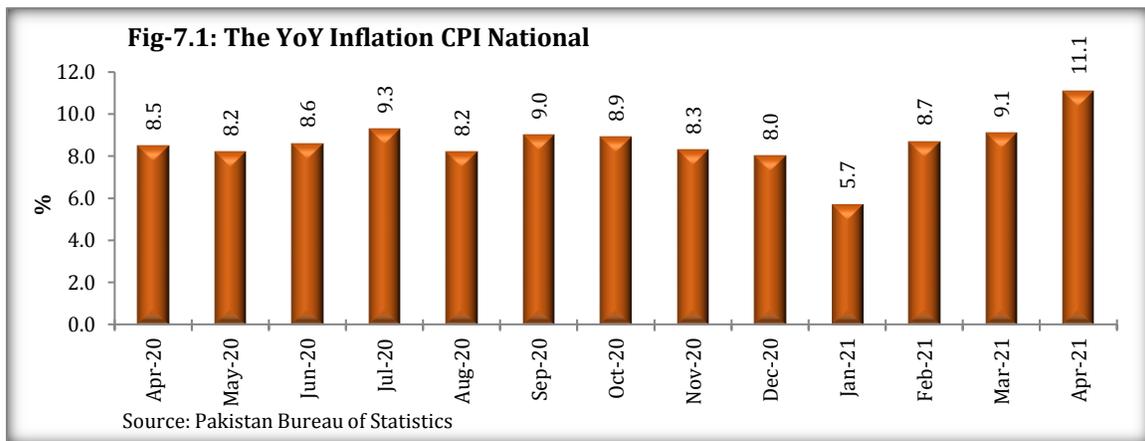


Inflation

7.1 Introduction

Price stability is prime concern of every government as high and variable inflation not only erodes purchasing power of consumers but also discourages investment. A controlled inflationary environment contributes to financial stability and economic growth. Inflation is caused by both demand and supply side of market forces. However, demand-side inflation can be controlled by prudent government expenditure policy and restricting government to borrow from the central bank. On supply-side not only cost of input matters but restriction on the free mobility of transportation can interrupt smooth supply chain of goods and services. A real time example has been seen during lock down to avoid adverse impact of COVID-19 pandemic. The pandemic resulted in large shocks to both demand and supply hence inflation was observed across the world. Historically, it was observed that inflation had risen sharply during and aftermath of major wars and same was predicted in this pandemic.



In Pakistan, by the end of FY2020, the inflation rate stabilized and turned out to be single digit mainly due to government prudent demand management policies. In this regard, government borrowing from SBP was avoided as a policy decision. In the start of FY2021, major contribution to inflation in both urban and rural baskets derived from food group mainly due to extended monsoon season. The government realizing the significance of supply disruption started establishing Sahulat/Bachat Bazars in the country. The rise in the prices of global agrarian products and other commodities especially oil contributed to domestic inflation as well. As far as, oil prices are concerned,

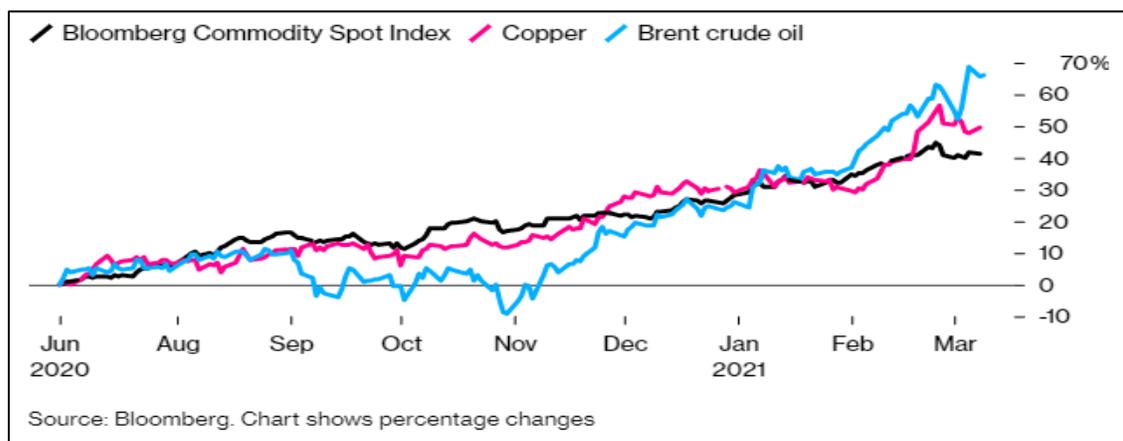
the government does not pass on proportional increase of crude oil prices in international market to the general public in order to maintain price stability.

