Monthly Economic Update & Outlook

February2022

Government of Pakistan
Finance Division
Economic Adviser's Wing

Contents

Executive Summary

- Though the global economic recovery is underway but there is divergence in the pace of recovery across countries and regions. New COVID-19 infections, persistent labor market challenges, supply-chain constraints and rising inflationary pressures have impeded the global economic recovery. In January 2022, both energy and non-energy prices increased by 8.0 and 4.7 percent as compared to December 2021, respectively. On YoY basis, Prices are up 73.6 and 20.5 percent respectively, compared to January 2021. Among key groups, only fertilizers prices fell by 3.6 percent. Agriculture commodities rose 4.2 percent, metals & minerals 7.3 percent, while precious metals 1.7 percent.
- **Real Sector:** For Rabi season 2021-22, wheat crop has been sown on an estimated area of 22.2 million acres (97.7% of target). Although fertilizers off-take slightly declined but marked improvement in the seeds and pesticides along with expansion in agriculture credit make achieving wheat target highly probable. During H1 of FY 2022, LSM posted a growth of 7.4 percent as compared to 1.5 percent same period last year.
- **Fiscal, Monetary & External:** The fiscal deficit in Jul-DecFY2022 was recorded at 2.1 percent of GDP (Rs 1372 billion). The primary balance posted a surplus of Rs 81 billion (0.1% of GDP). During 1st July – 04th February, FY2022 money supply (M2) observed growth of 0.8 percent (Rs 193.0 billion) compared growth of 3.4 percent (Rs 710.6 billion) in last year. During Jul-Jan FY2022, the current account deficit was recorded at $ 11.6 billion.
- **Economic Outlook:** Although economic recovery is underway, the economy is also confronting from inflation and external sector pressure. The government is taking various policy, administrative and relief measures to counter the downside risks to the economy.
    - The average MoM inflation in the last two months has declined significantly. But in January 2022, international oil prices have accelerated again due to geo-political tensions. Also, international food prices are on rising trend. Due to these developments, MoM inflation may increase in February when compared to January. But on YoY basis inflation is expected to decelerate.
    - The MEI remains strong in December. This is based on observed favorable movements in macroeconomic high frequency indicators especially growth in LSM. The momentum in the economic dynamism observed in recent months is expected to have continued to support economic activity in January. Thus, the MEI is expected to remain strong in January.
    - According to BOP data, exports and imports of goods and services declined in January 2022. This was expected as both exports and imports are usually supported by strong positive seasonal effects in the months of December. In the month of January these seasonal effects typically largely disappeared. As a result, the trade balance in goods and services effected in January. The trade balance and the remittance inflows are expected to recover in the coming months. As a result, an improvement in the current account balance is foreseen.
    - In the fiscal sector the consolidation efforts remained on track. Despite significant pressure on the expenditure side, prudent spending and effective resource mobilization strategy remained in place for better fiscal outcomes.

Pakistan's economic performance continues to be strong. Its cyclical position is slightly above neutral and the trend growth rate of potential output remains robust. During the first 7 months of the current FY, output volume of LSM increased by 7.9 percent compared to the same period last year. At the same time, economy is confronting with inflation and external sector pressures. However, government is taking various measures to control the inflationary impact and curtailing non-essential imports to counter the downside risks to the economy.

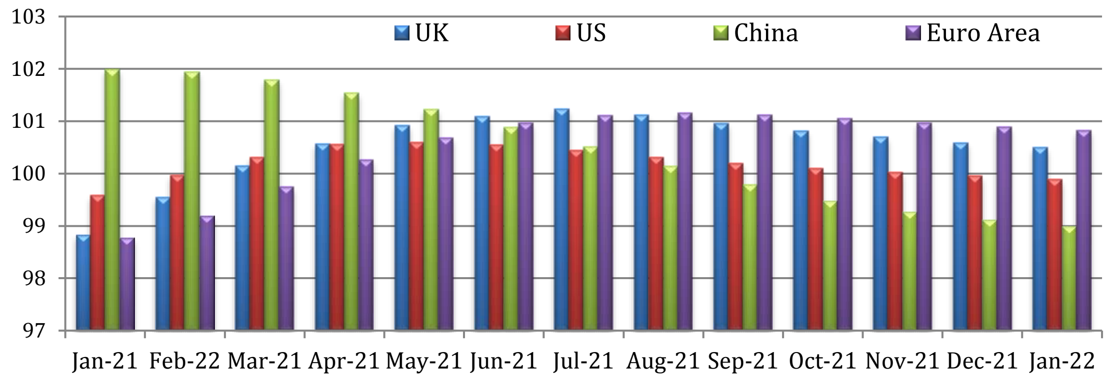
The recent invasion of Russia on Ukraine and the subsequent war has mounted geo-political tensions in the region with certain economic consequences.

1. International Performance and Outlook

New waves of COVID-19 infections, persistent labor market challenges, lingering supply-chain constraints and rising inflationary pressures have partially impeded the global economic recovery. After a global contraction of 3.1 percent in 2020 and following an expansion of 5.9 percent in 2021, the highest rate of growth in more than four decades, the global economy is projected to grow by 4.4 percent in 2022 and 3.8 percent in 2023. However, there is divergence in the pace of recovery across countries and regions.

Global economic recovery in 2021 was largely driven by robust consumer spending and moderate improvement in investment. Trade in goods bounced back, surpassing the pre-pandemic level. But growth momentum slowed considerably by the end of 2021 particularly in big economies like China, the Euro Areas and the United States, as the effects of fiscal and monetary stimuli dissipated, and major supply-chain disruptions emerged. Growth momentum generally has slowed in most of the transition economies. This also reflected through Composite Leading Indicators (CLI) compiled by OECD, available up to January 2022. The CLI position of Pakistan's main exports markets continuously on declining trend as evident from (Fig-1), of which China CLI value recorded at lowest in last 12 months.

