# Monthly Economic Update & Outlook

## June 2022

Government of Pakistan
Finance Division
Economic Adviser's Wing

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## Executive Summary

- The global economy is confronting with slower economic growth and high inflationary pressures due to the Russia-Ukraine conflict and subsequent supply chain disruptions. The Fed raised its benchmark interest rate by 0.75 percent in its most aggressive hike since 1994 due to the persistently high inflation. Global commodity prices showed mixed trend in the month of May, 2022. Energy prices increased by 5 percent, led by crude oil (6.5%) and US natural gas (24.6%). Non-energy prices declined by 4.6 percent, while agriculture prices eased 0.4 percent. Fertilizer prices plunged 12.5 percent, led by urea (-23.5%). Metal prices dropped 11.3 percent in May and precious metal prices dropped 5.5 percent.
- **Real Sector:** The sowing of Kharif crops 2022 is underway and is expected to remain satisfactory. The input situation is comfortable due to better supply of improved seeds, agriculture credit, fertilizers, and insecticides/pesticides. Furthermore, recent incentives to agriculture sector in budget FY2023 will boost the agriculture sector productivity. During Jul-Apr FY2022, LSM posted a growth of 10.7 percent as compared to 8.5 percent same period last year.
- **Fiscal, Monetary & External:** The fiscal deficit in Jul-Apr FY2022 was recorded at 4.9 percent of GDP. The primary balance posted a deficit of Rs 890 billion. During the period $1^{st}$ July – $03^{rd}$ June, FY2022 money supply (M2) witnessed growth of 8.4 percent (Rs 2,050.2 billion) as compared to growth of 9.8 percent (Rs 2,042.2 billion) in last year. During Jul-May FY2022, the current account deficit was recorded at $ 15.2 billion.
- **Economic Outlook:** Despite achieving the growth of 5.97 percent in FY2022, the underlying macroeconomic imbalances associated with domestic and international risks are making growth outlook indistinct.
  - The YoY inflation is on a rising trend since September 2021. This acceleration is expected to continue in June 2022 and may intensify due to steep increase in the energy prices. However, the government will continue to alleviate the burden from the poorest segment of the society by providing targeted subsidy.
  - The MEI remains strong in May 2022 mainly due to the continuing robust performance of LSM, which is known to exert significant multiplier effects on allied sectors of the economy, signaling strong growth.
  - For May 2022, both exports and imports plummeted on MoM basis. For June 2022, exports are expected to remain high as compared to May 2022. Due to the government's measure to curb the non-essential imports, it is expected that trade balance will improve in June 2022. On MoM basis, workers' remittances declined in May 2022 due to post Eid factor. In June 2022, remittances are expected to rebound. Taking these factors into account, the current account deficit will settle around $ 1.0 billion.
  - FBR tax collection has maintained its growth momentum by posting a 28.4 percent increase during first eleven months of CFY. However, with the measures to restrict imports in an effort to relieve external sector pressures, it seems difficult to achieved the tax collection target of Rs 6.0 trillion. In the wake of these challenges, FBR is making efforts to improve domestic tax collection.

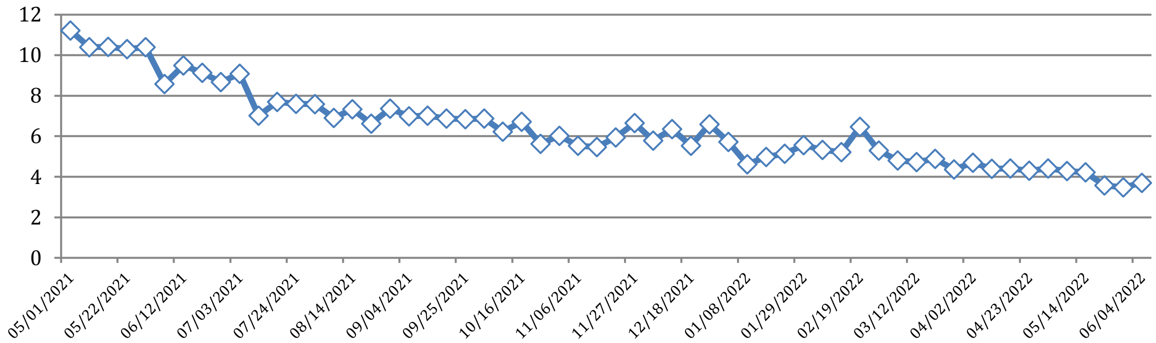
## 1. International Performance and Outlook

Just over two years after COVID-19 which caused the deepest global recession, the global economy is again in jeopardy. This time, it is facing high inflation and slow growth simultaneously. The stagflation may persist for the time being, a phenomenon not seen since 1970s. Between 2021 and 2024, global growth is projected to slow by 2.7 percentage points-more than twice the deceleration between 1976 and 1979. Subdued growth will likely persist throughout the decade because of weak investment in most of the world. Inflationary pressure may persist for longer than currently anticipated unless the supply chains are restored.

The expansion in US economy is slowing amid headwinds from Russia-Ukraine conflict, surging energy and food prices, reversal of stimulus programs, tighter monetary policy, and Chinese lockdowns. But the U.S. is not currently in a recession. U.S. payrolls averaged a monthly increase of nearly half a million in the first five months of 2022, the unemployment rate is a solid notch lower than at the end of 2021 due to significant industrial production. However, industries that surged during the pandemic like retail, e-commerce and housing are retrenching as consumer spending shifts from goods back to services.

