 average inflation to 26% compared to 10.5% of the same period last year.
- Higher prices of food items including rice, chicken, milk and milk products, oil and ghee, fruits, pulses, and condiments and spices, are expected to lead food inflation to 3.4%MoM/44.1%YoY with decline in prices of wheat and wheat products, and vegetables.
- Higher prices of petroleum products and gas are expected to complement the inflationary trends. We have incorporated a 43% increase in gas prices.
- The MPC of the SBP in its emergency meeting scheduled on March 2, 2023, is expected to raise the policy rate by 200-250bps taking it to 19-19.5% from 17% primarily to arrest inflationary pressures that are expected to be enhanced with the implementation of the recent fiscal measures through the Finance (Supplementary) Act 2023 and a sharp PKR devaluation.
- Further movements in the policy rate are linked with the impacts of the fiscal measures by the government and their spill-over impacts on inflationary expectations, and materialization of foreign exchange inflows to avert the BoP crises that the country is in currently. We do not rule out the possibility of further rate hike in the next MPC meeting scheduled on April 27, 2023.

### Fen'23 inflation estimated 30.3%, highest in the available data from Jul'65

We expect NCPI inflation for Feb'23 to clock-in at 3.4%MoM/30.3%YoY compared to 2.9MoM/27.6%YoY in Jan'23 and 1.2%MoM/12.2%YoY of the same month last year. This is expected to bring the average inflation for 8MFY23 to 26.0% compared to 10.5% of the same period last year. Urban CPI inflation is estimated at 3.5%MoM/27.5%YoY whereas Rural CPI inflation is estimated at 3.1%MoM/34.4%YoY. The estimated headline inflation for Feb'23 would be the highest-ever since Jul'65. During the past couple of months, core NFNE inflation is also on the rise where the weighted average (Urban 60%, Rural 40%) core NFNE inflation has increased from 12.3% in Jun'22 to 17% in Jan'23. We expect it to further elevate to over 17.3% in Feb'23.

### Food price continue to rise along with fuel and energy

Food inflation soared by 5%MoM (Urban 4.1%, Rural 6%) in Jan'23 driven by non-perishable items. During Feb'23, food inflation is expected to rise further by 3.4%MoM. Prices of rice, chicken, milk and milk products, oil and ghee, fruits, pulses, and condiments and spices have witnessed an upward trend during Feb'23 on MoM basis. On the other hand, prices of wheat and wheat products, and vegetables, came down during the month. The impact of high food inflation is expected to be complemented by increase in prices of petrol, HSD, and gas. We have incorporated a 43% increase in gas prices in our estimates.

### 200-250bps increase in policy rate expected in the emergency meeting of the MPC

The Monetary Policy Committee (MPC) has called an emergency meeting on March 2, 2023 to decide upon the Monetary Policy. The original date for the MPC meeting was March 16, 2023. The pre-ponement of this meeting may understandably be due to a prior action of the IMF before reaching a staff-level agreement. In the last T-Bills auction held, the MoF had raised the cut-off yields by 195, 206, and 184 basis points on 3, 6, and 12 months T-Bills, to 19.95%, 19.9%, and 19.79%, respectively. Secondary market yields of the same papers are at 19.35%, 19.8%, and 19.93%, respectively. We believe that the MPC would raise the policy rate from the current level of 17% by 200-250bps to 19-19.5% in its upcoming meeting. To recall, MPC has raised the policy rate by 200bps from 15% to 17% in 2 consecutive meetings in Nov'22 and Jan'23. Since the previous MPC meeting in Jan'23 key developments include 1) mild improvement in SBP held foreign exchange reserves, but still critically low, leading to continued restrictive import policies of the central bank, 2) interbank exchange for PKR had gone up from around PKR230/USD to over PKR276/USD in early Feb'23, which is now hovering around PKR260/USD, 3) core NFNE inflation gone up to over 17% and is expected to remain persistent, 4) international oil prices have come slightly down, 5) LSM Index has declined by 3.5% in Dec'22 compared to a decline of 6.1% in Nov'22, leading to a decline of 3.7% during 6MFY23 and 6) continued downtrend in high frequency data of sales of petroleum products, autos and cement. On the other hand, position of current account of the balance of payments has slightly improved with a deficit of USD242mn in Jan'23 compared to a deficit of USD290mn in Dec'22 where 7MFY23 CAD has improved from USD11.6bn to USD3.8bn, primarily due to decline in imports (-21%) where exports and remittances have also declined by 7% and 11%, respectively.

### Inflation and policy rate outlook for the rest of FY23

Inflation expectations have also increased significantly with the recently implemented revenue measures through Finance (Supplementary) Act 2023, as per the requirements of the IMF to resume the stalled program, increase in prices of gas, electricity and petroleum products, and their spill-over effects. Although a base effect is expected to bring YoY inflation down significantly from Jun'23 (by around 600-700bps) and onwards, we do not rule-out the possibility of inflation crossing 35% during the remaining months of FY23. Our inflation estimates have now increased to 28% and 17% for FY23 and FY24, respectively. Further movements in the policy rate are linked with the impacts of the fiscal measures by the government and their spill-over impacts on inflationary expectations, and materialization of foreign exchange inflows to avert the BoP crises that the country is in currently. We do not rule out the possibility of further rate hike in the next MPC meeting scheduled on April 27, 2023

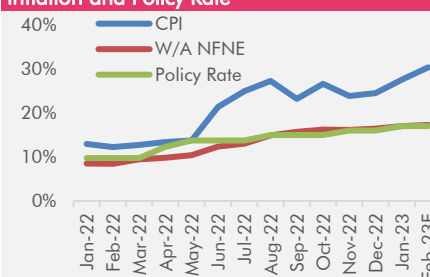
## Pakistan Equities Economy

### Key Data

KSE100 Index	40,784
KSE-All Share Value (PKRmn)	5,718
KSE-All Share Value (USDmn)	22.0
KSE-All Share Volume (Shmn)	158.1
Market Capitalization (PKRtn)	6.3
Market Capitalization (USDbn)	24.3
1 Year High	46,970
1 Year Low	38,136

Source: PSX, Next Research

### Inflation and Policy Rate



Source: PSX, Next Research

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# Analyst Certification, Disclosures & Contacts

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Where;

$R = \text{Expected Dividend Yield} + \text{Expected Capital Gain}$

R' is before tax

Investment horizon is between six months to twelve months

Ratings are updated regularly based on the latest developments in the economy/sector/company, changes in stock prices, and changes in analyst's assumptions.

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