

ECONOMY

Inflation Forecast

Pakistan Research

Economy: Dec-21 CPI expected to clock in at 12.1%

- **Despite some respite from decline in the food and transport index, upward adjustment in electricity tariff and low base effect likely to take Dec-21 headline inflation to 12.1%. CPI for 1HFY22 is expected to settle at 9.77% versus 8.63% witnessed in the corresponding period last year.**
- **MoM CPI Index is likely to decline by 0.2% (after a period of five months) mainly led by decline in the food basket index followed by Transportation Index.**
- **For the full year FY22, we expect the inflation reading to clock in at 10.2% on the back of upward electricity adjustments and commodities super cycle. The SBP has also revised upwards its CPI projections to 9-11% vs earlier expectations of 7-9% during FY22.**

December-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%	-1.80%	-0.62%
Housing, Water, Gas & Fuel	19.07%	0.47%	0.09%
Electricity	4.56%	10.00%	0.46%
Clothing & Footwear	8.60%	0.00%	0.00%
Restaurants & Hotels	6.92%	0.25%	0.02%
Transportation	5.91%	-3.44%	-0.20%
Others	24.92%	0.20%	0.05%
MoM change in CPI			-0.2%
YoY change in CPI			12.1%

Source: PBS, Akseer Research

Hike in electricity tariff likely to wane the benefit of lower food prices

We expect CPI to decline by 0.2% MoM during Dec-21, driven by the reduction in the food basket prices (expected to decline by 1.8% MoM led by poultry, potatoes, tomatoes and sugar prices). 3.4% MoM decline in the petroleum prices will also keep the monthly CPI on the lower side.

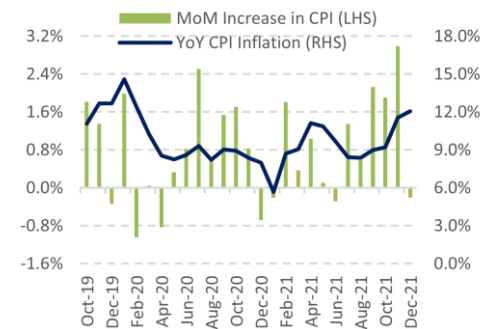
However, the resumption of the IMF program led to upward adjustment in the electricity tariffs, up 10% MoM, expected to add 46bps to the monthly CPI surge.

The CPI Inflation for Dec-21, resultantly to conclude in the double digit of 12.1% compared to 11.5%/8.0% during Nov-21/Dec-20. This will take cumulative 1HFY22 average CPI to 9.77% versus 8.63% in the same period last year.

Inflationary pressures to persist amidst rising prices and currency devaluation

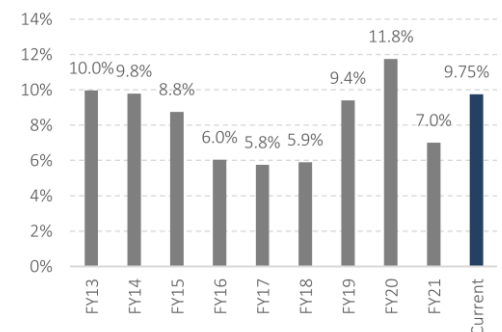
Taking into account higher electricity tariffs and commodity super cycle along with PKR depreciation, we have revised upward our inflation expectation for FY22 which is expected to now settle at 10.2%. The central bank also increased its CPI target range to 9-11% from earlier 7-9% due to persistent inflationary pressures. However, the SBP expects the inflation to decline in the medium target to 5-7% with softening global commodity prices.

Chart-1: CPI Inflation trend



Source: PBS, Akseer Research

Chart-2: Policy Rate



Source: SBP, Akseer Research

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