Inflation has likely peaked on YoY terms and will stay well above the Fed's target through the end of 2022 as Russia-Ukraine conflict keeps food and energy prices elevated. The Federal Reserve raised its benchmark interest rates three-quarters of a percentage point in its most aggressive hike since 1994. The forecast for GDP also cut down to 1.7 percent for 2022 compared to previous projections of 2.8 percent. The impact of US economic uncertainty is reflected through low growth of 3.7 percent in WEI at the end of May, 2022 as compared to 8.6 percent during same period last year (Fig-1).

**Fig-1: Growth in WEI**



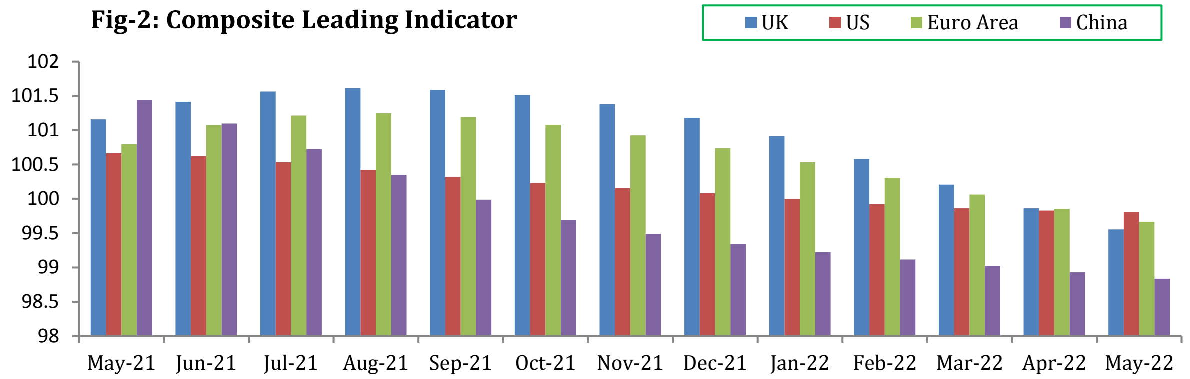

Source: Federal Reserve Bank of New-York

The global economy expanded for a 23rd straight month in May. According to the JPMorgan Global PMI, growth rate accelerated for the first time in three months as the lockdown-driven downturn in China showed signs of easing.

The rate of growth was nevertheless amongst the weakest so far after the pandemic recovery period as the downturns that have distressed the Chinese and Russian economies continued to weigh on global output. The downturn in China remained the main drag on global economic growth in May, 2022. Russia was the only other nation registering a downturn. The impact of China on the Global Composite Output Index was noticeable. Calculating the index excluding China observed its level at 54.3, slightly down from 55.3.

The subdued output situation of Pakistan's major trading partners is reflected in CLI which is available till May 2022. All economies have observed lowest value within last 12 month in May 2022.

Fig-2: Composite Leading Indicator




Source: OECD

Services sector activities continued to sustain overall global growth during May 2022 as indicated by PMI. Meanwhile manufacturing performance remained subdued, with global output falling for a second straight month, depressed primarily by falling Chinese production.

The month of May witnessed a mild improvement in the rate of expansion of incoming new business, with growth strengthening in both the manufacturing and service sectors.

Employment increased for the twenty-first consecutive month in May, with the rate of jobs growth matching the highest during the period. However, employment levels at service providers outpaced manufacturing employment. Employment increased in the US, Euro Area, Japan, Brazil and Australia. Inflationary pressure remained elevated during May. Rates of increase in input costs and output charges were both among the steepest in the survey history.

Global commodity prices surged in the month of May, 2022. Energy prices increased by 5 percent, led by crude oil (6.5%) and US natural gas (24.6%). Non-energy prices declined by 4.6 percent, while agriculture prices eased 0.4 percent. Food prices as a group were fairly steady, with a 2.7 percent increase in grains partly offsetting a 1.5 percent decline in oil & meals. Fertilizer prices plunged 12.5 percent, led by urea (-23.5%). Metal prices dropped 11.3 percent in May, precious metal prices dropped 5.5 percent.

## 2. Monthly Performance of Pakistan's Economy

Confronting with macroeconomic imbalances, Pakistan's economy achieved 5.97 percent growth rate. The government has set the target for GDP growth at 5.0 percent in FY2023 on the back of 3.9, 5.9 and 5.1 percent growth in agriculture, industry and services sector respectively.

### 2.1 Real Sector

### 2.1-a Agriculture

The agriculture growth is targeted at 3.9 percent for FY2023 (Important crops: 3.5 percent, other crops 5.0 percent, cotton ginning 6.0 percent, livestock 3.7 percent, fishery 6.1 percent & forestry 4.5 percent). This target is mainly contingent upon revival of cotton and wheat production, consistent availability of water, certified seeds, fertilizers, pesticides and agriculture credit facilities. Revival of both these crops will not only support growth momentum but also ease out BoP pressure through lesser import requirements.

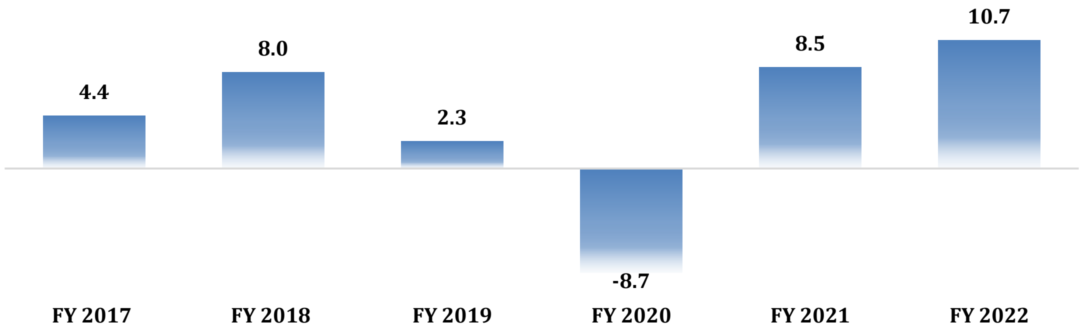
The weather condition along with smooth availability of water are vital components for achieving Kharif targets, while other important inputs are sufficiently available. During

Jul-May FY2022, farm tractors production reached 50,730 recording an increase of 13.2 percent and its sales increased by 11.9 percent compared to same period last year. During Jul-May FY2022, the agriculture credit disbursement increased by 2.3 percent to Rs 1,219.3 billion as compared to Rs 1,191.6 billion last year. During Kharif 2022 (April-May) urea off-take was 876 thousand tonnes showing an increase of 8.1 percent while DAP off-take stood at 190 thousand tonnes witnessed decline of 13.6 percent over the same period of previous year.

### 2.1-b Manufacturing

LSM continued to maintain the growth momentum and reached above pre-pandemic level with 10.7 percent growth during Jul-Apr FY2022, against 8.5 percent growth in the corresponding period last year. During the period, 18 out of 22 subsectors of LSM have witnessed growth. The outstanding performance was observed in Automobile, Wearing Apparel, Iron & Steel Products, Paper & Board, Furniture, Wood Products, and Sports products. On YoY LSM increased by 15.4 percent in April 2022 while on MoM basis, LSM diminished by 13.3 percent.

**Fig-3: LSM growth (%) Jul-Apr**




Source: PBS

During Jul-May FY2022, cars production and sales increased by 52.7 percent and 50.9 percent respectively. The trucks & buses production and sales increased by 56.7 percent and 49.9 percent and tractor production and sale increased by 13.2 percent and 11.9 percent, respectively.

In May, 2022 total cement dispatches declined by 15.9 percent to 3.32 mn tonnes (3.94 mn tonnes in May 2021). Domestic consumption slightly decreased by 1.6 percent to 3.15 mn tonnes against 3.2 mn tonnes same month last year while exports dropped 77.0 percent to 0.2 mn tonnes from 0.7 mn tonnes. During Jul-May FY2022, total cement dispatches in the country decreased by 8.8 percent to 47.6 mn tonnes (52.2 mn tonnes last year).

In May 2022, oil sales clocked in at 2.1 mn tonnes showing an increase of 28 percent against 1.6 mn tonnes last year. During Jul-May FY2022, total oil sales increased by 18 percent to 20.7 mn tonnes (17.5 mn tonnes last year).

### 2.2 Inflation

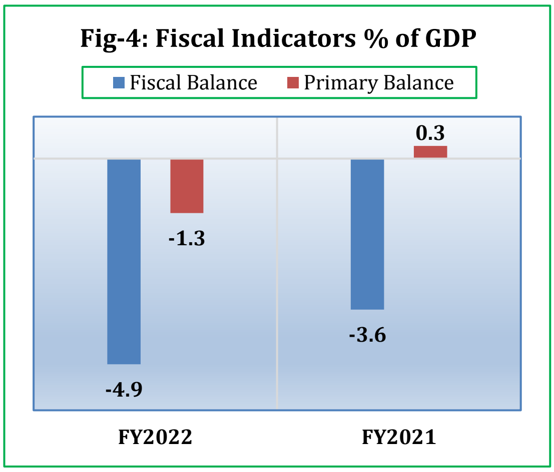
Headline inflation (CPI) in May FY2022 was recorded at 13.8 percent against 10.9 percent in the same month last year. During Jul-May FY2022, CPI was recorded at 11.3 percent compared to 8.8 percent in the same period last year. Escalating food prices, high transportation cost and rising fuel and energy prices remained major drivers of inflation. Supply constraints and soaring global commodity prices have also inflated the domestic prices.

Uncertain geopolitical situation due to Russia-Ukraine conflict has exacerbated the uncertainty and intensified the supply disruptions as observed by skyrocketing international commodity prices. Both countries have significant export share in the world trade especially in agriculture and energy products.

Pakistan being a net importer of energy and food items is also affected by rising international prices. However, government is providing relief to the poorest families through targeted subsidy to protect them against the inflationary brunt.

## 2.3 Fiscal

Major fiscal indicators deteriorated during the first ten months of FY2022. The overall fiscal deficit increased to 4.9 percent of GDP (Rs 3,275 billion) during Jul-Apr FY2022, up from 3.6 percent (Rs 2,020 billion) recorded in the same period of last year. The primary balance posted a deficit of Rs 890 billion (-1.3 percent of GDP) against the surplus of Rs 159 billion (0.3 percent of GDP) during the period under review.

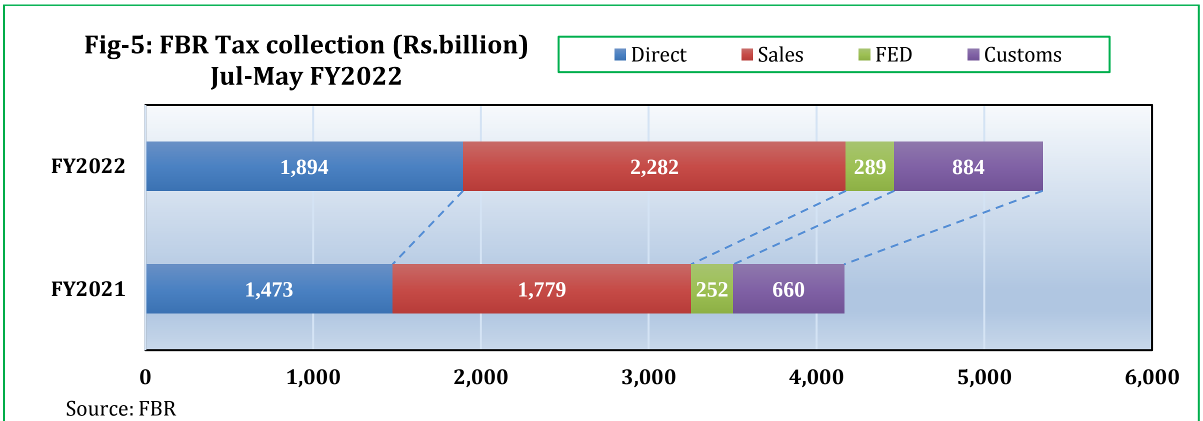



The deterioration has been triggered due to an increase in total expenditure with a higher pace relative to revenues. Total expenditure grew by 32 percent to reach Rs 6,857 billion in Jul-Apr FY2022 as compared to Rs 5,196 billion last year. Both current and development spending contributed to higher total spending. Especially, current expenditures registered a sharp acceleration of 33 percent mainly due to higher subsidies and grants.

During Jul-Apr FY2022, net federal revenues grew by 12 percent to Rs 3,104 billion against Rs 2,769 billion in the same period of last year. The increase largely stems from a 29 percent increase in tax revenues while receipts from non-tax on the other hand reduced by 12 percent.

### FBR Tax Collection

FBR has provisionally collected Rs 5,358.2 billion in Jul-May FY2022 against Rs 4,164.3 billion in the same period last year, representing a growth of 28.4 percent. In May 2022, the net collection was Rs 492.4 billion, a 27.4 percent increase over the Rs 386.6 billion in May 2021.




The domestic tax collection grew by 27.4 percent to Rs 4,464.4 billion during Jul-May FY2022 against Rs 3,504.6 billion in the comparable period last year. Within domestic tax collection, direct taxes increased by 28.5 percent, sales tax by 28.2 percent, and FED by

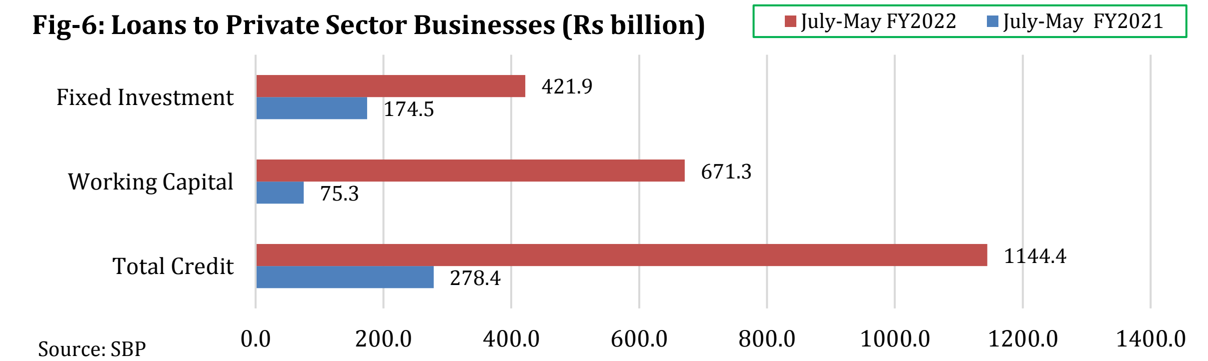
14.6 percent. Whereas customs duty posted a growth of 28.4 percent during the period under review.

## 2.4 Monetary

During the period 1st July – 03rd June, FY2022 money supply (M2) witnessed growth of 8.4 percent (Rs 2,050.2 billion) as compared growth of 9.8 percent (Rs 2,042.2 billion) last year. Within M2, Net Foreign Assets (NFA) decreased by Rs 1,706.6 billion as compared to an increase of Rs 1,014.2 billion last year. On the other hand, Net Domestic Assets (NDA) of the banking sector increased by Rs 3,756.8 billion as compared to Rs 1,027.9 billion last year.

Government has borrowed Rs 2,488.5 billion for budgetary support against the borrowing of Rs 868.4 billion last year. Private Sector has borrowed Rs 1,422.2 billion as compared Rs 448.1 billion last year.

**Fig-6: Loans to Private Sector Businesses (Rs billion)**




Source: SBP

## 2.5 External Sector

The Current Account posted a deficit of \$ 15.2 billion for Jul-May FY2022 as against a deficit of \$ 1.2 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 26.7 percent during Jul-May FY2022 and reached \$ 29.3 billion (\$ 23.1 billion last year). Imports on fob grew by 36.5 percent during Jul-May FY2022 and reached \$ 65.5 billion (\$ 47.9 billion last year). Resultantly the trade deficit (Jul-May FY2022) reached to \$ 36.1 billion as against \$ 24.8 billion last year.

As per PBS, during Jul-May FY2022, exports increased by 27.9 percent to \$ 28.9 billion (\$ 22.6 billion last year). The exports grew by 57.2 percent in May 2022 to \$ 2.6 billion as against \$ 1.7 billion last year. The major export commodities which have shown tremendous performance during the review period include Readymade garments (30.6 percent in value & 49.7 percent in quantity), Bed wear (21.7 percent in value & 15.2 percent in quantity), Cotton Yarn (24.2 percent in value and quantity declined by 11.1 percent), Cotton Cloth (30.3 percent in value & 8.4 percent in quantity), Knitwear (36.4 percent in value quantity declined by 4.3 percent), Chemical & pharma products (35.5 percent in value), leather manufactured (12.6 percent in value) and Basmati rice (24.7 percent in value & 25.2 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 in Jul-May, FY2022 increased to \$ 72.3 billion (\$ 50.0 billion last year), thus posted a growth of 44.5 percent. Main commodities imported were Petroleum products (\$10.0 billion), Medicinal products (\$ 3.9 billion), Petroleum crude (\$ 4.8 billion), Liquefied Natural Gas (\$ 4.3 billion), Palm Oil (\$ 3.4 billion), Plastic materials (\$ 2.8 billion) and Iron & Steel (\$ 2.6 billion). In addition, other commodities include; 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-May, FDI reached $ 1,596.8 million ($ 1,679.2 million last year) decreased by 4.9 percent. FDI from China stood at $ 373.1 million (23.4 percent of total FDI), United States $ 240.9 million (15.1 percent), Hong Kong $ 137.3 million (8.6 percent), Switzerland $ 132.0 million (8.3 percent) U.A.E $ 130.9 million (8.2 percent) and Singapore $ 104.9 million (6.6 percent). Power sector attracted highest FDI of $ 566.9 million (35.5 percent of total FDI), Financial business $ 373.4 million (23.4 percent), Oil & Gas exploration $ 187.9 million (11.8 percent) & Information Technology $ 135.4 million (8.5 percent).

Foreign Private Portfolio Investment has registered a net outflow of $ 377.6 million during Jul-May FY2022. Foreign Public Portfolio Investment recorded a net inflow of $ 367.0 million. The total foreign portfolio investment recorded an outflow of $ 10.5 million during Jul-May FY2022 as against inflow of $ 2,172.4 million last. Total foreign investment during Jul-May FY2022 reached $ 1,586.3 million ($ 3,851.6 million last year).

### 2.5.2 Worker's Remittances

In Jul-May FY2022, workers' remittances reached $ 28.4 billion ($ 26.7 billion last year), increased by 6.3 percent. Share of remittances (Jul-May FY2022) from Saudi Arabia remained 24.8 percent ($ 7,059.1 million), U.A.E 18.8 percent ($ 5,333.0 million), U.K 14.2 percent ($ 4,025.8 million), USA 9.8 percent ($ 2,789.9 million), other GCC countries 11.6 percent ($ 3,293.8 million), EU 10.8 percent ($ 3,073.0 million), Malaysia 0.5 percent ($ 132.0 million), and other countries 9.5 percent.

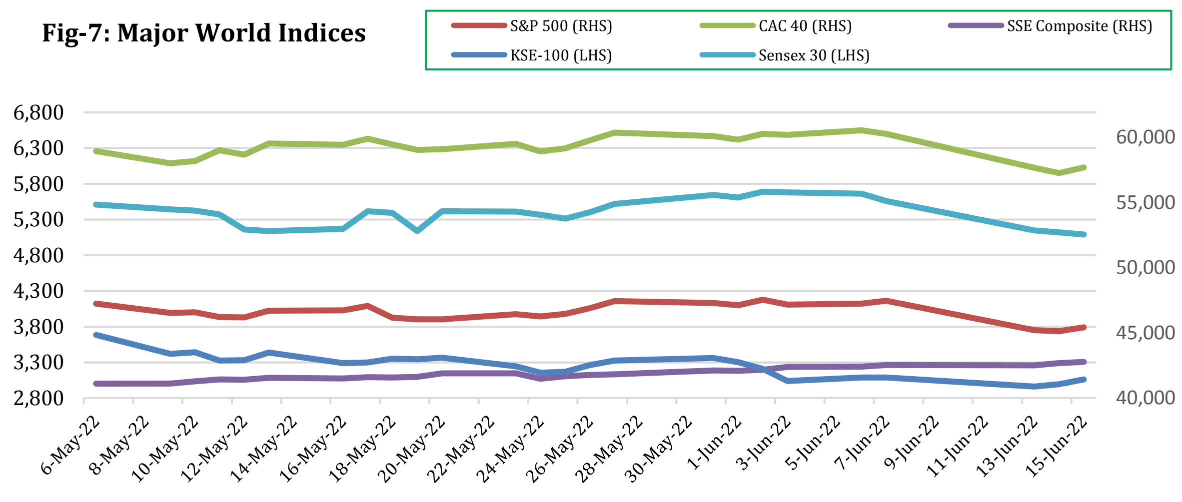
### 2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves stood at $ 16.1 billion on June 27, 2022, with the SBP's reserves recorded at $ 10.2 billion, while commercial banks' reserves remained at $ 5.9 billion.

## 2.6 Performance of KSE Index

The KSE-100 index closed at 43,078 points as on 31st May 2022 while market capitalization settled at Rs 7,136 billion. The trend of major world indices is depicted in Fig-7:

**Fig-7: Major World Indices**




Source: PSX, Investing.com

## 2.7 Social Sector

- The government has decided to pay Rs 2000/- per month as assistance to families having monthly income less than Rs 40,000 per month w.e.f. June, 2022 and the additional assistance is being provided to existing beneficiaries of BISP automatically.
- Now 60 million more people will be added to it who will be paid Rs 2,000 p.m. This financial assistance has been included in FY2023 budget.
- For FY2023, Budgetary allocation of BISP programmes has been increased to Rs 364 billion.
- Moreover, an amount of Rs 12 billion is allocated against subsidies for Utility Store Corporation.
- An additional amount of Rs 5 billion has been allocated as Ramzan Package.
- For FY2023, nine (09) million families will have access to Benazir Kafalat cash transfer programme facility under BISP for which an amount of Rs 266 billion has been allocated.
- Benazir Educational Scholarship Programme will be extended to 10 million students, for this purpose an amount of more than Rs 35 billion has been allocated.
- An additional 10,000 students will be provided Benazir under-graduate scholarship, for this purpose an amount of more than Rs 9 billion has been allocated.
- Benazir Nashonuma (Nutrition) Programme will be extended to all districts at an expenditure of around Rs 21.5 billion.
- In addition, Rs 6.0 billion have been allocated for poor and the needy under Pakistan Bait-ul-Mal.
- PPAF through its 24 Partner Organizations has disbursed 42,324 interest free loans amounting to Rs 1.7 billion during the month of May, 2022. Since inception of interest free loan component, a total of 1,890,809 interest free loans amounting to Rs 68.27 billion have been disbursed to the beneficiaries.
- Bureau of Emigration and Overseas Employment has registered 54,863 emigrants during May, 2022 for overseas employment in different countries.
- Under Kamyab Jawan Youth Entrepreneurship Scheme (PMKJ-YES) the government has disbursed Rs 44,972 million till April 2022 to the youth for businesses.
- An amount of Rs 24 billion has been allocated in budget FY2023, to provide better health services to people, control and eradicate viral diseases, provision of medical equipment, vaccination and enhancement in the capacity of health establishment.

## Economic Outlook

Despite achieving a real GDP growth of 5.97 percent in FY2022, the underlying macroeconomic imbalances and mounting international risks are depicting challenging outlook especially pertaining to external sector.

### 3.1 Inflation

Inflation in Pakistan is driven by both external and internal factors. International commodity prices, especially oil and food prices are the main external drivers. Furthermore, domestic supply chain and market expectations also play an important role to determine inflation. It is mentionable that YoY inflation has been rising since September 2021. This acceleration is expected to continue in June 2022.

The Government has withdrawn subsidies on fuel and energy products to control the mounting twin deficit. As a result, sharp increase in prices of all oil products is witnessed. Further, the recent rise in international commodity prices especially energy and food, will also be translated into domestic prices. The government will continue to alleviate the burden of the poorest segment of the society through various programs. In this scenario, YoY inflation is expected to accelerate in June and may remain within range of 14.5 -15.5 percent.

### 3.2 Agriculture

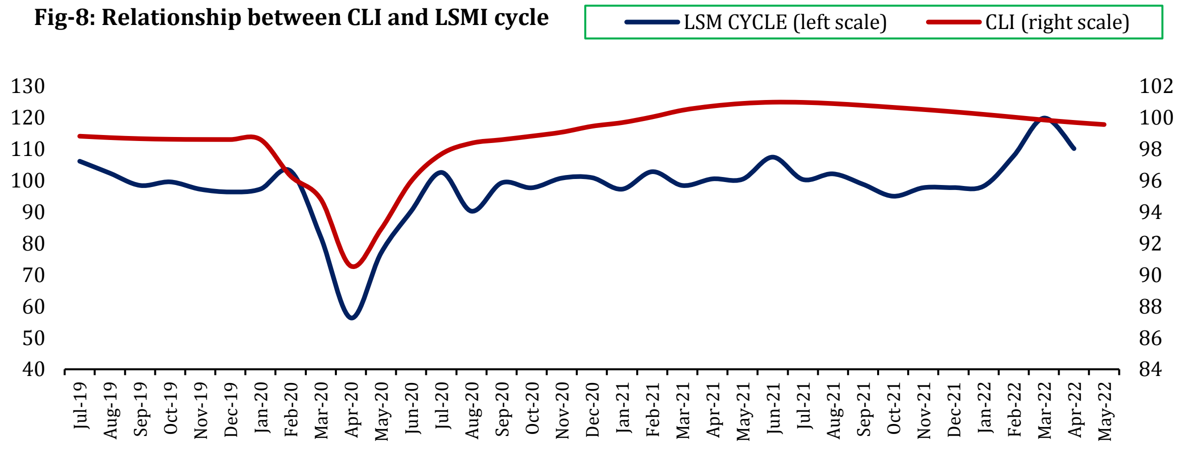
The input situation for Kharif 2022 is satisfactory and it is expected that the agriculture sector will continue to augur well on account of continued government support.

### 3.3 Industrial Activities

Industrial activity is vulnerable to external conditions as illustrated in Fig-8 which compares the cyclical component of LSM with the weighted average Composite Leading Indicators in Pakistan's main export markets (CLI). The CLI of some individual countries are constructed by the OECD to reflect the deviation of current GDP from its potential level. The cyclical component of Pakistan's LSM output is obtained by extracting the stochastic trend from the seasonally adjusted LSM series. LSM index is published with a time lag of two months, whereas CLI with a one-month lag. The LSM cycle is following the cyclical movements of the main trading partners.

As expected, LSM output contracted in April as compared to March. In fact, LSM activity remained strong both in terms of underlying trend growth as in its cyclical position. Nevertheless, LSM may contract in May as compared to April mainly due to strong negative seasonal effects. But on YoY basis, LSM is expected to show continued solid growth.

**Fig-8: Relationship between CLI and LSMI cycle**



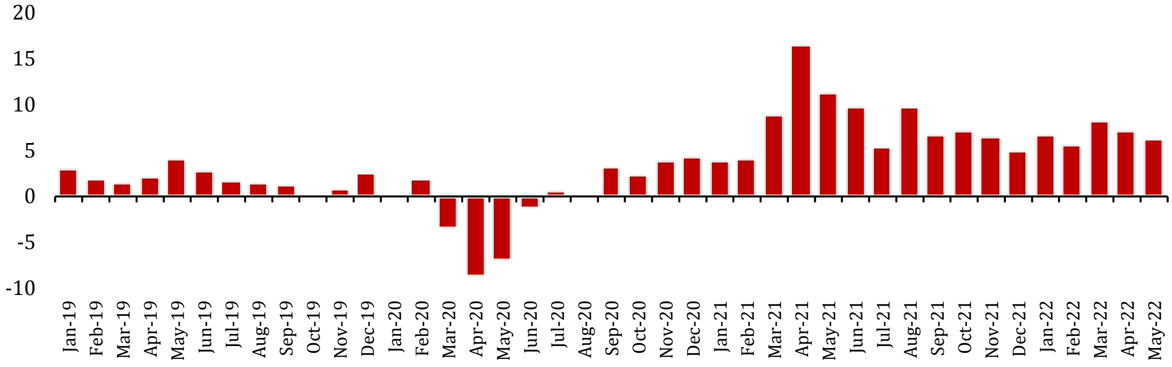

Source: PBS & EA Wings'Calculation

### 3.4 Overall economic activity

The Monthly Economic Indicator (MEI) is based on combining monthly data of indicators that are proven to be correlated with GDP at constant prices. Fig-9 presents the MEI on monthly basis since January 2019. It should be noted that some of the data underlying the May 2022 MEI is still provisional and may be revised next month. The MEI has also been adjusted to the new rebased National Accounts.

In May 2022, the MEI continues to issue a strong economic signal mainly due to the continuing robust performance of LSM, which is known to exert significant multiplier effects on other sectors of the economy.

Fig-9: Monthly Economic Indicator (MEI) Growth (percent)



Source: EA Wing's Calculations

### 3.5 External

According to BOP data, in May 2022 exports of goods and services fell below their recent upward trend. This may be due to a relatively strong negative seasonal effect this month. The imports of goods and services also went down. The balance on trade in goods and services, therefore, declined by around $ 300 million.

In the month of June 2022 exports are generally affected by a negative seasonality, but it is expected that the downturn will be to a lesser degree compared to May 2022. Therefore, exports are expected to perform somewhat better in June 2022. On the basis of the continued declining trend in imports on account of measures taken by the government, it is expected that improvement will be observed in the trade balance in June 2022 compared to the one observed in May 2022.

The remittances fell considerably in May 2022 mainly driven by its seasonal profile. This together with the deterioration of the trade balance widened the current account deficit significantly. However, in June 2022, remittances are expected to rebound. Together with the expected relative stability of the trade balance, a contraction in the current account deficit is expected, which may settle at around $ 1 billion.

### 3.6 Fiscal

Measures to offset the impact of higher international commodity and oil prices due to the Russia-Ukraine conflict took a significant toll on revenue and expenditures. Consequently, the risk of fiscal slippages during the current fiscal year has increased.

On the revenue side, FBR tax collection has maintained its growth momentum by posting a 28.4 percent increase during Jul-May FY2022. However, growth momentum has been realized largely on the back of import-related taxes due to a sharp rise in import volumes. The government has announced measures to restrict imports in an effort to relieve external account pressures. With these measures in place, meeting the FBR tax collection target for FY2022 will be a daunting task.

In the wake of these challenges, FBR is striving hard to improve domestic tax collection through various policy and operational level efforts. It is worth mentioning that FBR has launched a new culture of clean taxation with a focus on collecting only the fair tax and not holding up refunds that are due to be paid. This has ensured the much-needed cash liquidity for the business community. All these measures would be supportive in achieving a healthy and steady growth in revenue collection, going forward.

## 4. Way Forward

Economic growth in Pakistan is facing challenging situation due to wider macroeconomic imbalances. The current account deficit which remined high during the first 3 quarters of CFY, may decelerate by end of this fiscal year and onwards. The delayed pass-through of international oil prices into domestic energy products may increase inflation. Inflationary pressure may ease once international commodity prices start decline and stabilize.

Going forward, Pakistan's growth prospects are expected to remain satisfactory. But the number of potential risks may diverge it from optimal path. First, the cyclical position of Pakistan's main trading partners is somewhat deteriorating. Their central banks are raising interest rates to counter inflation thus leading to possible recession in those countries. Second, SBP may further raise domestic interest rates. The demand management policy of SBP may not be very effective as the current waves of inflation are largely caused by supply constraints and increasing international prices, especially commodity prices. Exchange rate depreciation is also a source of concern as it makes the imported raw material more expensive. Third, the persistent rise in domestic consumer prices is eroding real incomes, limiting the spending power of consumers and investors.

These risk factors may challenge the macroeconomic environment and growth prospects, especially by negatively affecting the temporary cyclical output gap. The economy would tend back to potential output in the long runs. Sound policy responses may lay the basis for a sustainable long run growth trajectory. This should be accompanied by measures that aim to strengthen the growth of Pakistan's potential output. These measures need to include the creation of a beneficial investment climate, confidence promotion and stimulus for promising economic initiatives with high growth potential.

The current account balance may profit from sound demand management policies. In the longer run, elevating the growth rate of potential output reinforces the supply side of the economy, accompanied by neutral demand management will bring the CAB onto a long run sustainable path.

## Economic Indicators
**(29-06-2022)**

| | 2020-21 (Jul-May) | 2021-22 (Jul-May) | percent Change |
|---|---|---|---|
| **External Sector** | | | |
| **Remittances** ($ billion) | **26.7** | **28.4** | **↑6.3** |
| **Exports FOB** ($ billion) | **23.1** | **29.3** | **↑26.7** |
| **Imports FOB** ($ billion) | **48.0** | **65.5** | **↑36.5** |
| **Current Account Deficit** ($ billion) | **1.2** | **15.2** | **↑** |
| **FDI** ($ million) | **1679.2** | **1596.8** | **↓4.9** |
| **Portfolio Investment-**Public ($ million) | **2457.9** | **367.0** | **↓85.1** |
| **Total Foreign Investment** ($ million) (FDI & Portfolio Investment) | **3851.6** | **1586.3** | **↓58.8** |
| **Forex Reserves** ($ billion) | **23.298** **(SBP: 16.120)** **(Banks: 7.178)** (On 25th June 2021) | **16.104** **(SBP: 10.217)** **(Banks: 5.887)** (On 27th June 2022) | |
| **Exchange rate** (PKR/US$) | **157.62** (On 25th June 2021) | **207.95** (On 27th June 2022) | |

Source: SBP

| | 2020-21 (Jul-Apr) | 2021-22 (Jul-Apr) | percent Change |
|---|---|---|---|
| **Fiscal** | | | **(Rs Billion)** |
| **FBR Revenue** (Jul-May) | **4164.3** | **5348.2** | **↑28.4** |
| **Non-Tax Revenue** (Federal) | **1216** | **1068** | **↓12.2** |
| **PSDP** (Authorization) | **565.6** | **603.3** | **↑6.7** |
| **Fiscal Deficit** | **2020** | **3275** | **↑** |
| **Primary Balance** | **159** | **(890)** | **↓** |

Source: FBR & Budget Wing

| | 2020-21 (Jul-May) | 2021-22 (Jul-May) | percent Change |
|---|---|---|---|
| **Monetary Sector** | | | |
| **Agriculture Credit (provisional)** | **1191.6** | **1219.3** | **↑2.3** |
| **Credit to private sector (Flows)** | **448.1** (1st Jul to 4th June) | **1422.2** (1st Jul to 03rd June) | ↑ |
| **Growth in M2 (percent)** | **9.8** (1st Jul to 4th June) | **8.4** (1st Jul to 03rd June) | |
| **Policy Rate (percent)** | **7.00** (28-May-2021) | **13.75** (23-May-2022) | |

Source: SBP

| | 2020-21 | 2021-22 | percent Change |
|---|---|---|---|
| **Inflation** | | | |
| **CPI (National)** (percent) | **10.9** (May) | **13.8** (May) | |
| | **8.8** (Jul-May) | **11.3** (Jul-May) | |
| **Real Sector** | | | |
| **Large Scale Manufacturing (LSM)** (percent) | **72.9** (Apr) | **15.4** (Apr) | |
| | **8.5** (Jul-Apr) | **10.7** (Jul-Apr) | |
| **PSX Index*** | **47801** (On 1st Jul 2021) | **41879** (On 27th June 2022) | **↓12.39** |
| **Market Capitalization** (Rs trillion) | **8.38** (On 1st Jul 2021) | **6.97** (On 27th June 2022) | **↓16.83** |
| **Market Capitalization** ($ billion) | **53.22** (On 1st Jul 2021) | **33.53** (On 27th June 2022) | **↓37.00** |
| **Incorporation of Companies** (Jul-May) | **23034** | **24186** | **↑5.00** |

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP