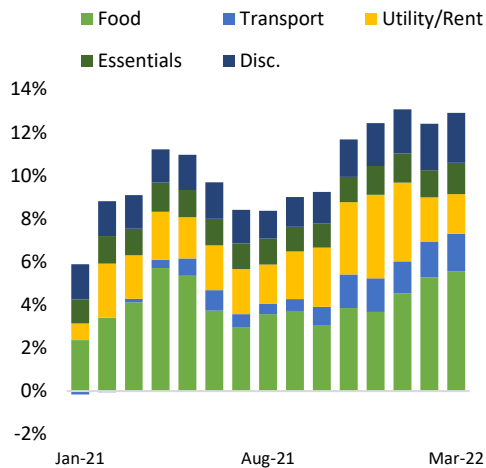
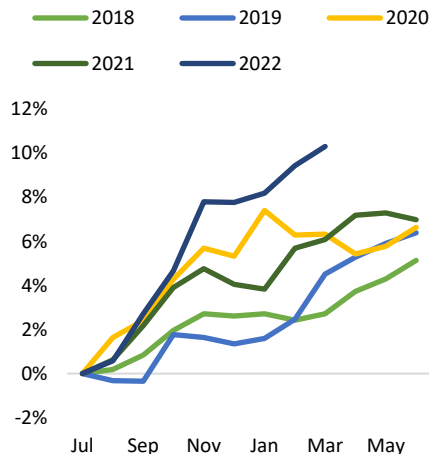


## Economic Update

### Monthly CPI yearly percentage point impact



### FY22 inflation trajectory



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### Inflation

## Mar-22 Inflation Up +0.79%m to +12.7%; PM Relief Package Contained Energy Shock

- For the month of Mar-22, inflation numbers released by Pakistan Bureau of Statistics (PBS), national headline inflation registered a +12.7% growth compared to previous month +12.2%y.
- Urban inflation stood at +11.9%y (+0.7%m) during Mar-22, taking 9mFy22 average to +10.8%y. Whereas Rural inflation is up +13.9%y (+1%m) during the month, taking 9mFy22 average to +10.7%y.
- Monetary policy statement issued in Mar-22 highlighted "Improved Inflationary Outlook" following the cuts in fuel prices and electricity tariffs announced a week before MPC meeting as part of the government's relief package; however, uncertainty still prevails on geo-political landscape, and a surge in exchange rate has opened the scope for further imported inflation.

### Mar-22 inflation prints a +12.2%y growth

For the month of Mar-22, inflation numbers released by Pakistan Bureau of Statistics (PBS), national headline inflation registered a +12.7%y growth compared to previous month +12.2%y, slightly higher than our estimate of +12.5%y. On a monthly basis inflation is up by +0.79%m. This brings 9mFy22 average inflation to +10.77%y versus last year same period average of +8.34%y.

Urban inflation stood at +11.9%y (+0.7%m) during Mar-22, taking 9mFy22 average to +10.8%y. Whereas Rural inflation is up +13.9%y (+1%m) during the month, taking 9mFy22 average to +10.7%y.

### Food prices maintain upward trajectory

During the month, food price index rose by +2.3%m to print a +15.3%y growth. Compared to previous months of Feb-22 and Jan-22, food prices recorded a surge of +2.5%m and a decline of -0.4%m respectively. Perishable food items which have a national basket weight of 5.0% recorded negligible change on monthly basis, however, up by +30%y. Food price index contributed +0.8%m to headline inflation growth of +0.79%m. Amongst the key item which posted a significant growth include; Chicken, Fruits, Vegetable Ghee, Onions, Cooking oil and Mustard oil.

### Non-food prices recorded negligible change on monthly basis; however, y/y up by +11.4% on account of higher transport index

Non-food price index (wt: 65.4%) during the month recorded negligible change on monthly basis; however, up by +10.9%y. This is because housing,

water electricity, gas & fuel (HWEGF, wt: 23.6%) index went down by -2.25%<sub>m</sub>, but offsetted by other non-food items like clothes/footwear, household equipment, education, and Restaurants & Hotels, while transport index remained relatively unchanged. Primary reason for muted transport index and HWEGF index down on mm basis was due to Relief Package announced by PM.

### **Reduction in POL prices brought down overall transport index...**

For the month of Mar-22, domestic motor gasoline (MOGAS) prices were revised down by ~6.3%, as part of Relief Package announced by PM to curb the effects of rise in global oil prices. As a result, overall transport index remained stagnant.

### **...Similarly PM relief Package absorbed FPA impact**

Fuel Price adjustment (FPA) for the month of Mar-22 came at PKR 5.94/kwh. However PM relief package announced during Feb-22 allowed for reduced electricity charges, which entail overall FPA will be reduced down to PKR 0.94/Kwh lower than FPA charge of PKR 3.1/kwh last month. As a result, electricity charges recorded a decline of -13.4%<sub>m</sub>.

### **...Discretionary and essential items also recorded a significant growth**

Other discretionary and essential items recorded +1.2%<sub>m</sub> and +1.6%<sub>m</sub> growth respectively. These mainly include, motor vehicle accessories, match box, washing soap/detergents etc.

### **Outlook: CPI coming down to SBP targeted range?**

Monetary policy statement issued in Mar-22 highlighted “Improved Inflationary Outlook” following the cuts in fuel prices and electricity tariffs announced a week before MPC meeting as part of the government’s relief package; however, uncertainty still prevails on geo-political landscape, and a surge in exchange rate has opened the scope for further imported inflation. The MPC continues to expect inflation to moderate between 9-11 percent this fiscal year before inclining toward the medium-term target range of 5-7 percent in FY23 as global commodity prices normalize. Despite monetary policy stance, treasury yields have been on rising trajectory.

Going forward, the relief package will come at a cost of higher fiscal deficit, ultimately leading to higher taxation and withdrawal of fiscal accommodative measures. Month of Ramadan will likely put further pressure on food prices. Despite moderating domestic demand, unstable geopolitical landscape will likely keep pressure on domestic currency. International Oil prices are trading above US\$ 100/bbl since inception of Russia-Ukraine crisis and resolution to the conflict seems uncertain. While we have a medium to long-term price moderation view, but it cannot be said with certainty as when it will happen or even worse if situation further escalates.

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# Day Break

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