

PAKISTAN ECONOMY

MARKET VISTA

Package announced to contain food inflation

- In a bid to contain food inflation and to give relief to masses, honorable Prime Minister announced a relief package of PkR120bn under the flagship “Ehsaas Program” with execution being handled by NBP.
- The said subsidy is over and above the already budgeted amount of PkR260bn and would be targeting certain segments of the country. 20mn families are expected to benefit from the subsidy program.
- The Prime Minister also announced “Kamyab Pakistan Program”, another flagship project of the PTI Govt., under which PkR1.4trn interest free loans would be disbursed
- With oil prices continuing to stay strong in the international market, we may see the government likely passing on the impact within the next fortnight.
- From the vantage of equity market, the package was largely a non-event with focus shifting to the next MPS where the market anticipates at least a 50bps hike in interest rates.

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PTI delivering on social security promise.....: Social safety under the current political regime has been playing a pivotal role in policy making, more than ever in any political set-up, where in the latest bid PM Khan announced a PkR120bn subsidy package on key food items (wheat, ghee and pulses) under the flagship ‘Ehsaas Program’ with the execution being handled by National Bank of Pakistan (NBP). The subsidy, which is applicable for 6 months from formal inauguration in second week of Dec’21, would be in addition to PkR260bn budgeted for Ehsaas Program in FY22 Budget, and would be targeted towards specific societal segments only. The program is likely to have received a nod from IMF authorities in our view, however, clarity is still needed on how the subsidy amount will be disbursed. The Prime Minister also announced “Kamyab Pakistan Program”, another flagship project of the PTI Govt., under which PkR1.4trn interest free loans would be disbursed primarily for house construction and to boost agri output, where we still wait for fine prints on the operational dynamics of the said program (guarantee etc.) particularly with IMF likely to be back in picture.

.....with inflationary pressures picking up: The Govt. has indicated on complete pass-on of international oil price with possibility of an increase in Petroleum Levy (PL) going forward. To highlight, the Govt. has set PL collection target for FY22 at PkR650bn, translating into PkR27/litre levy on MS and HSD sales, however in 1QFY22 the Govt. has collected on avg. PkR3.9/litre and PkR3.3/litre PL on MS and HSD respectively, raising red flags on attainment of PL collection targets. From inflation perspective, a 5% increase in petroleum prices translates into 19bps impact on monthly inflation with even larger second round impacts in subsequent months. Also, potential increase in electricity and gas tariff hikes are on the cards, possibly under agreement with IMF, with electricity base tariff adjustments of PkR1.68/unit (11.3% increase in effective tariff) already under consideration. Under our base case, we expect inflation for FY22 to stand at 9.5% YoY with oil price assumption at US\$70/bbl. However, our estimates are subject to great uncertainty as we await for clarity on IMF action plan.

Investment perspective: Containing inflation has proven to be a difficult challenge for the incumbent government with CPI averaging 8.5% throughout the incumbent government’s tenure. Commodity bull run hasn’t helped the matters either with food inflation touching double digits recently. However, the social package announced by the PM yesterday will help bring the cost of running the kitchen for the masses and help regain political ground. We expect the government to have taken IMF onboard about the package with a deal to revive the dormant program on horizon. From the vantage of equity market, the package was largely a non-event with focus shifting to the next MPS where the consensus is building about a 50bps – 100bps hike.

KSE100 Index performance



Source: PSX & AKD Research



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Neutral	> 8.5% to < 14.5% expected total return
Sell	< 8.5% expected total return (Rf: 8.5%)



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