

# Pakistan Economy

## Mar'23 CPI likely to clock in at 34.5%

Inflation continues to make new records and is expected to clock in at ~34.5% YoY in Mar'23 vs. 12.7% in Mar'22 and 31.5% in preceding month. The increase in inflation is led by 45%/20% increase in food/housing index. This will take 9MFY23 inflation to ~27.1% vs. 10.7% in SPLY. On MoM basis, inflation is expected to increase by ~3.0% vs. 4.3% in preceding month. We expect average inflation for FY23 to clock in at ~28.2% vs. 12.1% in FY22.

Within the SPI basket, items that recorded an increase in prices during the period under review are as follows, Gas Charges (108.3↑%), Cigarettes (77.2↑%), Tomatoes (↑26.3%), Fresh Fruits (↑25.4%) and Potatoes (↑16.5%). On the flip side, prices of following items eased off during the month, Onions (↓31.3%), Fresh Vegetables (↓14.3%), Eggs (↓13.9%), Chicken (↓9.5%) and Pulse Gram (↓1.9%).

Food inflation continues to drive headline inflation, which is expected to rise by ~45.4% YoY. Secondly, due to recent increase in duty on cigarettes, alcoholic beverages & tobacco index is expected to jump by ~148.8% YoY.

Food inflation is likely to remain elevated in coming months due to Ramadan season and administrative issues. Similarly, core inflation is expected to remain upbeat amid enhancement in GST rate and second round impact of hike in energy tariffs. As per our estimates, headline inflation is expected to peak in April'23 and is likely to clock below 20% in Jan'24.

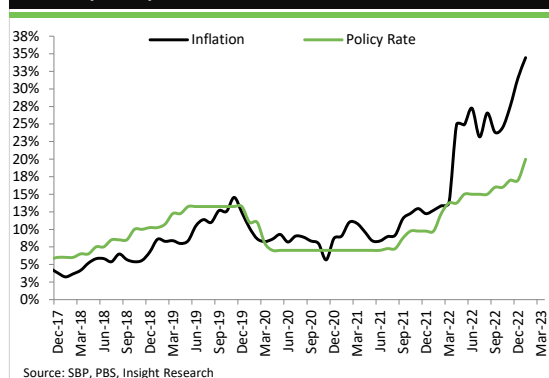
Central Bank's MPC is scheduled to announce benchmark rate on 4th April, where majority expects ~100-200 bps hike in policy rate. Real yields are already in deep negative territory and forecasted inflation of 34.5% for Mar'23 will take it to negative ~14.5%. Secondary market yields have already adjusted 150bps above the benchmark rate. Given the inflation outlook for next few months, we expect SBP to increase policy rate by ~100bps in upcoming meeting.

### Inflation Mar'23

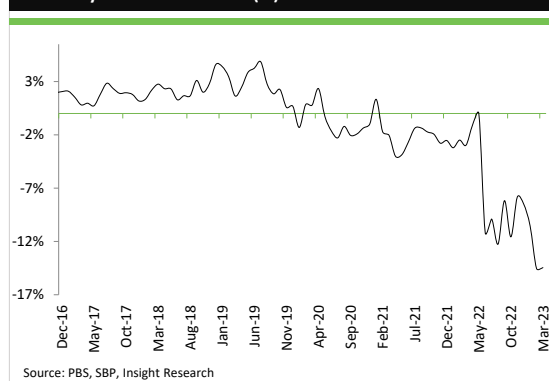
Item and Specification	Weight	Mar-23	Mar-22	YoY Δ	Feb-23	MoM Δ
<b>General</b>	<b>100.0%</b>	<b>217.69</b>	<b>161.90</b>	<b>34.5%</b>	<b>211.29</b>	<b>3.0%</b>
Food	34.6%	247.3	170.1	45.4%	241.3	2.5%
Alcoholic Beverages	1.0%	366.1	147.1	148.8%	219.4	66.8%
Clothing and footwear	8.6%	188.6	161.2	17.0%	186.7	1.0%
Housing and other	23.6%	183.1	152.2	20.3%	176.8	3.6%
Furnishing and household	4.1%	216.8	158.4	36.8%	209.5	3.5%
Health	2.8%	199.2	167.0	19.3%	197.3	1.0%
Transport	5.9%	274.2	180.8	51.6%	271.2	1.1%
Communication	2.2%	114.4	110.3	3.7%	114.4	0.0%
Recreation and culture	1.6%	201.0	136.7	47.0%	199.7	0.6%
Education	3.8%	168.1	155.7	8.0%	164.8	2.0%
Restaurants and hotels	6.9%	219.9	161.8	35.9%	215.8	1.9%
Misc. goods and services	4.9%	226.0	168.8	33.9%	221.4	2.1%

Source : PBS, Insight Research

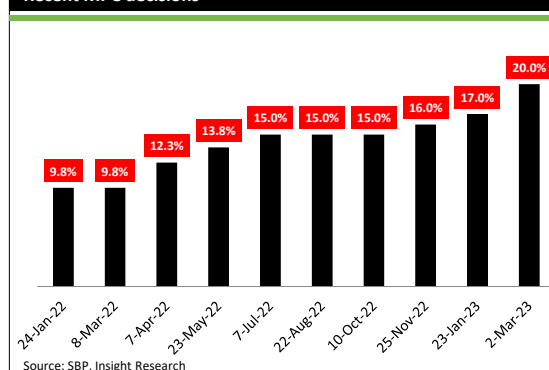
Economy: Policy rate vs. Inflation



Economy: Real Interest rate (%)



Recent MPC decisions



Source: SBP, Insight Research

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<b>TP</b>	Target Price	<b>DCF</b>	Discounted Cash Flows	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DDM</b>	Dividend Discount Model
<b>SOTP</b>	Sum of the Parts	<b>P/E</b>	Price to Earnings ratio	<b>P/Bv</b>	Price to Book ratio
<b>P/S</b>	Price to Sales	<b>EVA</b>	Economic Valued Added	<b>BVPS</b>	Book Value per Share
<b>EPS</b>	Earnings per Share	<b>DPS</b>	Dividend per Share	<b>DY</b>	Dividend Yield
<b>ROE</b>	Return on Equity	<b>ROA</b>	Return on Assets	<b>CAGR</b>	Compounded Annual Growth Rate

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