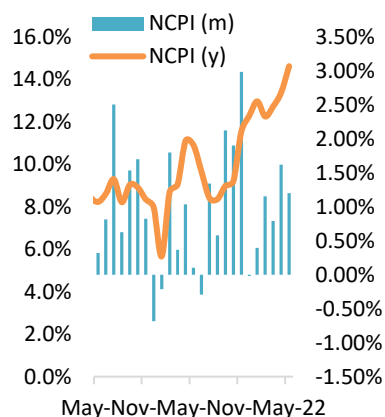
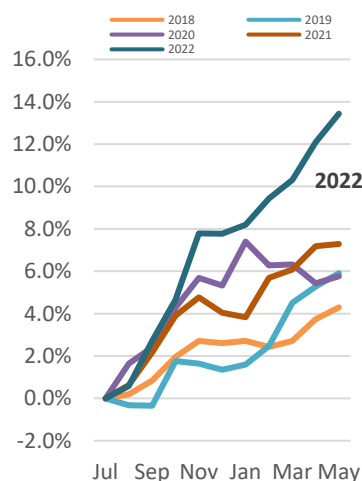


Economy

Monthly and Yearly CPI



Yearly Inflation Trajectory (Re-based)



Analyst

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Inflation

May-22: CPI Likely to Imprint +14.6% Growth; Food and Transport Index to Charge Overall Index

- For the month May-22 we estimate headline inflation of 14.6%y (1.2%m) compared to previous month 13.4%y (+1.62%m). This will take 11mFy22 average inflation to +11.3%y, compared to +8.8%y last year same period.
- We base our premise on a) rise in perishable food prices items as dictated by leading SPI monthly growth, b) 20% POL prices hike to charge transport index, c) lower fuel price adjustments (FPA) for the month dragging down overall electricity charges, and d) an increasing trend to continue in under discretionary and other essential non-food items due to fuel charge.
- In the latest monetary policy statement, issued on the State bank of Pakistan raised policy rate by 150bps to 13.75% (our estimate of 150-200bps). Amongst other points, a key decision point stated by SBP was necessity of having a fiscal consolidation to have full monetary effect on curbing domestic inflation.

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Food Prices continues up trend

Using the proxy index Sensitive Price Index (SPI); we estimate national food price index is likely to surge by +2.3%m; slightly lower than previous month increase of 3.7%m. In general food prices have been on an uptrend registering on average 2.8%m increase since Feb-22. Key food items, wheat, chicken potatoes, onions, eggs, and pulses have also posted a double digit growth in the high 10s.

POL Prices up 20% on roll back of partial subsidy

In recent decision, the government has raised POL prices by a way of reducing the Price Differential Claim (PDC) by PKR 30/ltr each for MS and HSD, taking the retail prices to PKR 179.9/ltr and PKR 174.6/ltr respectively for MS and HSD ([link](#)). This represent almost ~20% increase in one-go. A direct impact of this magnitude on domestic inflation we estimate will pump up Headline Inflation by 0.55% on a monthly basis considering its 2.74% weightage in national CPI basket. Moreover, as per news print, government will be further slashing subsidy under price differential claims (PDC) by PKR ~70/ltr by June 2022, which in our view will further push domestic inflation.

Utility Prices likely to go up post removal of subsidy

Fuel Price Adjustment (FPA) for the month of May-22 comes at PKR 3.17/kwh lower than last month PKR 4.85/kwh; 35%. However, the net impact of FPA plus PKR 5/kwh subsidy will reduce overall electricity charges by 11% we estimate which will have a negative 0.5% impact on overall inflation. Having said that, news regarding removal of PKR 5/kwh subsidy and suggestive of PKR 7/kwh increase based on our estimate will have a positive 2.0% impact on national inflation. As for now we have remained conservative in our estimate and kept subsidy in our calculation.

Outlook

In the latest monetary policy statement, issued on the State bank of Pakistan raised policy rate by 150bps to 13.75% (our estimate of 150-200bps). Amongst other points, a key decision point stated by SBP was necessity of having a fiscal consolidation to have full monetary effect on curbing domestic inflation.

“The MPC’s baseline outlook assumes continued engagement with the IMF, as well as reversal of fuel and electricity subsidies together with normalization of the petroleum development levy (PDL) and GST taxes on fuel during FY23. As electricity and fuel subsidies are reversed, inflation is likely to rise temporarily and may remain elevated through FY23 before declining sharply during FY24 (5-7%). This baseline outlook is subject to risks from the path of global commodity prices and the domestic fiscal policy stance.” – *Monetary Policy Statement (23 May, 2022)*

Back then had our reservation that fiscal consolidation will lead to even higher inflation given roll-back of pol and electricity subsidies. Recent news print suggests government will further slash subsidy under price differential claims (PDC) on MS and HSD by a cumulative PKR ~70/ltr by June 2022, which as per estimates headline inflation could rise over 17.5% in the coming 2-3months not incorporating the electricity price increase as yet. With a month left for Fy22, we expect inflation could hurdle in the range of 11.8% on average based on a conservative estimates, but still higher than SBP 9-11%.

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