Fig-1 Composite Leading Indicator



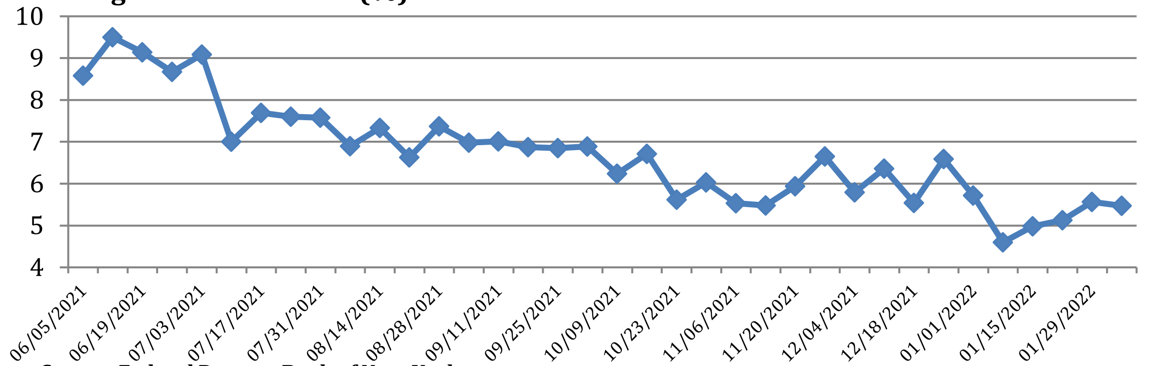
Source: OECD

Consumer prices in the US swelled 7.5 percent in January on YoY basis, more than the consensus estimate of 7.2 percent and the highest recorded since 1982.WhileMoM inflation remained 0.6 percent. Such conditions are likely to put additional pressure on the Federal Reserve and other central banks around the world to control inflation. The US economy is ticking along well, but inflation and the Fed's reaction are crucial downside risks to the outlook. It is forecasted that inflation will begin to moderate over the next quarter.

Market participants are now expecting a 50bps hike in the March monetary policy meeting, with the yield curve flattening as a result. Until this moment, Fed policymakers had largely resisted the idea of a half-point hike, which they have not used since May 2000.

However, on outlook side, it is expected that the U.S. economy growing more slowly in the first quarter, but strong GDP growth is expected in coming quarters, supported by a robust jobs recovery. This implies higher growth in the year with some volatilityin the beginning, as shown in Fig-2.

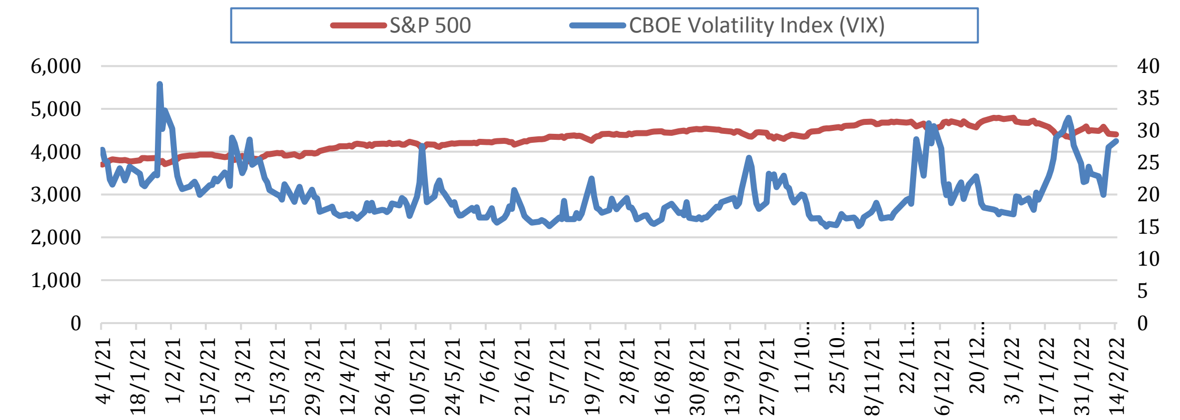
Fig-2: Growth in WEI (%)



Source: Federal Reserve Bank of New-York

In the US, S&P 500 index declining due to the ongoing geo-political tensions between Russia and Ukraine. The tensions are likely a contributing factor to rising oil prices. Recent data showed US inflation at its hottest level in decades, ratcheting up concerns that the Fed could begin hiking key interest rates more aggressively than many had anticipated. The Chicago Board Options Exchange (CBOE) Volatility Index which is commonly used as a measure of investors' uncertainty climbed to 28.3 as on 14th February 2021, showing panic among investors (Fig-3).

Fig-3: S&P 500 and the VIX index



Source: Investing.com

The global economy expanded for a nineteenth straight month in January, according to the JP Morgan Global PM (compiled by IHS Markit), although the rate of expansion slowed to an 18-month low amid rising COVID-19 infections.

Both manufacturing and services sectors remained in expansion but rates of growth slowed markedly, each recording the smallest monthly improvements since July 2020. A broad tightening of official measures to restrict the spread of the virus had been reflected via an increase in IHS Markit's Global COVID-19 Containment Index for a second month in January.

In particular, consumer services activity had been hard hit by the COVID-19 Omicron variant's disruption. Detailed sector data revealed that the tourism and recreation sector reported the steepest downturn. Another factor from Omicron disruptions towards materials and staffs have led to intensifying price pressures, creating uncertainties for the economic growth outlook amid heightened impetus for policy tightening.

For January 2022, global commodity prices showed that both energy and non-energy prices soared, rising 8.0 and 4.7 percent, respectively. Prices are up 73.6 and

20.5percent respectively, compared to January 2021. Of the key subgroups, only fertilizers prices fell by 3.6 percent. Agriculture commodities rose 4.2 percent, metals & minerals 7.3 percent, while precious metals 1.7 percent.

2. Monthly Performance of Pakistan's Economy

Economy of Pakistan has achieved a significant growth of 5.6 percent in FY 2021 which is also laid foundation for higher and inclusive growth in outgoing fiscal year. Thus, it is expected that economy will grow around the target of 4.8 percent in FY 2022.

2.1Real Sector

2.1-a Agriculture

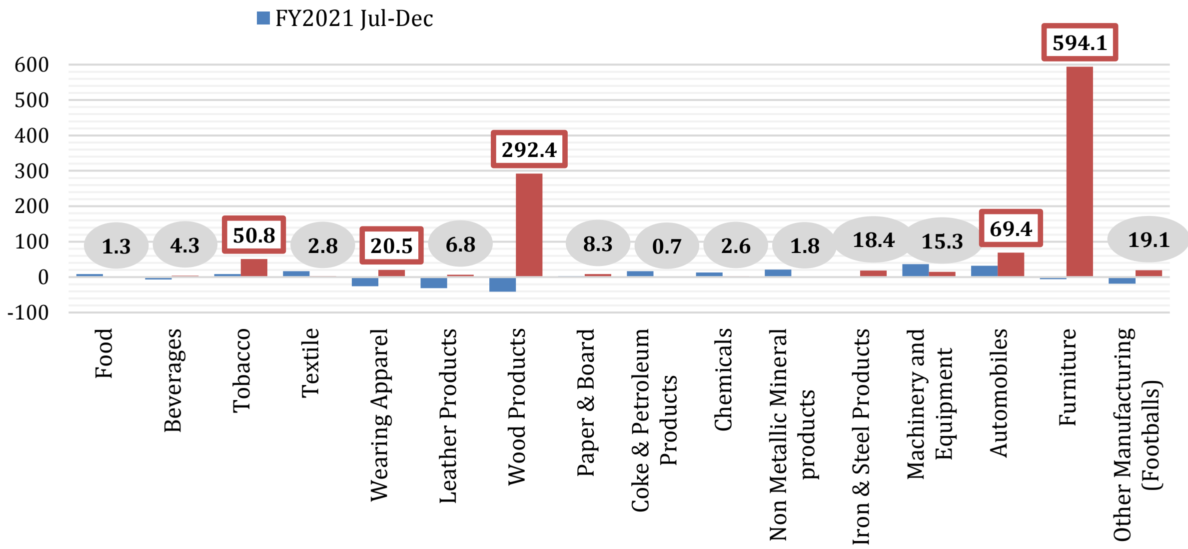
For Rabi season 2021-22, wheat crop has been sown on an estimated area of 22.2 million acres. The improved input situation especially seeds & pesticides along with amplified agriculture credit disbursement will pave way to meet production target of 28.9 million tonnes. The net increase in expansionary factors may offset downside risks in achieving desired yield to meet the target.

During Jul-Jan FY2022, the agriculture credit disbursement rose by 3.4 percent to Rs 740.3 billion (Rs 715.6 billion same period last year). The farm tractors production increased by 20.5 percent to 32,585 and its sales jumped to 16.0 percent to 31,445 compared to Jul-Jan FY2021. The urea off-take recorded at 2,284 thousand tonnes, while DAP offtake at 792 thousand tonnes during Rabi 2021-22 (Oct-Jan).

2.1-b Manufacturing

In the first half of FY 2022, LSM gained the growth momentum of 7.4 percent with the outstanding performance in sub-sectors especially, Furniture, Wood Products, Automobile, Tobacco, Wearing Apparel, against the growth of 1.5 percent same period last year. On YoY basis, LSM growth clocked at 6.4 percent in December 2021 and 10.5 percent, on MoM basis. During the period, 16 out of 22 subsectors of LSM have witnessed positive growth.

Fig-4: Performance of sub-sectors of LSM (%)



Source: PBS

During Jul-Jan FY 2022, Car production and sale increased by 65.6 percent and 61.5 percent, respectively. Trucks & Buses production and sale increased by 81.3 percent and 66.2 percent and tractor production and sale increased by 20.5 percent and 16.0

percent, respectively.

In January 2022, total cement dispatches reached to 3.9MMt (4.7 MMt in January 2021) mainly due to low construction and transportation activities owing to harsh weather. During Jul-Jan FY2022, total cement dispatches in the country recorded at 31.4 MMt (33.4 MMt last year).

In January 2022, oil sales clocked in at 1.8 million tons, up 19 percent on YoY basis and 20 percent on MoM basis. Total Oil sales increased by 14.5 percent to 13.0 million tonnes during Jul-Jan FY2022 (11.3 million tonnes last year).

2.2 Inflation

CPI inflation during Jul-Jan recorded at 10.3 percent against 8.2 percent during the same period last year. CPI for January 2022 recorded at 12.96 percent on YoY basis against 5.65 percent same month last year. On MoM basis it recorded at 0.4 percent. Urban Food inflation declined by 0.8 percent while Rural Food inflation recorded at 0.4 percent. Non-food inflation stood at 0.6and 1.4 percent for Urban and Rural respectively.

The overall spike in CPI is due to increase in the prices of imported items especially crude oil, being traded at near seven-years high due to limited production and high demand during post-pandemic recovery.

SPI which monitors the price movement of 51 essential items recorded an increase of 0.22 percent for the week ended on February 17, 2022. The prices of 28 items increased, while 11 items decreased and prices of 12 items remained stable.

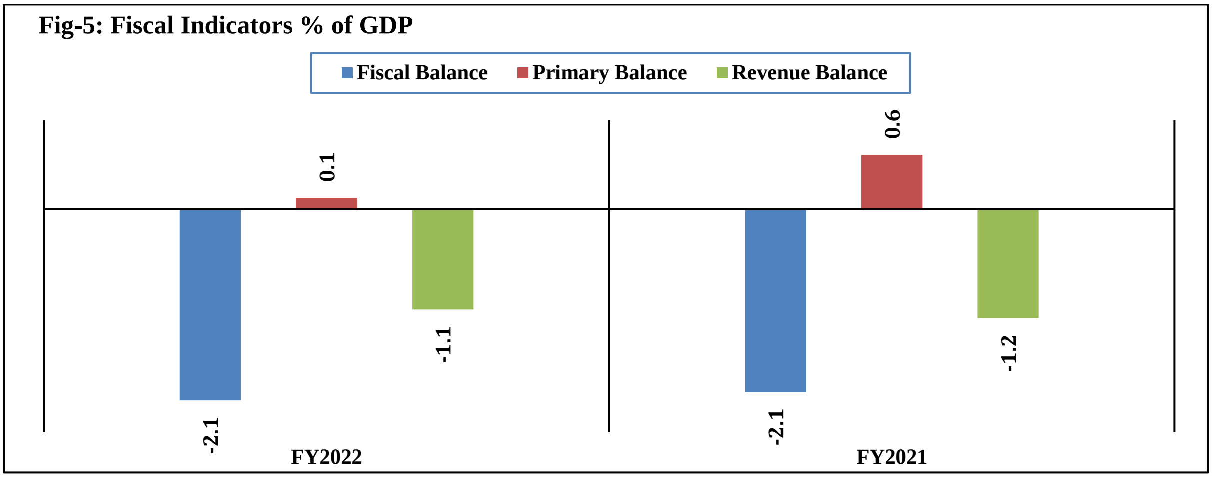
Table-1	International Prices		
Months	**Sugar ($/MT)**	**Wheat ($/MT)**	**Crude Oil ($/Brl)**
Jan-21	340	276.4	54.6
Jan-22	400	332.1	85.5
% Change	17.6	20.2	56.6
Source: Pink sheet (World Bank)			

