

**ECONOMY**

## Inflation Forecast

## Pakistan Research

**Economy: Sept-21 CPI expected to clock in at 8.25%**

- We expect Pakistan headline CPI inflation for Sept-21 to clock in at 8.25%, major contributors being higher food prices and increased energy prices. CPI for 3MFY22 likely to average 8.3% versus 8.8% witnessed in the CPLY.
- MoM CPI Index is likely to surge by 1.4% mainly due to food basket's prices increasing by 1.6%, increase in electricity charges of 7.2% and average fuel prices hike of ~3% during the month.
- For the full year FY22, we expect the inflationary pressures to persist on the back of surging international commodity prices and likely hike in the electricity tariff, and will average 8.8%, at the higher end of the SBP's target range of 7-9%.

**September-21 MoM National CPI Inflation forecast Breakdown (base year 2015-16)**

	Weight in CPI	MoM Change (%)	Cont. to MoM CPI
Food & Non-Alcoholic Beverages	34.58%	1.6%	0.54%
Housing, Water, Electricity, Gas & Fuel	23.63%	0.7%	0.16%
House rent	19.07%	0.7%	0.12%
Electricity	4.56%	7.2%	0.33%
Clothing & Footwear	8.60%	0.8%	0.06%
Restaurants & Hotels	6.92%	0.6%	0.04%
Transportation	5.91%	3.0%	0.17%
Others	24.92%	0.7%	0.16%
<b>MoM change in CPI</b>			<b>1.4%</b>

Source: PBS, Akseer Research

**Food Index and electricity charges likely to contribute most in MoM CPI**

We expect CPI to accelerate 1.4% MoM during September-21, where main contribution as usual is expected to come from the food basket (expected to rise 1.6% MoM led by higher wheat, poultry, pulses and onions prices). Upward adjustment of Q1 electricity charges by 7.2% also likely to contribute 0.33pp whereas net increase of ~3% in the Transport Index, will add another 0.17pp to overall MoM CPI Index.

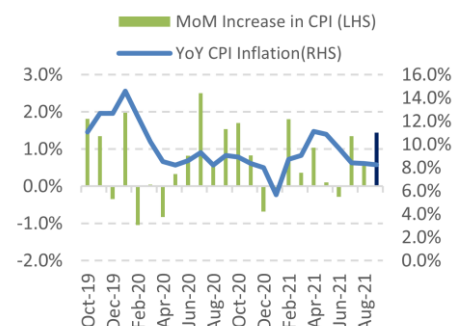
The CPI Inflation for Sep-21 to clock in at 8.25% compared to 9.03% Sep-20, taking 3MFY22 average to 8.3%.

**Inflationary pressures to persist in FY22**

With continuously rising international commodity prices (food and energy), we expect inflationary pressure to persist in the near term as Pakistan's CPI is highly correlated with international commodities. Along with this, electricity tariff is also expected to revise upward ahead of IMF meeting in October-21. We expect further hike in motor gasoline and diesel prices as international oil prices have crossed USD 80/bbl lately. Besides, the government's ambitious budgeted petroleum development levy target of PKR 610bn for FY22 is only achievable through increasing PDL weight in the petroleum prices. As per the recent news, the government has so far collected only PKR 25bn in first two and half months of current fiscal year equivalent to 4% of the budget.

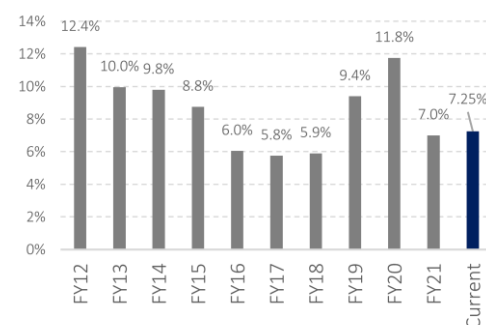
Due to above mentioned factors, we project the CPI to settle at 8.8% during FY22 compared to 8.9% in FY21.

Chart-1: CPI Inflation trend &amp; Forecast



Source: PBS, Akseer Research

Chart-2: Policy Rate



Source: SBP, Akseer Research

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