During first ten months of FY2021, National CPI inflation for FY2021 remained lower than last year. Administrative measures including crackdown on speculative elements and resumption of seasonal supplies of perishables helped to retain the inflationary pressures. Moreover, tax relief measures in Budget 2020-21 in response to COVID-19 also provided relief in terms of stable prices of various goods. In April 2021, CPI rose to 11.1 percent mainly due to substantial increase in international commodity prices. The past trends also imply seasonal inflation in Ramzan. The government ensured smooth supply of essential domestic goods by allowing imports of essential commodities like wheat and sugar. A Ramazan package of Rs 7.8 billion was provided through Utility Store Corporation for providing essential items to general public at affordable prices.

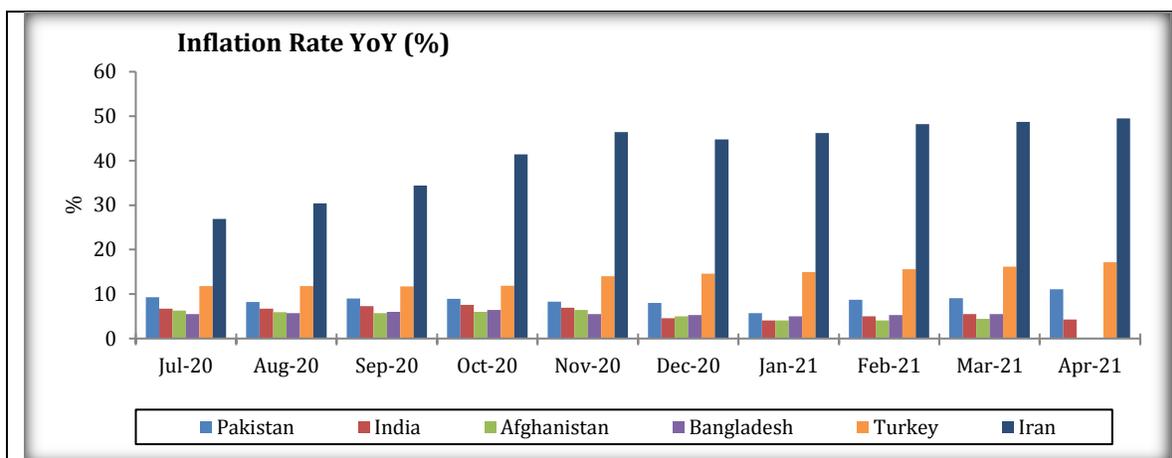
Box-I: Global Inflation and Pakistan

For most commodity markets, 2020 was undeniably a turbulent year. The outbreak of the pandemic triggered a widespread global shutdown of economic activity that depressed demand and disrupted supply chains for commodities in virtually all sectors including energy, base metals and agricultural products. Bloomberg Commodity Index hit an all-time low in April and the price of crude oil nosedived into negative territory for the first time ever.

However, 2021 has started projecting an upward trajectory of prices on the back of COVID vaccination and relative deterioration of US dollar. A global economic recovery is expected around the globe with expansionary monetary policy and fiscal stimulus being provided by several governments as being particularly supportive. Such factors with other demand and supply factors have also boosted inflationary expectations.



Continuously increasing commodity prices have an upward inflationary pressure around the globe which is further expected to build up due to the fiscal stimulus packages and reduced interest rates in the wake of COVID-19. Inflation has remained subdued globally till January 2021 due to depressed demand. But partial lockdowns and resumption in business activities have again started pushing up the prices. Similarly, Pakistan and its regional countries witnessed moderate increase in inflation initially, but it started picking up the pace from January 2021.



COVID-19 has affected the demand and supply of certain products and hence, their prices as well. Reliance on imported goods has exposed country to inflation which has accentuated due to depreciation and capital outflows. Pakistan faced highest inflation of 14.5 percent in January 2020, comparing developing and emerging economies both, yet this has reduced to 5.7 percent in January 2021 due to government efforts to contain inflation. Being a net importer of oil and having significant scope for inflation pass-through from the exchange rate channel, the rise of international prices of oil and food from January 2021 has started building inflationary spirals going forward.

7.2 Consumer Price Index:

The headline inflation measured by the Consumer Price Index (CPI) was recorded at 8.6 percent during July-April FY2021 as against 11.2 percent during the same period last year. Due to the government measures for maintaining price stability, inflation in perishable food items was increased 0.1 percent against exorbitant increase of 34.7 percent during same period last year.

Non-Perishable food items are the main contributory factor in jacking up the food inflation in the Food and Non-alcoholic Beverages group, as it is recorded at 16.0 percent against the increase of 12.4 percent during the same period last year. Among the non-perishable food items, the upward pressure came from the poultry group (chicken and eggs), followed by the staple group (wheat, wheat flour and edible oil). The increase in the poultry group may be attributed to viral disease which caused supply side risks. Wheat prices rose by more than 24 percent in April 2021 over April 2020 due to supply disruption. However, there was decrease of 9 percent over March 2021 mainly due to the government efforts for smooth supply of wheat. One of measures was timely release of wheat in the provinces by the procurement agencies and provision of the commodity via utility stores and fair price outlets which managed to ease price pressures. Regarding increase in the prices of edible oil, Palm oil and soybean prices have been on a steep rising trajectory in international market since June 2020, amid sharp contractions in global inventory levels due to weather-related concerns in the major producing areas.

The Housing, Water, Electricity, Gas & other Fuel have recorded an increase of 5.7 percent during July-April FY2021 as against 7.1 percent during the same period last year. It has a weight of 23.6 percent thus any untoward movement directly affects the

vulnerable segments of the society. CPI movements by major groups are given below in Table 7.1.

Commodity	Weights	% Change On Average Basis	
		2019-20	2020-21
CPI National	100.0	11.2	8.6
Food & Non-alcoholic Beverages	34.6	15.9	13.4
i) Non- perishable Food Items	29.6	12.4	16.0
ii) Perishable Food Items	5.0	34.7	0.1
Alcoholic Beverages& Tobacco	1.0	21.9	5.7
Restaurant & Hotels	6.9	7.0	8.5
Clothing &Foot wear	8.6	9.5	10.0
Housing, Water, Electricity, Gas & other Fuel	23.6	7.1	5.7
Furnishing & Household Equipment Maintenance	4.1	10.6	8.1
Health	2.8	11.7	8.3
Transport	5.9	15.0	-1.3
Communication	2.2	3.8	0.5
Recreation & Culture	1.6	6.8	4.2
Education	3.8	6.0	1.2
Miscellaneous	4.9	11.9	11.7

Source: Pakistan Bureau of Statistics

From start of the current fiscal year, Government responded intensively and convened National Price Monitoring Committee (NPMC) meetings periodically to monitor the price situation as well as supply of essential items.

In Q1 FY2021, although CPI was brought to single digit 8.85 percent from 10.08 percent in corresponding quarter last year, however, it was noted that inflation remained high on account of increase in prices of food items mainly non-perishable items.

It was decided in NPMC meeting that Ministry of National Food Security & Research and M/o Industries & Production will consult the provincial governments and remain vigilant to control the wheat/flour and sugar prices while Provincial governments were asked to provide support to market committees in collaboration with district administration to play proactive role in removing the price disparity among the provinces and also ensure the smooth supply of essential items.

In Q2 FY2021, again it was noticed that main driver in CPI remained food items mainly due to price differential in food items among provinces. The major reason could be high province-wise margin between wholesalers and retailers. Thus, in NPMC, it was decided that the provincial representatives will convey their Chief Secretaries to come up with workable proposals and measures to make the prices of essential items stable. Further, Provincial Authorities and ICT administration was asked to take strict action against the profiteers and minimize undue profit margin in the perishable items. Furthermore, M/o National Food Security & Research and M/o Industries & Production were directed to remain vigilant on wheat and sugar stock in the country and take proactive measures

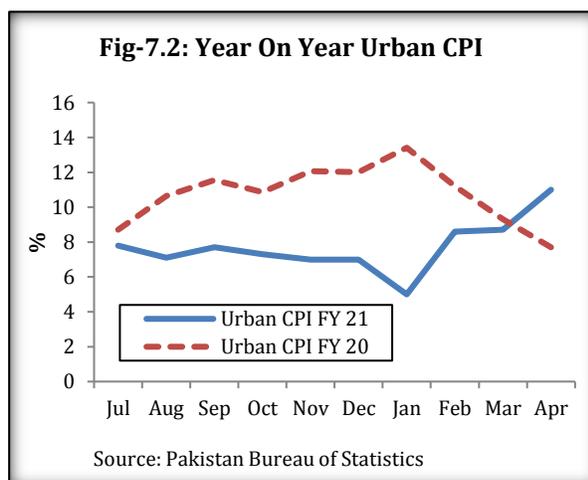
for timely import of wheat & sugar as decided by ECC. In addition to that the frequency of NPMC meetings was increased to weekly basis for further stabilizing prices of essential items in particular.

In Q3 FY2021, the government effort for maintaining smooth supply of food items both perishable and non-perishable, helped in containing the inflation to 7.80 percent compared to 12.38 percent in corresponding quarter last fiscal year. However, prices of Restaurant & Hotels, Clothing & Footwear and Housing, Water, Electricity, Gas & other Fuel remained relatively higher due to economic recovery. Quarter -wise CPI movements are given below in Table 7.2.

Commodity	2019-20			2020-21		
	Q1	Q2	Q3	Q1	Q2	Q3
CPI National	10.08	12.11	12.38	8.85	8.41	7.80
Food Products, Beverages and Tobacco, Textiles Apparel and Leather Products	12.22	18.04	18.82	15.10	15.00	9.31
i) Non- perishable	11.23	11.09	15.17	15.25	17.21	14.77
ii) Perishable	16.57	60.09	38.74	13.72	5.28	-18.78
Alcoholic Beverages& Tobacco	29.69	19.08	18.31	5.57	5.96	5.79
Restaurant & Hotels	6.02	6.17	8.23	7.92	9.35	8.34
Clothing & Foot wear	8.46	9.46	10.22	9.54	9.35	10.53
Housing, Water, Electricity Gas & other Fuel	6.58	8.17	7.10	5.40	2.93	7.57
Furnishing & Household Equipment Maintenance	11.43	10.85	10.07	7.72	7.77	8.32
Health	11.73	11.61	12.08	7.92	7.84	8.83
Transport	17.69	15.01	16.37	-3.14	-3.02	-0.25
Communication	4.34	3.98	3.92	0.28	0.47	0.56
Recreation & Culture	7.54	7.00	6.33	3.75	4.18	4.68
Education	6.62	6.06	6.39	1.01	1.30	1.17
Miscellaneous	12.45	11.65	11.55	12.50	11.82	11.46

Source: Pakistan Bureau of Statistics

CPI inflation-Urban increased by 11.0 percent on Year-on-Year basis in April 2021 as compared to an increase of 8.7 percent in the previous month and 7.7 percent in April 2020. The Urban Food and Non-Food inflation recorded at 15.7 percent and 8.2 percent as compared to 10.4 percent and 6.2 percent respectively in the last year same month. During the period July-April FY2021, CPI-Urban recorded at 7.7 percent as against 10.7 percent during the same period last year.



In urban areas, increase in the prices of items in April 2021 compared to April 2020 were: Chicken (93.14 percent), Tomatoes (81.49 percent), Eggs (42.41 percent), Condiments and Spices (31.62 percent), Wheat (26.99 percent), Mustard oil (24.44 percent), Vegetable ghee (21.05 percent), Milk

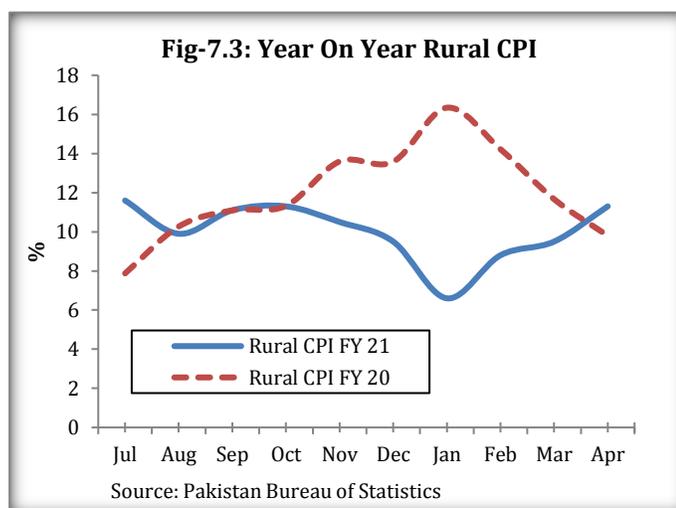
(20.37 percent), Cooking oil (19.23 percent), Sugar (18.2 percent), Wheat flour (16.92 percent), Fresh vegetables (11.45 percent), Electricity charges (29.06 percent), Cotton cloth (16.56 percent), Footwear (16.24 percent), Major tools & equipment (15.06 percent), Cleaning and laundering (13.37 percent), Clinic fee (12.81 percent), Hosiery (12.55 percent) and Woollen readymade garments (12.08 percent).

On the other hand, in urban areas, the prices of the items which shown decline were: Onions (39.57 percent), Pulse moong (16.57 percent), Pulse masoor (10.20 percent), Pulse gram (7.13 percent), Besan (5.61 percent) and Gram whole (3.00 percent).

CPI inflation-Rural increased by 11.3 percent on a year-on-year basis in April 2021 as compared to an increase of 9.5 percent in the previous month and 9.8 percent in April 2020.

Food and Non-Food inflation recorded at 14.1 percent and 8.9 percent as compared to 12.9 percent and 7.4 percent respectively in the same month last year. During the period July-April FY2021, CPI-Rural recorded at 10.0 percent as against 12.0 percent during the same period last year.

The inflation differential in Rural and Urban may be attributed to relatively loose price checks in rural areas. However, Food inflation in rural areas was lower compared to that in urban because agriculture products related to food are produce in rural areas. The high non-food inflation in rural areas can be attributed to the transportation cost.



In rural areas, commodities that recorded increase in prices during April 2021 over April 2020 were: Chicken (85.15 percent), Tomatoes (60.03 percent), Eggs (46.14 percent), Wheat (24.48 percent), Mustard oil (23.71 percent), Cooking oil (23.29 percent), Vegetable ghee (21.38 percent), Wheat flour (19.33 percent), Sugar (16.51 percent), Condiments and Spices (13.72 percent), Milk (13.48 percent), Rice (13.02 percent), Electricity charges (29.06 percent), Hosiery (16.47 percent), Clinic fee (16.41 percent), Plastic products (14.24 percent), Cotton cloth (13.41 percent), Woollen cloth (13.27 percent), Household equipment (12.64 percent), Tailoring (12.06 percent) and Stationery (11.12 percent).

The items recording declines in their prices were Onions (43.53 percent), Pulse moong (14.66 percent), Besan (4.7 percent), Pulse gram (3.15 percent), Pulse masoor (2.34 percent), Fruits (1.30 percent) and Gram whole (1.14 percent).

7.3 Core Inflation

Core inflation is defined as Non Food and Non Energy (NFNE) inflation which is calculated by excluding the food group and energy items (Kerosene oil, petrol, diesel, CNG, electricity and natural gas) from the CPI basket. Core inflation continued to follow moderated trajectory due to containment of domestic demand and muted pass-through of higher food prices into core goods and services prices.

Core inflation for Urban and Rural recorded at 5.8 percent and 7.6 percent respectively during July-April FY2021 as compared to 7.8 percent and 8.7 percent during the same period last year. The YoY core inflation remained low as compared to the same months last year. The deceleration in core inflation was enabled by relative exchange rate stability and the presence of spare capacity which kept firms input costs from rising significantly. Table 7.3 shows the core inflation trend year-on-year basis.

Table 7.3: Core Inflation

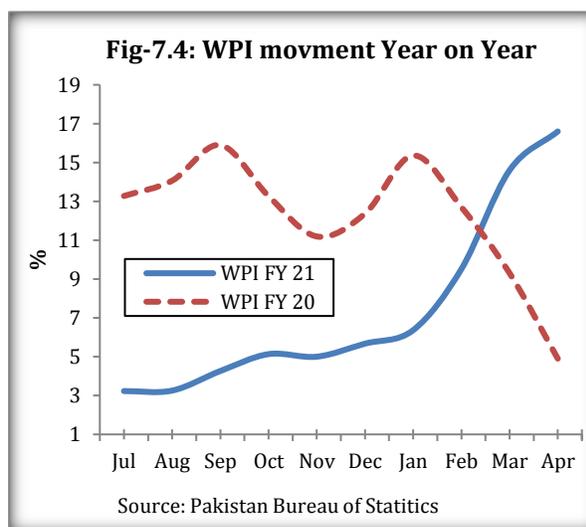
Months		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	Jul-Apr
2019-20	Urban	8.2	8.5	8.4	7.7	7.5	7.5	7.9	8.0	7.4	6.4	7.8
	Rural	7.8	8.8	8.8	8.6	8.4	8.1	9.0	9.4	9.4	8.5	8.7
2020-21	Urban	5.3	5.6	5.5	5.6	5.6	5.6	5.4	6.4	6.3	7.0	5.8
	Rural	7.8	7.6	7.8	7.6	7.4	7.7	7.8	7.7	7.3	7.7	7.6

Source: Pakistan Bureau of Statistics

7.4: Wholesale Price Index (WPI)

Wholesale prices of 419 items included in WPI are being collected from 19 cities. The items have been divided into five groups.

During the current Fiscal year, WPI is moving towards an upward trajectory since January 2021 while during the same months last year it followed a steep fall. The Year on Year (YoY) WPI for April 2021 is recorded at 16.6 percent against 14.6 percent in the previous month and 4.9 percent in the same month last year. The index on period average basis during July-April FY2021 has been recorded at 7.4 percent as against 12.2 percent during the same period last year.



Further categorization of the index into 5 constituent groups reveal the highest inflationary pressure in the metal products machinery & equipment recorded at 14.9 percent as against 14.0 percent during the same period July-April FY2020. The other transportable goods recorded a decline of 3.1 percent as against an increase of 5.5

percent the same period last year. The group-wise comparison is given in table 7.4 below.

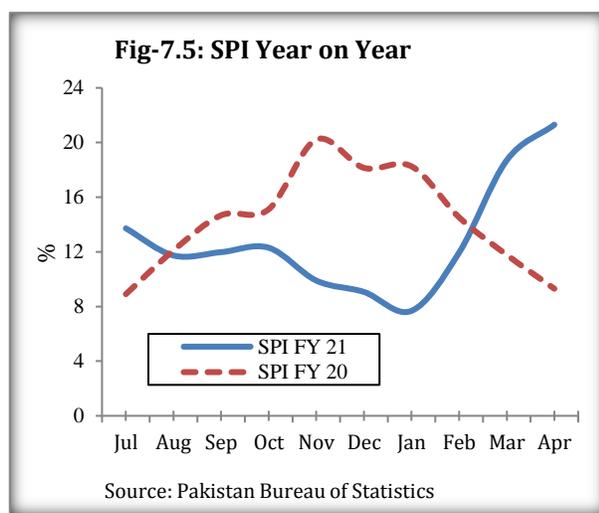
Commodity	Weights	July-April	
		2019-20	2020-21
General (WPI)	100.0	12.2	7.4
Agriculture Forestry & and Fishery	25.8	11.4	11.9
Ores & Minerals, Electricity Gas & Water	12.0	30.1	2.4
Food Products, Beverages and Tobacco, Textiles Apparel and Leather Products	31.1	10.6	12.8
i) Food Products and Beverages & Tobacco	20.1	12.9	15.7
ii) Textiles & Apparel	10.3	7.3	7.7
iii) Leather Products	0.7	5.0	5.9
Other Transportable Goods Except Metal Products, Machinery and Equipment	22.4	5.5	-3.1
Metal Products Machinery & Equipment	8.7	14.0	14.9

Source: Pakistan Bureau of Statistics

7.5: Sensitive Price Indicator (SPI)

Sensitive Price Indicator (SPI) is computed on weekly basis to assess the price movements of essential commodities at a shorter interval of time to review the price situation in the country. SPI comprises of 51 essential items and the prices are collected from 50 markets in 17 cities of the country.

The trend of this index is monitored regularly and immediate measures are taken to control fluctuation in prices. The SPI year-on-year basis in FY2021 remained volatile as presented in the graph.



The annualized increase in SPI during July-April FY2021 was recorded at 12.9 percent against 14.3 percent in the same period last year. Twenty nine (29) major food items including wheat, wheat flour, rice, tomatoes, onions, masoor pulse, moong pulse, mash pulse, chicken, sugar, red chilies etc. having a weight of 59 percent influenced SPI by (+) 11.5 percent.

Description	Units	Weights (Combined)	% Change Apr-21/ Apr-20	Contributions
Wheat Flour Bag	20 Kg	4.0	14.2	0.6
Rice Basmati Broken	1 Kg	1.3	11.5	0.1
Rice IRRI-6/9	1 Kg	0.2	11.7	0.0
Bread plain (Small Size)	Each	0.6	13.5	0.1
Beef with Bone	1 Kg	3.4	11.1	0.4
Mutton	1 Kg	2.4	12.6	0.3

Description	Units	Weights (Combined)	% Change Apr-21 / Apr-20	Contributions
Chicken	1 Kg	3.9	83.8	3.2
Milk fresh (Un-boiled)	1 Ltr	18.4	16.7	3.1
Curd (Dahi) Loose	1 Kg	1.8	15.5	0.3
Powdered Milk NIDO	390gm	0.4	4.4	0.0
Eggs	1 Doz	1.4	46.9	0.7
Mustard Oil	1 Kg	0.0	30.6	0.0
Cooking Oil Tin	5 litres	3.1	20.0	0.6
Vegetable Ghee Tin	2.5kg	1.5	19.4	0.3
Vegetable Ghee Pouch	1 kg	1.5	22.0	0.3
Bananas	1 Doz	0.9	23.4	0.2
Pulse Masoor	1 Kg	0.5	-8.7	0.0
Pulse Moong	1 Kg	0.5	-17.0	-0.1
Pulse Mash	1 Kg	0.3	6.6	0.0
Pulse Gram	1 Kg	0.5	-6.6	0.0
Potatoes	1 Kg	2.1	-5.6	-0.1
Onions	1 Kg	1.7	-41.0	-0.7
Tomatoes	1 Kg	1.4	43.1	0.6
Sugar	1 Kg	3.2	19.0	0.6
Gur	1 Kg	0.1	4.7	0.0
Salt Powdered	800gm	0.2	0.0	0.0
Chilies Powder	200 gm	0.8	139.6	1.2
Garlic	1 Kg	0.6	-39.1	-0.2
Tea Packet	190 gm	2.4	0.3	0.0
Total		59.0		11.5

Source: Pakistan Bureau of Statistics

7.6: Global Prices Trend

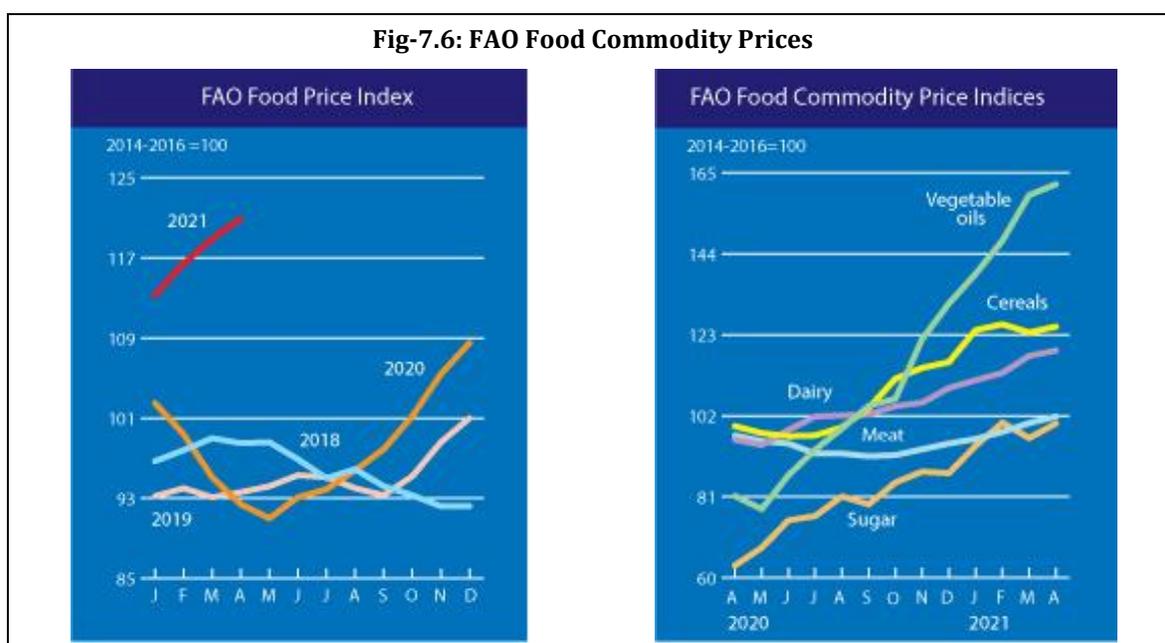
The emerging industrial markets greatly influence the price of oil, since they require more oil to support their economic growth and resulting rise in energy consumption which drive the prices upward in the market. Oil price rose to nearly \$64/bbl in April 2021 and has shown an increase by 51 percent since the start of FY2021 while the year on year showing an exorbitant increase of 178 percent.

Months	Sugar (\$/Mton)	Palm Oil (\$/Mton)	Soyabean oil (\$/Mton)	Crude oil (\$/Brl)	Wheat (\$/Mton)	Rice (\$/Mton)	Tea (\$/Mton)	DAP (\$/Mton)	Urea (\$/Mton)
Apr-20	230.0	609.0	680.0	23.3	221.7	543.7	2350.0	282.0	235.0
May-20	240.0	574.0	684.0	31.0	209.9	492.9	2510.0	263.0	201.9
Jun-20	270.0	652.0	752.0	39.9	200.5	494.1	2840.0	273.0	202.0
Jul-20	270.0	694.0	821.0	42.8	212.7	459.7	3030.0	305.0	214.4
Aug-20	290.0	760.0	867.0	44.3	208.9	480.9	3150.0	341.9	249.5
Sep-20	280.0	796.0	906.0	41.1	219.7	483.0	3080.0	358.4	250.5
Oct-20	300.0	819.0	915.0	40.5	245.2	454.5	3000.0	357.1	245.0
Nov-20	310.0	918.0	974.0	43.2	247.9	468.5	2800.0	359.6	245.0
Dec-20	310.0	1016.0	1026.0	49.9	251.2	496.6	2650.0	388.5	245.0
Jan-21	340.0	990.0	1101.0	54.6	276.4	517.8	2680.0	421.3	265.0
Feb-21	360.0	1017.0	1121.0	62.0	276.6	531.0	2580.0	528.9	335.0
Mar-21	340.0	1031.0	1170.0	65.2	272.6	504.1	2430.0	534.1	352.9
Apr-21	360.0	1075.0	1202.0	64.8	281.4	477.4	2640.0	543.4	328.1
% Change									
Apr-21/Apr-20	56.5	76.5	76.8	178.1	26.9	-12.2	12.3	92.7	39.6
Apr-21/Mar-21	5.9	4.3	2.7	-0.6	3.2	-5.3	8.6	1.7	-7.0
Apr-21/Jul-20	33.3	54.9	46.4	51.4	32.3	3.9	-12.9	78.2	53.0

Source: Commodities Price Pink Sheet, WB

The Palm oil and Soybean oil prices are recorded at \$1075/MT and \$1202/MT respectively in April 2021 showing an increase of 76.5 percent and 76.8 percent over April 2020. The Palm oil market lost ground from multi-month high in the light of new coronavirus-related restrictions in European countries. Malaysian palm oil futures traded around RM 4,000 per tonne, close to its highest level since March 15th amid tight edible oil supplies and despite concerns over falling demand in India due to a deepening coronavirus crisis.

FAO Food Price Index (FFPI) marking the eleventh consecutive monthly rise and reached to its highest level since May 2014. The rise was led by strong increases in the prices of sugar followed by oils, meat, dairy and cereals.



International palm oil and soyabean oil prices continued to rise in April, 2021 due to slower than expected production growth in major exporting countries. The April, 2021 rebound in international sugar price due to the slow harvest progress in Brazil, the world's largest sugar exporter.

Among major cereals, wheat prices were generally steady in April, 2021 however over 17 percent above than last year April 2020. In case of maize prices the expectations for better global production prospects kept prices generally stable while the international rice prices decreased in April, 2021 with persistent logistical constraints continuing to hinder fresh deals.

7.7 Way Forward

Globally, the inflation rate remained low during the pandemic but there is still upside risk going forward. With substantial money-supply expansion throughout major part of the world, low interest rates and fiscal stimulus are building up inflationary pressure. Moreover, La Nina may intensify agriculture risk to farmers around the globe, which may cause shortage of supply of various agriculture commodities.

In Pakistan, inflation rate remained low during the period July-April FY2021 as against the last year. Government is making efforts to bring down inflation by ensuring smooth supply of commodities, checking profiteering & hoarding and vigilant monitoring of prices both at Federal and Provincial levels. In order to maintain the sufficient supply of wheat and sugar in the market government intends to timely import the wheat and sugar to bridge the demand supply gap. The government is also taking measures to provide incentives to the farmers for increasing agriculture production. In this regard, government has already approved subsidy disbursement of Rs 19.2 billion for Kharif 2021 through provinces on sharing basis (75:25) for agriculture inputs. The government has also focused on medium and long term strategy for raising production of essential imported food items mainly edible oil and pulses. Thus, with these measures associated risks of price hike will be mitigated.