Domestic Prices in Pakistan				
Months	**Sugar Refined (Rs/Kg)**	**Wheat Flour (Rs/20Kg)**	**Petrol (Rs/Liter)**	**Hi-Speed Diesel (Rs/Liter)**
Jan-21	91.3	947.8	108.5	112.7
Jan-22	92.2	1164.8	147.1	143.9
% Change	1.0	22.9	35.5	27.7
Source: PBS				

The above comparative analysis suggests that the Government of Pakistan sustained pressure to provide relief and full inflationary pressure was not passed on to the domestic consumers proportionately.

2.3. Fiscal

Fiscal deficit is contained at 2.1 percent of GDP during the H1 of current fiscal year. The primary balance, on the other hand, remained in surplus of Rs 81.1 billion during Jul-Dec FY2022, compared to Rs 337.2 billion in the previous year.

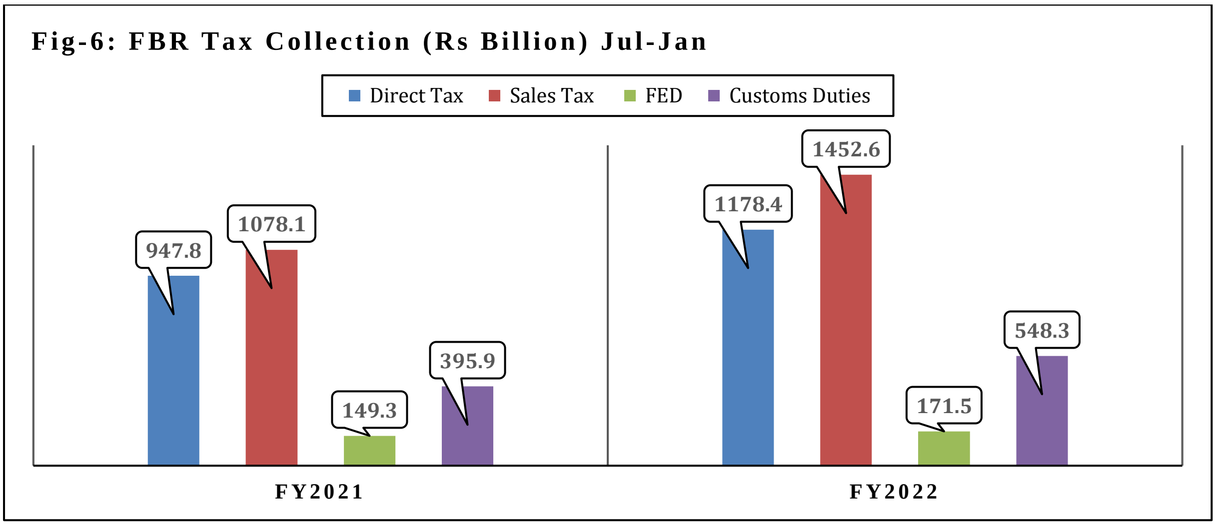


During Jul-Dec, FY2022, total revenue grew by 18 percent to Rs 3,956 billion against Rs 3351 billion in the same period last year. The rise in revenue was entirely driven by double-digit growth in tax revenue (30 percent), which more than compensated for the drop in non-tax revenues (-14.6 percent). The decline in non-tax revenues is particularly owed to a sharp reduction in receipts from the petroleum levy as the petroleum levy rate was reduced during the current fiscal year to provide relief to the common man from rising international oil prices.

On the expenditure side, total expenditure increased by 18.7 percent to Rs 5,327.8 billion during Jul-Dec FY2022 against Rs 4,489.1 billion in the comparable period of last year. Within the total, federal current spending grew by 19.4 percent on the back of COVID-19 grants i.e., Rs196.3 billion, IPPs Circular debt settlement of Rs135 billion and social sector spending of Rs 69 billion. On the other hand, total development expenditures grew by 37 percent during Jul-Dec FY2022 over the previous year.

FBR Tax Collection

During the first seven months of the current fiscal year, FBR exceeded its revenue target by 8.5 percent. In absolute terms, revenue amounting to Rs3,350.8 billion was collected against the target of Rs3,089.7 billion, which is Rs261.1 billion more than the seven-month target. Collection during Jul-Jan FY2022 is also higher by Rs 779.7 billion in absolute and by 30.3 percent as compared to last year. Domestic tax collection grew by 28.8 percent during Jul-Jan FY2022. Within domestic, direct tax grew by 24.3 percent, sale tax 34.7 percent, FED 14.9 percent whereas customs duty increased by 38.5 percent.



Box Item-I: Automated Currency Declaration System

To achieve the goal of documentation of economy and to bring more transparency in the economic transactions, documentation of flow of foreign currency in and out of the country is pivotal. FBR has launched 'Automated Currency Declaration System' to achieve this goal and to facilitate the taxpayers and the passengers flying in and out of the country.

In the past, Currency Declarations (CDs) were obtained randomly from the passengers coming in or going out of the country. CDs were manually secured in shape of hard copies and then entered into the System manually in batches. For millions of passengers coming in and going out from the country, it was an uphill task. Since the current CDs was not working to achieve the goal of complete documentation of foreign currency movement, a new system was envisaged by FBR.

This digital system has been developed with the assistance of NADRA and FIA and will now be deployed at all International Airports, starting from Islamabad International Airport. The new system will be a hassle free and time saving, one stop solution for all incoming and outgoing passengers.

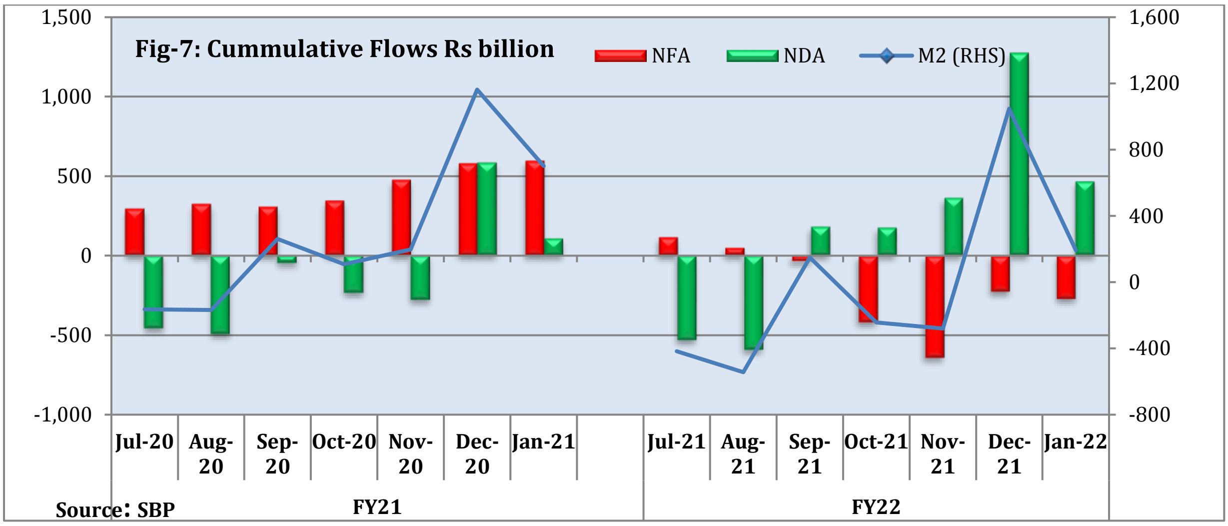
Source: FBR

2.4. Monetary

During 1st July – 04th February, FY 2022 money supply (M2) observed growth of 0.8 percent (Rs 193.0 billion) compared growth of 3.4 percent (Rs 710.6 billion) in last year. Within M2, Net Foreign Assets (NFA) decreased by Rs 272.4 billion as compared to an increase of Rs 579.8 billion in last year. NDA of the banking sector increased by Rs 465.4 billion as compared Rs 130.8 billion last year.

Under the borrowing for budgetary support, government has retired Rs 56.7 billion against the borrowing of Rs 277.3 billion last year. Government has retired Rs 546.7 billion to SBP against the retirement of Rs 598.6 billion in last year. Government has borrowed Rs 490.0 billion from Scheduled banks against the borrowing of Rs 875.9 billion last year. Under the head of net government borrowing, government has retired Rs 106.2 billion as compared to the borrowing of Rs 162.4 billion over the previous year.

Private Sector has borrowed Rs 797.0 billion as compared Rs 315.1 billion in last year. Within private sector credit, working capital loans observed expansion of Rs 462.6 billion as compared Rs 32.6 billion in last year. On the other hand, fixed investment loans increased by Rs 217.1 billion as compared Rs 116.1 billion during same period last year. Manufacturing sector availed highest credit share, increased to Rs 632.1 billion against Rs 83.1 billion during same period last year. Within manufacturing, textile sector loans observed expansion of Rs 311.6 billion against Rs 37.7 billion in last year. Other sectors include construction, transport & storage, information and communication, wholesale and retail trade, repair of motor vehicles and motorcycles and real estate activities availed higher credit compared last year. The unprecedented expansion in private sector credit especially in manufacturing sector ensures persistence in economic and business activities, which augers well to achieve the targeted growth.



2.5External Sector

The Current Account posted a deficit of $ 11.6 billion for Jul-Jan FY2022 as against a surplus of $ 1.0 billion last year. Current account deficit widened due to constantly growing import volume of energy and non-energy commodities, along with a rising trend in the global prices of oil, COVID-19 vaccines, food and metals. Exports on fob grew by 27.4 percent during Jul-Jan FY2022 and reached $ 17.7 billion ($ 13.9 billion last year). Imports on fob grew by 55.1 percent during Jul-Jan FY2022 and reached $ 42.8 billion ($ 27.6 billion last year). Resultantly the trade deficit (Jul-Jan FY2022) reached to $ 25.1billion as against $ 13.7 billion last year.

As per PBS, during Jul-Jan, FY 2022, exports increased by 24.5 percent to $ 17.7 billion ($ 14.2 billion last year). The exports grew by 22.1 percent in January 2022 to $ 2.6 billion as against $ 2.1 billion last year. The major export commodities which have shown tremendous performance during the review period include Readymade garments (21.9 percent in value & 20.8 percent), Bed wear (19.2 percent in value & 17.0 percent in quantity), Cotton Yarn (41.4 percent in value and quantity declined by 2.9 percent), Cotton Cloth (24.4 percent in value & 13.4 percent in quantity), Knitwear (32.8 percent in value despite decline of 7.9 percent in quantity), Chemical &Pharma products (27.1 percent in value), leather manufactured (9.0 percent in value) and Basmati rice (28.6 percent in value & 41.0 percent in quantity). The increase in overall exports is contributed by the growth in exports of value-added goods with almost 40 percent share in total exports.

The total imports (PBS) Jul-Jan, FY2022 increased to $ 46.6 billion ($ 29.3 billion last year), thus posted a growth of 59.3 percent. Main commodities imported were Petroleum products, Palm Oil, Petroleum crude, Iron & Steel, Liquefied Natural gas, Medicinal products, Plastic materials, Textile machinery, Electrical machinery & apparatus, Power generating machinery and Raw cotton. Higher imports of these commodities indicate growth in the related sectors as well.

