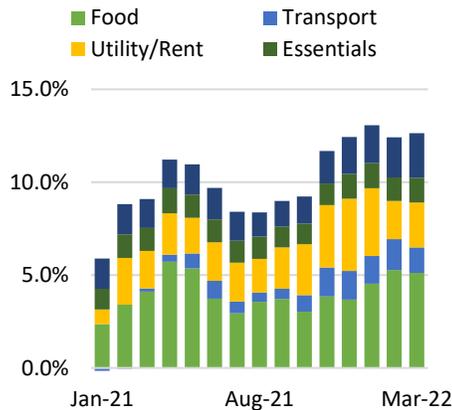
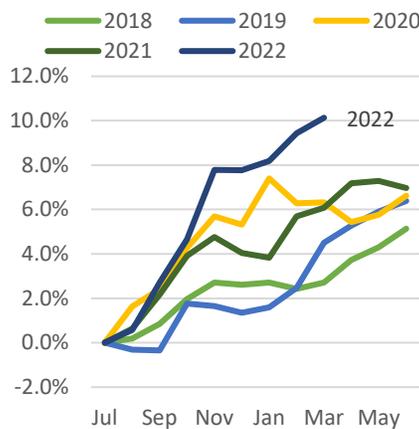


## Economic Update

### Monthly CPI y/y percentage point impact



### Yearly Inflation trajectory (re-based)



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### Inflation

## Mar-22, CPI Likely To Moderate To 12.5%Y; PM Relief Package to Absorb Energy Prices

- For the month of Mar-22, we estimate headline inflation to print a +12.5%y growth compared to previous month, +12.2%y. This will take 9 months period average inflation to +10.7%y, compared to +8.4%y last year same period.
- We base our premise on a) rise in food price items that are dictated by leading SPI monthly growth, b) falling POL prices to drag down transport index, c) lower fuel price adjustments (FPA) for the month dragging down overall electricity charges, and d) a general increasing trend to continue in under discretionary and other essential non-food items.
- 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 to print a +12.5%y growth

For the month of Mar-22, we estimate headline inflation to print a +12.5%y (+0.64%m) growth compared to previous month, +12.2%y (+1.15%m). This will take 9 months period average inflation to +10.7%y, compared to +8.4%y last year same period.

We base our premise on a) rise in food price items that are dictated by leading SPI monthly growth, b) drop in POL prices to bring down transport index, c) PM relief package to offset monthly fuel price adjustments (FPA) resulting in overall lower electricity charges, and d) a general increasing trend to continue in under discretionary and other essential non-food items.

### Food prices growth continue unabated

Monthly, Sensitive Price Index (SPI) a proxy index for food prices suggests headline food prices are likely to surge by +1.3%m basis. During the month of Mar-22, key food items including chicken, fresh fruits, onion, and cooking oil have recorded a significant growth over previous month.

### Reduction in POL prices to bring down overall transport index...

For the month of Mar-22, domestic motor gasoline (MOGAS) prices have been revised down by ~6.3%, to adjust for fiscal relief package to curb the

effects of rise in global oil prices. As a result this will bring down transport index.

**...Similarly PM relief Package to absorb 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, adjusted tariff's impact for this month on NCPI will be -0.6%.

**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.

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