

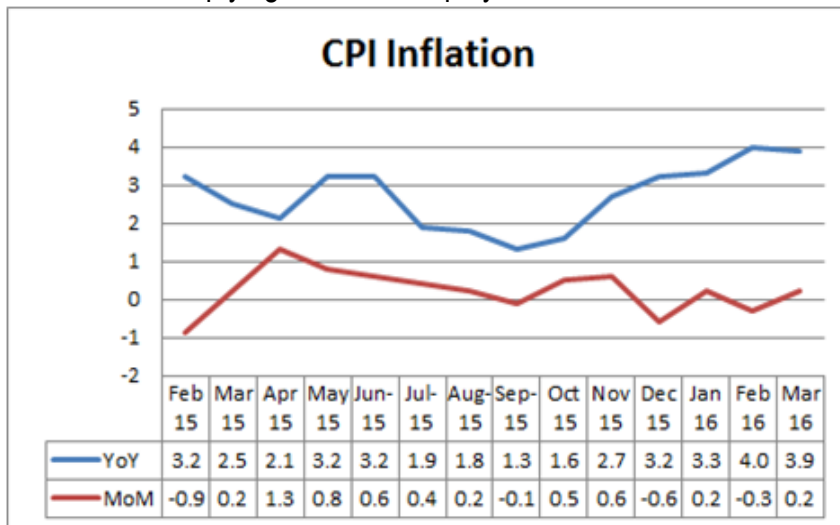
Inflation hikes

Pakistan Bureau of statistics (PBS) collect prices at actually prevailing markets prices of food items. PBS collected that at mid of month while prices of non-food items are collected within 1st week of month.

We expect that CPI inflation to increase by 3.7%-3.8% on Y-o-Y basis in April 2016 while in previous month general inflation also increased by 3.9% on Y-o-Y bases. SBP money supply increased wherein trade deficit has also ballooned resulting in increasing inflation. *(basis of determination VaR model)*

Monetary policy – Inflation....We believe strict monetary policy has negative effect on inflation and it increases where interest rates are not market based but they albeit regulated through central bank. Increase in supply of money by SBP for stabilizing policy rate and trade deficit are key causative factors in increasing inflation. Expected general inflation for April 2016 is same as per our expectation in earlier reports that government has used foreign reserves for reducing trade deficit as a result inflation increasing.

We expect that increasing trend in inflation will be solved by proper utilization of lower borrowing rates into investment. Development of manufacturing sector can expedite growth rate and reduce increasing effect of inflation. Development of manufacturing sector not only increases GDP but it has a multiplying effect on employment.



Bottlenecks like energy shortage prevents manufacturing sector from growing. We expect that by timely competition energy related projects in CPEC will definitely curb inflation.

REP-033

Source PBS

Commodity Groups	Average Weights
Food & Non-Alcoholic Beverages	34.84
Alcoholic Beverage, Tobacco	1.41
Clothing & Footwear	7.57
Housing, Water, Electricity, Gas and Furnishing & Household Equipment	29.41
Health	4.21
Transport	2.19
Communication	7.20
Recreation & Culture	3.22
Education	2.03
Restaurants & Hotels	3.94
Miscellaneous Goods & Services	1.23
Total	2.76
	100

Consumer Price Index (CPI) is most common method used to measure general inflation. It measure change in cost of buying in a fixed basket of goods and services.

Price data for basket of goods and services is collected from 40 cities from where majority of consumers buy goods and services. Data is collected from 76 markets depending upon size of city. Like form Karachi data is collected from 13 different markets.

Current CPI covers 487 items in basket of goods and services which are selected on bases of taste, habit and custom of peoples. This basket of goods and services has been developed on bases of Family Budget Survey (FBS) conducted in 2007-08 and it is conducted on regular bases after 10 years. The purpose of conducting Family budget survey is update assigned weights to goods and services. This basket of goods and services comprises of 12 major groups. The average percentage expenditure on goods and services are called weights and they are used in computation of CPI.

Analyst

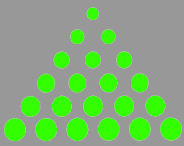
Nasir Ali

0092 21 32461427

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