2.5.1 Foreign Investment

In Jul-Jan, FDI reached $ 1,166.6 million ($ 1,048.0 million last year) increased by 11.3 percent. FDI received from China $ 360.4 million (30.9 percent of total FDI), United States $ 168.9 million (14.5 percent), Hong Kong $ 123.6 million (10.6 percent), Netherlands $82.3 million (7.1 percent), and U.A.E $ 73.1 million (6.3 percent). Power sector attracted highest FDI of $ 406.8 million (34.9 percent of total FDI), Financial business $ 230.6 million (19.8 percent), Communication $ 174.9 million (15.0 percent) and Oil & Gas exploration $ 161.8 million (13.9 percent).

Foreign Private Portfolio Investment has registered a net outflow of $ 307.6 million during Jul-Jan FY2022. Foreign Public Portfolio Investment recorded a net inflow of $ 958.3 million. In January 2022, an inflow of $ 1.0 billion was recorded on account of proceeds of the Pakistan International sukuk bond. The total foreign portfolio investment recorded an inflow of $ 650.7 million during Jul-Jan FY2022 as against outflow of $ 389.0 million last year. The total foreign investment registered an inflow of $ 1,817.3 million during the period under review.

2.5.2 Worker's Remittances

In Jul-Jan FY2022, workers' remittances reached $ 18.0 billion ($ 16.5 billion last year), increased by 9.1 percent. Workers' remittances continued their unprecedented streak of above $ 2.0 billion for the 20th consecutive month in January 2022. Share of remittances (Jul-Jan FY2022) from Saudi Arabia remained 25.5 percent ($ 4,574.0 million), U.A.E 18.8 percent ($ 3,382.2 million), U.K 13.7 percent ($ 2,467.1 million), USA 9.5 percent ($ 1,701.7 million), other GCC countries 11.5 percent ($ 2,061.1 million), EU 11.1 percent ($ 1,987.4 million), Malaysia 0.5 percent ($ 82.2 million), and other countries 9.4percent.

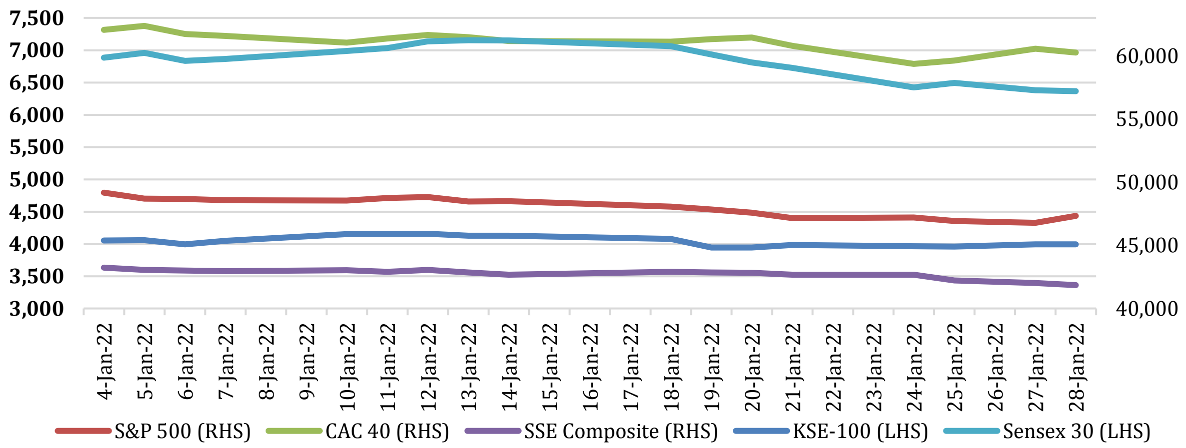
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves recorded at $23.0billion on February232022, with the SBP's reserves now stood at $16.6 billion, commercial banks' reserves remained at $6.4 billion.

2.6 Performance of KSE Index

The KSE-100 index hovered around 45,000 in January 2022 and closed at 45,375 points on 31st January, gained 780 points in the month. Similarly, market capitalization gained Rs 71 billion in January 2022 and closed at Rs 7,756 billion. The trend of major world indices is depicted in Fig-8:

Fig-8: Major World Indices



Source: PSX, Investing.com

2.7 Social Sector

- Ehsaas Kafaalat is an unconditional cash transfer programme which includes cash stipends for 8 million poor women across the country. The government has increased financial assistance for the poor under this programme from Rs 12,000 to Rs 13,000 as a six-monthly stipend amount.

- 19 million applicants have been registered for the 'Ehsaas Rashan Riayat programme'. After the scrutiny, families declared eligible will be able to avail a subsidy of Rs. 1000/- month to buy flour, cooking oil/ghee and pulses from NBP's network of Kiryana retail shops and Utility stores.
- Under National Poverty Graduation Program, 76,507 livelihood productive assets worth Rs 4.60 billion have been transferred to the ultra-poor households till 31st January 2022.
- PPAF through its 24 Partner Organizations has disbursed 35,001 interest free loans amounting to Rs 1.26 billion during the month of January 2022. Since July 2019 till 31st January, 2022, a total of 1,722,509 interest free loans amounting to Rs 61.44 billion have been disbursed to the borrowers.
- Bureau of Emigration and Overseas Employment has registered 67908 emigrants during January 2022 for overseas employment in different countries.
- During January, 2022 Overseas Employment Corporation has registered 122 workers for employment in Korea.
- Bureau of Emigration & Overseas Employment ensured payment of an amount of more than Rs 44.5 million as death/disability compensation during the month of January, 2022.
- Under Kamyab Jawan Youth Entrepreneurship Scheme (PMKJ-YES), the government has disbursed Rs 31.5 billion till December, 2021 to the youth for businesses.
- Average number of new infections reported each day in Pakistan falls by more than 4,800 over the last 3 weeks. National Positivity rate recorded on 24th February 2022, is 2.7 percent.
- The government's commitment to effectively contain the spread of pandemic through efficient vaccination drive is evident from persistently falling positivity rate.
- Till 25thFebruary 2022, the total number of doses administered are recorded at 209.4 million with 124.3 million partially and 96.2 million fully vaccinated.
- As on 25th February 2022, numbers of confirmed covid-19 cases are reported at 1.5 million along with recoveries of 1.4 million and deaths of 30,139.

3. Economic Outlook

Although economic recovery is underway, the economy is also confronting with inflation and external sector pressure. The government is taking various policy, administrative and relief measures to counter the downside risks for the economy.

3.1Inflation

The average MoM inflation in the last two months (December 2021 – January 2022) has declined significantly compared to the period covering July - November 2021. The deceleration of the international oil prices and government policies designed to moderate the pass-through of international commodity prices into domestic retail prices have contributed to this moderation. But in January, international oil prices have accelerated again due to geo-political tensions. The international food prices were on the rise again, while both of these inflationary shocks were tempered somewhat by the strengthening of the Rupee exchange rate to the USD in January 2022. The continuous MoM Rupee depreciation since April 2021 came to an end in January. Due to these developments, inflation in February on YoY basis is expected to decelerate.

3.2 Agriculture

The inputs availability will remain satisfactory for Rabi 2021-22 crops based on improved seed availability, mechanization and credit disbursement. Thus, it is expected that in the absence of any adverse climate shock, the agriculture sector will perform better.

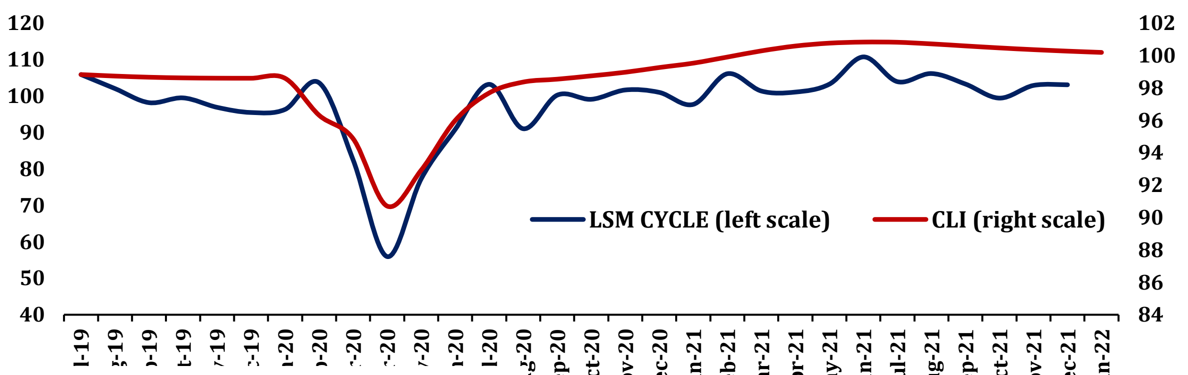
3.3 Industrial activity

The cyclical component of LSM, obtained by extracting the stochastic trend from the seasonally adjusted LSM series is significantly correlated with the weighted average Composite Leading Indicators in Pakistan's main export markets (CLI). The CLI of OECD member countries together with a number of non-member countries, such as China, are constructed by the OECD to reflect the deviation of current GDP from its potential level. The LSM index is published with two months, while CLI with one-month lag period. The LSM cycle is following the cyclical movements in the main trading partners, but since it is focused on the main industrial sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets (Fig-9).

Recently, Pakistan's main export markets experienced stable cyclical positions, indicating positive to neutral output gaps. The cyclical position of large-scale manufacturing industries in Pakistan remains above the neutral level, indicating that the output of these industries slightly exceeds their normal potential level. Apart from these cyclical stances, these economies show positive and healthy growth in their potential outputs.

In December, the MoM increase in LSM output reached 10.5 percent which was very close to expectations. It is highly probable that LSM production will continue to show healthy growth in January.

Fig-9: Relationship between CLI and LSMI Cycle



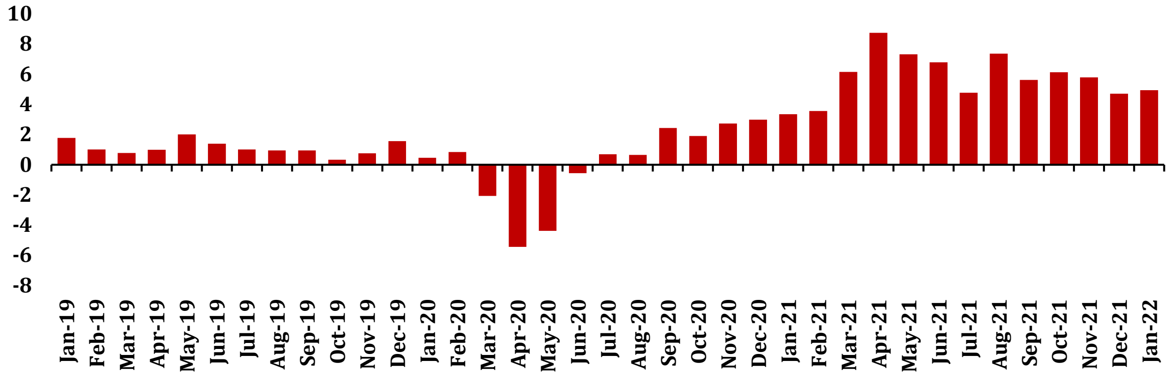
Source: PBS, OECD and EAW calculations

3.4 Overall economic activity

The Monthly Economic Indicator (MEI) is based on combining monthly data of indicators which are highly correlated with GDP at constant prices. Fig-10 presents the MEI on monthly basis since January 2019. It should be noted that some of the data pertaining to January MEI is still provisional and may be revised next month.

The MEI remains strong as evident from favorable movements in macroeconomic high frequency indicators such as growth in LSM (which is known to exert strong multiplier effects in services sectors), strong potential economic growth in Pakistan's main trading partners and growth in imports. The momentum in the economic dynamism observed in recent months is expected to continue supporting economic activity in January. The average MEI for the first 7 months of the current FY indicates more than 5 percent average economic growth during this period.

Fig-10: Monthly Economic Indicator (MEI) Growth (percent)



Source: EAW's Calculation

3.5. External

Exports and imports are usually supported by strong positive seasonal effects in the months of December. In the month of January these seasonal effects largely disappear. Accordingly, even after adjusting seasonal factor, the exports declined marginally more than expectation in January 2022, which resulted in a deficit in trade balance.

Remittance inflows also declined in January, largely due to a negative seasonality that is typically observed in January. In sum, the declines in net exports and remittances caused the current account balance to worsen in January.

In the current baseline scenario, the decline in export proceeds in January is considered to be an idiosyncratic event that would not be repeated in the next months. The trade balance and the remittance inflows are expected to recover in the coming months. As a result, an improvement in the current account balance is foreseen.

3.6. Fiscal

Despite significant pressure on the expenditure side due to COVID-19 grants, IPPs Circular debt settlement, social sector spending, better expenditure control and effective resource mobilization strategy remained in place for better fiscal outcomes. Furthermore, the cumulative surplus of all the four provinces was higher than the previous year. The fiscal deficit in terms of GDP thus contained at the same level of 2.1 percent as recorded last year, while the primary balance remained in surplus. The government will continue to follow the same strategy for the rest of the year in order to contain the fiscal deficit within manageable limits.

Moreover, on the revenue side, FBR has been able to achieve more than 57.5 percent of its annual target during the first seven months of the ongoing fiscal year, whereas the overall budget achievement for the first seven months during last year stood at 54.7 percent.

FBR has implemented a variety of initiatives both at the policy and operational level to increase the revenue potential through digitization, transparency and the taxpayer's facilitation. Consequently, it has also resulted in healthy and consistent growth in revenue collection. It is, therefore, expected that FBR tax collection would meet its target set for the current fiscal year.

4. Way Forward

Pakistan's economic performance continues to be strong. Its cyclical position is slightly above neutral and the trend growth rate of potential output remains strong. The rebased LSM quantum index reveals that during the first 7 months of the current FY, the output volume of large-scale manufacturing increased by 7.9 percent compared to the same period in the previous FY. This is a considerable upgrade from the increase recorded following the old base LSM index, which grew by 3.7 percent. Consequently, the overall economic growth during the first 7 months of the current FY is much better. All currently available information indicates that this economic dynamism will continue in the following months, in which case the Government's economic growth target for the whole year (around 5%) is likely to be realized.

International commodity prices remain at the upper levels of their current cycles. In these circumstances, it is difficult for domestic prices to start a downward adjustment. But if further MoM price increases can be contained, the YoY inflation, which is largely a backward-looking indicator, will automatically decelerate significantly.

High international commodity prices, together with the strong expansion of domestic economic activity keep the value of imports elevated. In the current baseline scenario, the decline in export proceeds in January is considered to be an idiosyncratic event that would not be repeated in the next months. In his baseline scenario, the trade balance and the remittance inflows are expected to recover in the coming months. As a result, an improvement in the current account balance is foreseen, but these developments need to be closely monitored due to changing global and regional environment.

Recent geopolitical tensions, in particular the Ukraine crisis, present a considerable risk factor to the otherwise positive outlook for Pakistan's economy. These tensions might further lift international oil and food prices, as well as other commodity prices outside and beyond their current cycles. The main question is about the potential strength and duration of this new inflationary factor. The main risk for the Pakistan economy is that these developments may further delay the downward correction in inflation and improvement in the current account balance.

Economic Indicators
(25-02-2022)

	2020-21 (Jul-Jan)	2021-22 (Jul-Jan)	Percent Change
External Sector			
Remittances ($ billion)	**16.5**	**18.0**	**↑9.1**
Exports FOB($ billion)	**13.9**	**17.7**	**↑27.4**
Imports FOB ($ billion)	**27.6**	**42.8**	**↑55.1**
Current Account Deficit ($ billion)	**-1.0**	**11.6**	**↑**
FDI ($ million)	**1048.0**	**1166.6**	**↑11.3**
Portfolio Investment-Public ($ million)	**-153.5**	**958.3**	**↑**
Total Foreign Investment ($ million) (FDI &Portfolio Investment)	**659.0**	**1817.3**	**↑**
Forex Reserves ($ billion)	**19.709 (SBP: 12.584) (Banks: 7.125)** (On 23rdFeb2021)	**22.993 (SBP: 16.586) (Banks: 6.407)** (On 23rd Feb 2022)	
Exchange rate (PKR/US$**)**	**158.89** (On 23rd Feb 2021)	**176.16** (On 23rd Feb 2022)	

Source: SBP

	2020-21 (Jul-Dec)	2021-22 (Jul-Dec)	percent Change
Fiscal			**(Rs Billion)**
FBR Revenue (Jul-Jan)	**2571**	**3351**	**↑30.3**
Non-Tax Revenue	**895.3**	**764.9**	**↓14.6**
PSDP (Authorization) (Jul-Jan)	**476.6**	**566.3**	**↑18.8**
Fiscal Deficit	**1138**	**1371**	**↑**
Primary Balance	**337**	**81**	**↓**

Source: FBR & Budget Wing

	2020-21 (Jul-Jan)	2021-22 (Jul-Jan)	percent Change
Monetary Sector			
Agriculture Credit (provisional)	**715.6**	**740.3**	**↑3.4**
Credit to private sector (Flows)	**315.1** (1st Jul to 05thFeb)	**797.0** (1st Jul to04thFeb)	↑
Growth in M2 (percent)	**3.4** (1st Jul to 05th Feb)	**0.8** (1st Jul to 04th Feb)	
Policy Rate (percent)	**7.00** (22-Jan-2021)	**9.75** (24-Jan-2022)	

Source: SBP

	2020-21	2021-22	percent Change
Inflation			
CPI (National) (percent)	**5.7** (Jan)	**13.0** (Jan)	
	8.2 (Jul-Jan)	**10.3** (Jul-Jan)	
Real Sector			
Large Scale Manufacturing (LSM) (percent)	**8.2** (Dec)	**6.4** (Dec)	
	1.5 (Jul-Dec)	**7.4** (Jul-Dec)	
Miscellaneous			
PSX Index*	**47801** (On 1st Jul 2021)	**45132** (On 23rd Feb 2022)	**↓5.58**
Market Capitalization (Rs trillion)	**8.38** (On 1st Jul 2021)	**7.70** (On 23rd Feb 2022)	**↓8.11**
Market Capitalization ($ billion)	**53.22** (On 1st Jul 2021)	**43.73** (On 23rd Feb 2022)	**↓17.83**
Incorporation of Companies (Jul-Jan)	**14423**	**15229**	**↑5.59**

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP