Monthly Economic Update & Outlook

March 2022

Government of Pakistan
Finance Division
Economic Adviser's Wing

Contents

Executive Summary

- Presently global economy is facing three challenges (financial sanctions, commodity prices & supply-chain disruptions) due to the ongoing war between Russia and Ukraine. These challenges have fueled global inflation and downgraded the growth outlook in most countries. Both energy and non-energy prices increased in February 2022 by 7.7 percent and 4.2 percent respectively. Among key subgroups, only fertilizers witnessed a decline of 1.9 percent, agriculture commodities rose 4.5 percent, metals and minerals 4.7 percent, and precious metals 2.2 percent.
- **Real Sector:** Wheat crop has been sown on an estimated area of 8.995 million hectares. The harvest of wheat has started in lower Sindh, however Production of wheat is expected to be around 28.9 million tonnes. During Jul-Jan FY2022, LSM posted a growth of 7.6 percent as compared to 1.8 percent same period last year.
- **Fiscal, Monetary & External:** The fiscal deficit in Jul-JanFY2022 was recorded at 2.9 percent of GDP (Rs 1862 billion). The primary balance posted a deficit of Rs 174 billion. During 1st July – 25th February, FY2022 money supply (M_2) shows a growth of 0.5 percent (Rs 123.7 billion) compared to growth of 4.59 percent (Rs 960.1 billion) in last year. During Jul-Feb FY2022, the current account deficit was recorded at $ 12.1 billion.
- **Economic Outlook:** Although the economic recovery is underway, still, the domestic and international scenario is changing over the course of time. Thus, inflationary, and external sectors risks are building macroeconomic imbalances. The government is taking a various policy, administrative and relief measures to counter the downside risks for the economy.
  - International commodity prices are expected to rise further because of rising geopolitical tensions. Although their pass-through into domestic consumer prices will be contained by current and newly designed government measures and relief packages. Still, YoY inflation is expected to remain temporarily within the double-digit territory.
  - The MEI remains strong, although some slowdown in growth in Feb 2022 is observed. In addition, economic growth in Pakistan's main trading partners continues to remain above trend, although some slowdown may be in the cards due to the uncertainties surrounding the recent geopolitical tensions and the continued increase in international commodity prices. If these tensions continue or intensify, Pakistan's growth may be affected as well.
  - In March, exports are expected to continue their upward trend, backed by the export-friendly policies that have been implemented. Exports also benefit from the Real Effective Exchange rate. Imports will probably return to a level that is more in line with domestic economic activity and the levels of international commodity prices. As a result, the trade balance may less deteriorate in March 2022 as well. However, geopolitical risks still persist. In March workers' remittances are expected to revert to normal levels. Taking these factors into account, as well as its other components, the current account deficit in March is expected to stay well below the unsustainable levels observed during the period from Aug 2021 up to Jan 2022.
  - The first seven months of the current fiscal year have witnessed significant pressure on fiscal accounts due to rising expenditures under grants and subsidies. On the revenue side, FBR tax collection has been able to achieve more than 65.2 percent of its annual target during the first eight months of the ongoing fiscal year. However, the government has announced a relief package for the masses to offset the increasing oil prices by reducing the sales tax rate and petroleum development levy. All these are collectively adding risks to the fiscal sector.

Pakistan's economic performance continues a trajectory compatible with an economic growth target of around 5 percent in the current fiscal year. The recent geopolitical tensions, in particular the Ukraine crisis, present the most important external risk factor. Likewise, domestic political conditions are building domestic risks. A further escalation of these risks could jeopardize the positive outlook for Pakistan's economy and may also aggravate the macroeconomic imbalances.

1. International Performance and Outlook

The war between Russia-Ukraine is "a catastrophe" for the world which will cut global economic growth, as forecasted by World Bank. The war comes at a bad time for the world because inflation was already rising, particularly for energy and food prices. The conflict is impacting the global economy via three main channels: financial sanctions, commodity prices, and supply-chain disruptions. Higher commodities prices will fuel global inflation this year and possibly in 2023.Growth in the Eurozone is now expected to stand at 3.7 percent in 2022, from the previous forecast of 4.0 percent. Downward revisions to Europe's growth outlook will also prompt a revision of the global growth forecast by 0.5 percentage points to about 3.4 percent, from 3.9 percent previously.

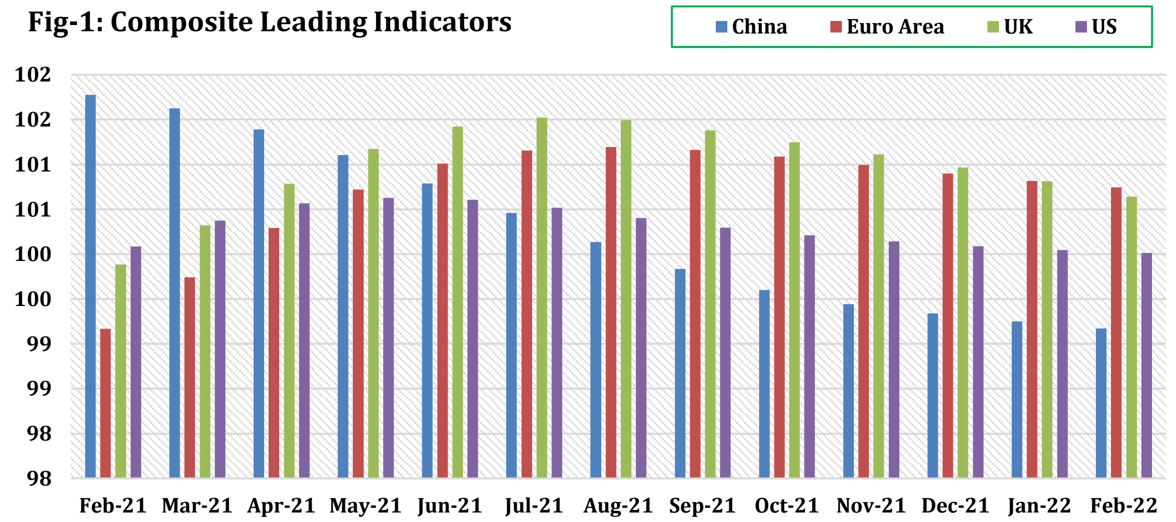
This downward revision originates the reduced growth prospects for the US, the Euro Area and China. Meanwhile, inflation has been higher than expected in many economies, while financial markets remain volatile as geopolitical tensions have increased.

High-frequency economic indicators offer evidence that the growth momentum has slowed during the initial months of 2022 in line with expectations of a weak start to the year, owing to the spread of the highly contagious Omicron variant and persistent supply-chain disruptions. In this respect, it is projected that activity will pick up in the second quarter of the year as the variant's impact fades.

Advanced economies have experienced pandemic strains and mismatches between supply & demand that have continued to boost inflation and weigh on the recovery. Temporarily reduced mobility has put a damper on service sector activity, including in the Euro area, Japan and the UK. While the recovery has been strong in the US, the virus has dented consumer sentiment somewhat, making them more cautious.

In China, tighter mobility restrictions have resulted in weaker-than-expected retail sales, while a decline in real estate investment and tighter travel restrictions have also represented headwinds. The uncertainty has been reflected through the Composite Leading Indicator position of Pakistan's main exports markets which is on a declining trend in the month of February 2022 compared to last month (Fig-1).

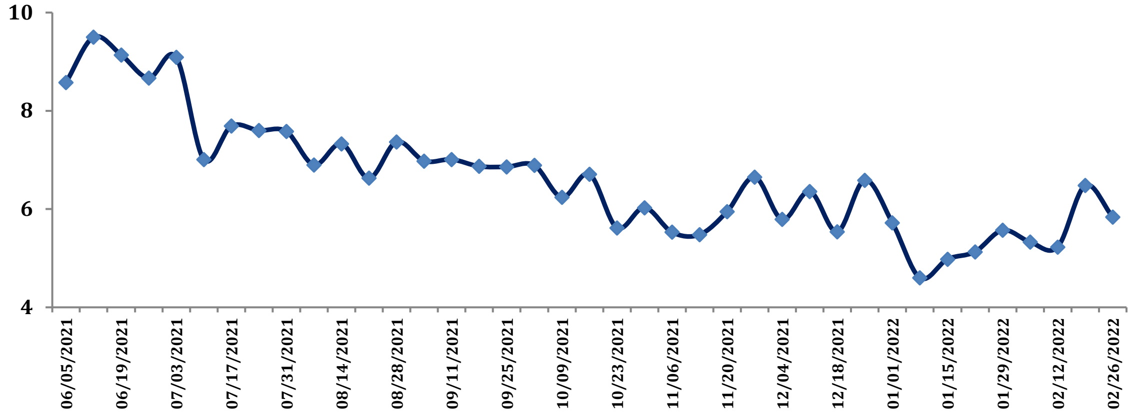
Fig-1: Composite Leading Indicators



Source: OECD

During the first quarter of 2022, the US economy is exhibiting a robust return from pandemic-related shutdowns and the resulting deep recession. The economy has responded to a massive increase in federal spending, supply disruptions, and a persistent, uncertainty-laden COVID-19 pandemic. Along with all this, CPI inflation is now running at 7.5 percent with little sign of easing any time soon. The US central bank's Federal Open Market Committee kicked-off the move to tighten monetary policy with a quarter-percentage-point increase in the target federal funds rate on March 16th, to curb the highest inflation in 40 years, raised interest rates for the first time since 2018. The Fed has projected its policy rate would hit a range between 1.75 percent and 2.0 percent by year's end in a newly aggressive stance against inflation. The US economic situation is also reflected through weekly growth in WEI which reflects a mixed response due to fluctuations during the first two months of 2022 (Fig-2).

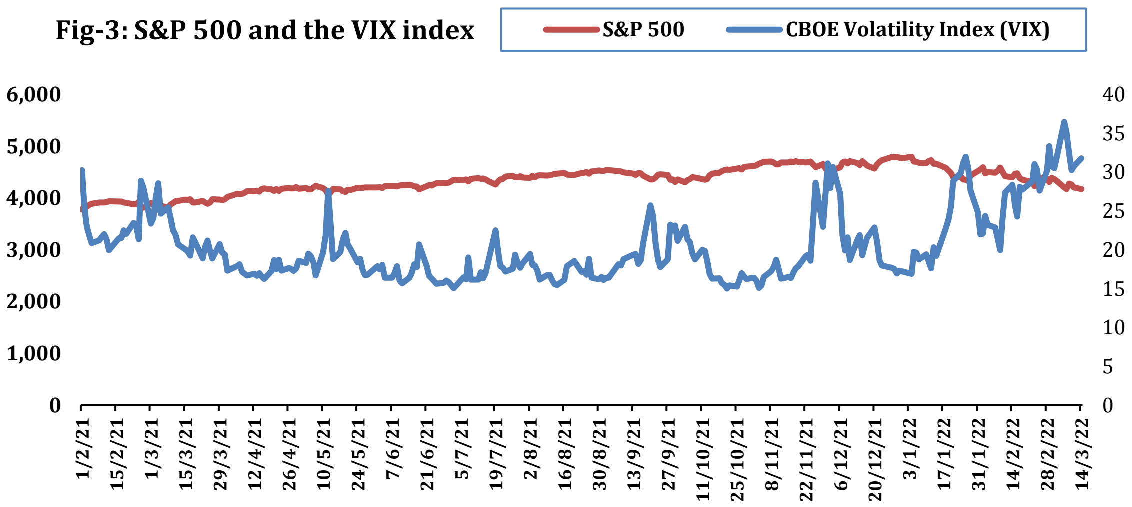
Fig-2: Growth in WEI



Source: Federal Reserve Bank of New-York

Worldwide stocks showed decline in recent weeks due to the geopolitical tensions and war between Russia and Ukraine. In the US, S&P 500 index fell to 4,171 points on 08th March 2022, the lowest since June 2021. This is also confirmed by the Chicago Board Options Exchange (CBOE) Volatility Index which is commonly used as a measure of investors' uncertainty, soared to 36.5 showing higher volatility, reflecting uncertainty in the investors' behavior (Fig-3).

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



Source: Investing.com

The J.P.Morgan Global Composite Output Index – produced by J.P.Morgan and IHS Markit increased to 53.4 in February, up from 51.1 in January. The rate of the index has signaled expansion in the past 20 months. The growth rate picked up due to manufacturers and service sector both and latter dominate the former for the tenth time in the past 11 months.

The rate of global economic expansion in the month of February revives from January's 18 months low, the business optimism improved reaching record high due to growth in new orders which created employment opportunities.

The recovery was broad-based spread across all six sub-industries covered by the survey. Growth accelerated in business services and intermediate goods but slowed in financial services and investment goods. Consumer goods and consumer services both observed resumptions in the growth of activity. The strongest overall rate of expansion was in business services, followed by consumer services where activity rebounded from January's recession.

Almost all of the countries indicated an expansion of economic activity, for which February data was available. The only exception was Japan, where output growth contracted at the steepest rate since last August, due to a fall in the services and manufacturing sector.

Average input costs accelerated at a faster pace in February, reflecting stronger regional inflation including the euro area, the US, and Japan. This led to increased output charges, at the fastest pace since October, resultantly price pressures remained elevated. However, business optimism about the year ahead improved to an 11-year high, even in the inflationary environment.

Global commodity prices continued to surge in February. The energy and non-energy commodities increased by 7.7 percent and 4.2 percent respectively compared to 7.9 percent and 4.6 percent in January 2022. Over the past twelve months, energy commodities have surged 63.4 percent and non-energy commodities 22.7 percent. Among key subgroups, only fertilizers witnessed a decline of 1.9 percent, agriculture commodities rose 4.5 percent, metals and minerals 4.7 percent, and precious metals 2.2 percent.

2. Monthly Performance of Pakistan's Economy

The economy of Pakistan is on the path to economic recovery. However, domestic, and international risks are playing the respective role which is giving mix picture of its monthly performance.

2.1 Real Sector

2.1-a Agriculture

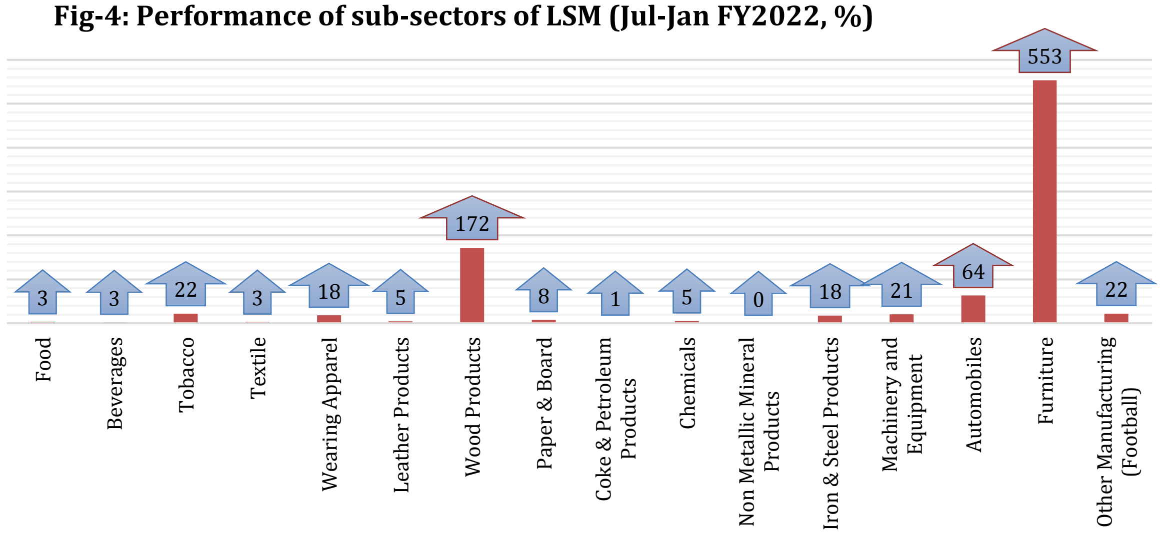
For Rabi season 2021-22, the wheat crop has been sown on an estimated area of 8.995 million hectares. The harvest of wheat has been started in lower Sindh, however the national production of wheat is expected to be near the allocated target of 28.9 million tonnes with improved inputs availability of seeds & pesticides, irrigation water and increased agriculture credit disbursement. Furthermore, the government has increased the wheat support price from Rs 1,950 to Rs 2,200 per 40 kg for Rabi 2021-22.

During Jul-FebFY2022, the agriculture credit disbursement increased by 3.6percent to Rs835.3 billion compared to Rs806.4 billion same period last year. The farm tractors production rose to 10.1 percent to 34,587 and its sales increased by 6.1 percent to 33,498 compared to Jul-Feb FY2021. The urea off-take during Rabi 2021-22 (Oct-Feb) reached 2,809 thousand tonnes, while DAP off take at 859 thousand tonnes.

2.1-b Manufacturing

During Jul-Jan FY 2022, LSM gained the growth momentum of 7.6 percent against 1.8 percent last year with the outstanding performance in sub-sectors especially, Furniture, Wood Products, Automobile, Tobacco, Wearing Apparel, and Football. On a YoY basis, LSM witnessed a growth of 8.2 percent in January 2021 and 4.2 percent on MoM basis. During the period, 16 out of 22 subsectors of LSM have witnessed growth as shown in the graph below.

Fig-4: Performance of sub-sectors of LSM (Jul-Jan FY2022, %)



During Jul-Feb FY 2022, Car production and sale increased by 61.6 percent and 57.5 percent, respectively, Trucks & Buses production and sale increased by 80.8 percent and 66.2 percent and tractor production and sale increased by 10.1 percent and 6.1 percent, respectively.

In February 2022 total cement dispatches declined by 4.75 percent to 4.36 mn tonnes (4.57 mn tonnes in February 2021). Domestic consumption slightly decreased by 0.17 percent to 3.95 mn tonnes against 3.96 mn tonnes in the same month last year. Exports were also down by 34.18 percent from 0.6 mn tonnes to 0.4 mn tonnes. During Jul-Feb FY2022, total cement dispatches in the country decreased by 5.75 percent to 35.8 mn tonnes (37.9 mn tonnes last year). Domestic dispatches slightly decreased by 0.63 percent to 31.4 mn tonnes (31.6 mn tonnes last year).

In February 2022, oil sales clocked in at 1.5 mn tonnes showing an increase of 10 percent against 1.4 mn tonnes last year. During Jul-Feb FY2022, total Oil sales increased by 14 percent to 14.4 mn tonnes (12.7 mn tonnes last year).

2.2 Inflation

CPI inflation during Jul-Feb FY2022 was recorded at 10.5 percent against 8.3 percent during the same period last year. CPI for February 2022 was recorded at 12.2 percent on a YoY basis against 8.7 percent during the same month last year.

After the Pandemic, global commodity prices have surged to unprecedented levels especially after January 2021, triggering pressure on currencies and causing inflation around the world. These inflationary impacts also translated into domestic inflation.

However, the government is taking administrative, policy and relief measures to control prices of essential commodities and full inflationary impact has not passed to the domestic consumers as evident from the tables below:

International Prices

Months	Sugar ($/MT)	Palm Oil ($/MT)	Soyabean Oil ($/MT)	Wheat ($/MT)	Crude Oil ($/Brl)
Feb-21	360.0	1020.0	1121.0	289.4	62.0
Feb-22	390.0	1522.0	1596.0	390.5	95.8
% Change					
Feb-22/Feb-21	8.3	49.2	42.4	34.9	54.5
					Source: WB Pink sheet

Prices in Pakistan						
Months	Sugar Refined (Rs/Kg)	Cooking Oil Dalda (Rs/5Kg)	Vegetable Ghee Dalda (Rs/Kg)	Wheat Flour (Rs/20Kg)	Petrol (Rs/Litre)	Hi-Speed Diesel (Rs/Litre)
Feb-21	93.0	1479.1	291.3	955.8	112.2	116.4
Feb-22	89.3	2109.1	406.1	1167.2	154.5	150.1
% Change						
Feb-22/Feb-21	-4.0	42.6	39.4	22.1	37.7	29.0
						Source: PBS

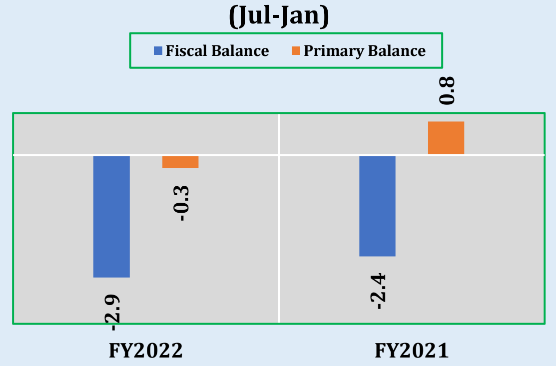
Further, recently, the government has announced a relief package by reducing the price of petrol and diesel by Rs 10/Ltr as well as Rs5/unit cut in the electricity tariff.

SPI which monitors the price movement of 51 essential items declined by 1.37 percent for the week ended on March 17, 2022. The prices of 29 items increased, while 09 items decreased and 13 items remained stable.

2.3 Fiscal

The fiscal deficit during Jul-Jan FY2022 is recorded at 2.9 percent of GDP (Rs 1862 billion) against 2.4 percent of GDP (Rs 1309 billion) last year. Similarly, the primary balance posted a deficit of Rs 174 billion (0.3 percent of GDP) as compared with the surplus of Rs 416 billion (0.8 percent of GDP).

Fig-5: Fiscal Indicators % Of GDP (Jul-Jan)

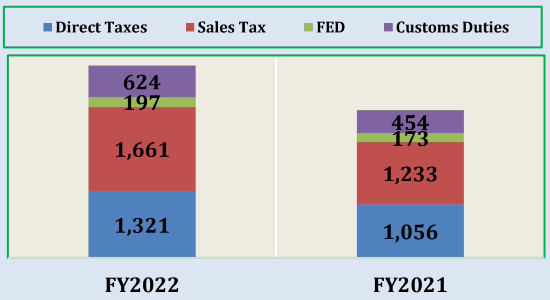


Net federal revenues increased by 6.4 percent to Rs 2152 billion during the year under review, compared to Rs 2023 billion in the comparable period of FY2021. Total expenditures, on the other hand, climbed by 23.9 percent to Rs 4542 billion in Jul-Jan FY2022, compared to Rs 3665 billion in the previous year. Higher spending is largely due to a 23 percent increase in current spending on the back of higher power sector subsidies and increase in grants for COVID 19, social protection, contingent liabilities, and DLTL (drawback of taxes). Similarly, development expenditures (PSDP) increased by 37.1 percent to Rs 362 billion in Jul-Jan FY2022, compared to Rs 264 billion in the same period the previous year.

FBR Tax Collection

During the first eight months of the current fiscal year, FBR exceeded its revenue target by 7.7 percent. In absolute terms, revenue amounting to Rs 3,802.1 billion was collected against the target of Rs.3,530.5 billion, which is Rs 271.6 billion more than the eight-month target. Collection during Jul-Feb FY2022 is also higher by Rs 865.6 billion in absolute and by 30.4 percent as compared to last year.

Fig-6: FBR Tax Collection (Rs.Billion) Jul-Feb



Source: FBR

Domestic tax collection grew by 29.0 percent during Jul-Feb FY2022. Within domestic, direct tax grew by 25.0 percent, sale tax 34.6 percent, FED 13.8 percent whereas customs duty increased by 37.4 percent.

Box Item-I: Major Initiatives

1. POS Awareness Campaign

FBR has launched an intensive awareness campaign on the mainstream national media to educate and engage consumers to ensure that tax collected from them at the point of sale is deposited into the state exchequer and not pocketed by the retailers themselves. The campaign also encompasses a prize scheme worth Rs.53 million to be disbursed among 1007 lucky winners through a transparent computerized ballot to be held on 15th of every month at FBR Headquarters, Islamabad.

The ongoing campaign and the prize scheme continue to gain momentum as numbers keep growing up. In February, about 249,000 invoices were verified by customers who shopped from outlets integrated with FBR POS System as against 153,000 in January 2022. The number of customers who successfully verified their invoices has also jumped from 27,000 in January to around 39,000 in February. This is a phenomenal increase in public participation and is likely to further grow with every passing day.

As a result of strong enforcement by FBR Field Formations across Pakistan, out of around 4200 identified as Tier-1 Retailers, over 3600 have already integrated their business operations with FBR POS System. Their 17000 outlets with over 19500 cash counters are fully integrated with POS System which lends FBR the facility to digitally monitor their sales and thus ensure that Sales Tax being collected from customers is being actually deposited into state exchequer, without fail.

2. FBR Inks MoU with Pakistan Tax Bar Association

FBR is all set to launch yet another out of box digital intervention for Broadening of Tax Base. FBR has already collected information from various sources about the assets and expenditures of persons who are outside the tax net. This information shall be made available to such persons through FBR's "Tax Asaan" Portal.

FBR has taken a further initiative to ensure facilitation in the filing of a tax return by new taxpayers for Broadening of Tax Base by signing a memorandum of understanding with the Pakistan Tax Bar on Feb 07, 2022.

Under the MoU, Pakistan Tax Bar will share the lists of qualified and willing members of the Tax bar to file the tax return of the new taxpayers. FBR will make this list of tax consultants available to new taxpayers wanting to file tax returns and will facilitate this by payment of a fixed fee for the filing of returns to the tax consultants. The facility will be purely voluntary, and a taxpayer will have an option to avail of this free-of-cost facility or hire his/her own tax consultant.

Broadening of the tax base is a key priority of the government and this facility of filing of tax return is an unprecedented step for facilitation of new taxpayers and thus maximize tax compliance in the country.

Source: FBR

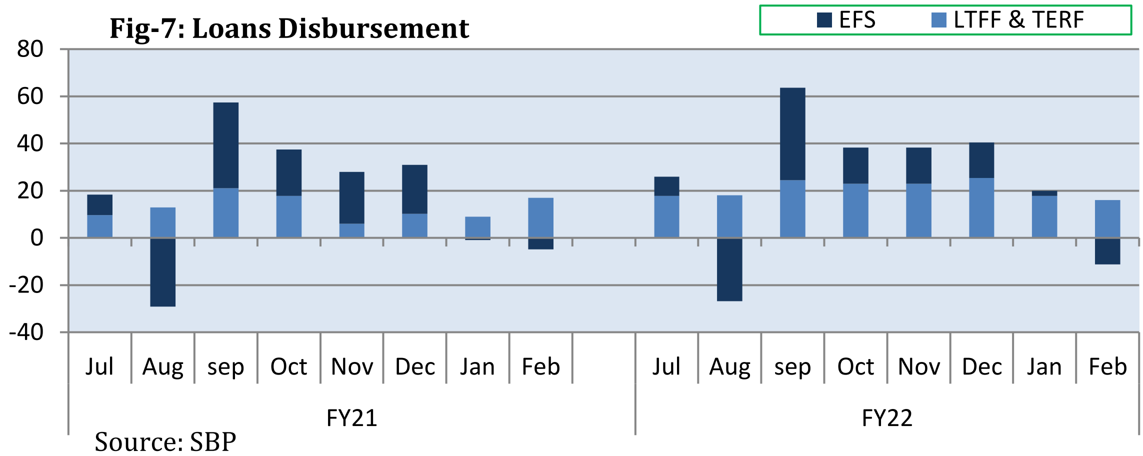
2.4. Monetary

SBP has maintained the policy rate at 9.75 percent in recent monetary policy decision on account of improved inflation outlook. During 1st July – 25th February, FY22 money supply (M2) shows growth of 0.5 percent (Rs. 123.7 billion) compared growth of 4.59 percent (Rs. 960.1 billion) in last year. Net Foreign Assets (NFA) decreased by Rs 362.3 billion as compared to an increase of Rs 595.2 billion in last year. Net Domestic Assets (NDA) of the banking sector increased by Rs. 486.0 billion as compared Rs. 364.9 billion last year.

Under the borrowing for budgetary support, government has retired Rs. 53.5 billion against the borrowing of Rs. 437.8 billion last year. Government has retired Rs. 657.1 billion to SBP against the retirement of Rs.621.2 billion in last year. Government has borrowed Rs. 603.7 billion from Scheduled banks against the borrowing of Rs. 1,059.0 billion last year. Under the head of net government borrowing, government has retired Rs 117.9 billion as compared to the borrowing of Rs. 310.1 billion over the previous year.

Private Sector has borrowed Rs. 874.3 billion as compared Rs. 403.6 billion in last year. Within loans to private sector businesses, fixed investment loans observed expansion of Rs 251.5 billion during first eight months of FY2022 compared Rs 129.1 billion during same period last year. Similarly, working capital loans observed expansion of Rs 482.5 billion against Rs 99.0 billion during comparable period last year, indicates expansion and continuation of economic activities. On positive note, disbursement under construction financing increased to Rs 39.9 billion during Jul-Feb, FY2022 as compared to Rs 21.4 billion during same period last year.

Fig-7: Loans Disbursement



Source: SBP

2.5 External Sector

The Current Account posted a deficit of $ 12.1 billion for Jul-Feb FY2022 as against a surplus of $ 994 million last year. The current account deficit widened due to the 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 28.1 percent during Jul-Feb FY2022 and reached $ 20.6 billion ($ 16.1 billion last year). Imports on fob grew by 49.1 percent during Jul-Feb FY2022 and reached $ 47.9 billion ($ 32.1 billion last year). Resultantly the trade deficit (Jul-Feb FY2022) reached $ 27.3 billion as against $ 16.0 billion last year.

As per PBS, during Jul-Feb, FY 2022, exports increased by 26.0 percent to $ 20.6 billion ($ 16.3 billion last year). The exports grew by 36.4 percent in February 2022 to $ 2.8 billion against $ 2.1 billion last year. The major export commodities which have shown tremendous performance during the review period include Readymade garments (25.1 percent in value & 20.5 percent), Bed wear (20.3 percent in value & 17.3 percent in quantity), Cotton Yarn (34.4 percent in value and quantity declined by 6.8 percent), Cotton Cloth (28.2 percent in value & 13.0 percent in quantity), Knitwear (33.9 percent in value & 4.8 percent in quantity), Chemical & pharma products (37.8 percent in value), leather manufactured (10.5 percent in value) and Basmati rice (30.9 percent in value & 41.8 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-Feb, FY2022 increased to $ 52.5 billion ($ 33.8 billion last year), thus posting a growth of 55.1 percent. The 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-Feb, FDI reached $ 1257.4 million ($ 1185.0 million last year), thus grew by 6.1 percent. FDI received from China $ 384.5 million (30.6 percent of total FDI), the United States $ 174.9 million (13.9 percent), Hong Kong $ 130.3 million (10.4 percent), U.A.E $ 78.6 million (6.3 percent), and the Netherlands $ 63.8 million (5.1 percent). Power sector attracted highest FDI of $ 429.6 million (34.2 percent of total FDI), Financial business $ 275.0 million (21.9 percent), Communication $ 185.3 million (14.7 percent) & Oil & Gas exploration $ 178.5 million (14.2 percent).

Foreign Private Portfolio Investment has registered a net outflow of $ 314.6 million during Jul-Feb FY2022. Foreign Public Portfolio Investment recorded a net inflow of $ 904.9 million. In January 2022, an inflow of $ 1.0 billion was recorded on account of the proceeds of the Pakistan International Sukuk bond. The total foreign portfolio investment recorded an inflow of $ 590.3 million during Jul-Feb FY2022 as against an outflow of 385.8 million last year. The total foreign investment registered an inflow of $ 1847.7 million during the period under review.

2.5.2 Worker's Remittances

In Jul-Feb FY2022, workers' remittances grew by 7.6 percent to $ 20.1 billion ($ 18.7 billion last year. Workers' remittances continued their unprecedented streak of above $ 2.0 billion for the 21st consecutive month in February 2022. Share of remittances (Jul-Feb FY2022) from Saudi Arabia remained 25.5 percent ($ 5132.2 million), U.A.E 18.7 percent ($ 3768.8 million), U.K 13.8 percent ($ 2786.3 million), USA 9.5 percent ($ 1911.4 million), other GCC countries 11.5 percent ($ 2322.4 million), EU 11.0 percent ($ 2224.7 million), Malaysia 0.5 percent ($ 92.0 million), and other countries 9.5 percent.

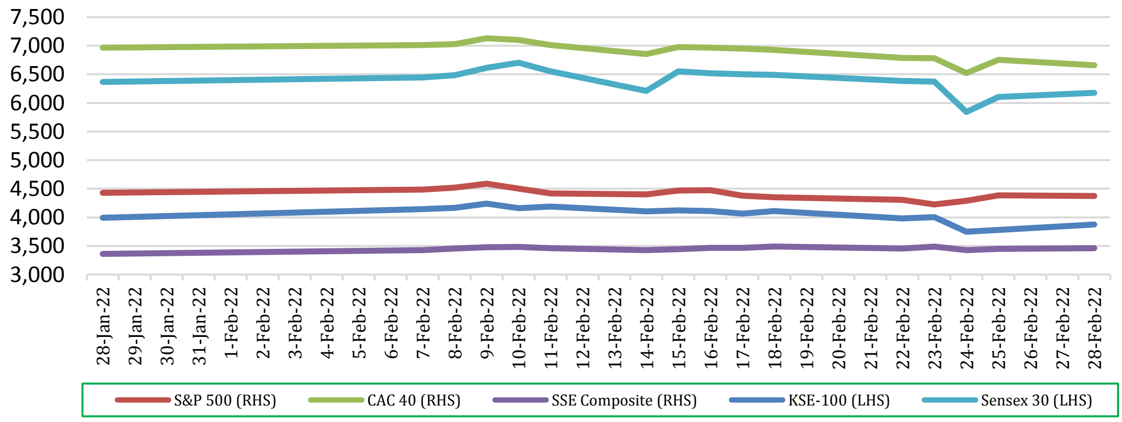
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves stood at $18.5 billion on March 24, 2022, with the SBP's reserves recorded at $12.1 billion, while commercial banks' reserves remained at $6.4 billion.

2.6 Performance of KSE Index

The KSE-100 index closed at 44,461 points on 28th February 2022, while market capitalization settled at Rs 7,613 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

- National Gender Policy Framework is launched to eliminate poverty and ensure sustainable development by providing equal opportunities to women in all spheres of life.
- The government has approved the Ramadan Relief Package-2022, involving a subsidy of Rs 8.2 billion.
- Under the Kamyab Pakistan Programme, the government has announced Rs 407 billion subsidized loans that would be given to youth, farmers, and low-cost housing in the next two years.
- Under the Ehsaas Kifalat programme, the government has increased the six-monthly stipend from Rs 12,000 to Rs 14,000 for 8 million poor women across the country
- The government announced a graduate internship stipend of Rs 30,000 per month and allocated Rs 2.6 million scholarships worth Rs 38 billion.
- To mitigate the impact of inflation on the low-income groups, the government has launched Ehsaas Riayat Ration programme designed to provide a subsidy of Rs. 1000/- month for 20 million families to avail 30 percent discount to buy flour, cooking oil/ghee, and pulses from NBP's network of Kiryana retail shops and Utility stores.
- Under the programme, Rs22 per kg subsidy would be provided on flour, Rs55 per kg on pulses, and Rs105 per kg on ghee.
- PPAF through its 24 Partner Organizations has disbursed 38,402 interest-free loans amounting to Rs 1.43 billion during the month of February 2022. From July 2019 till 28th February 2022, a total of 1,760,911 interest-free loans amounting to Rs 62.87 billion have been disbursed to the borrowers.
- Under Kamyab Jawan Youth Entrepreneurship Scheme (PMKJ-YES) the government has disbursed Rs 33,860 million till January 2022 to the youth for businesses.
- Bureau of Emigration and Overseas Employment has registered 66011 emigrants during February 2022 for overseas employment in different countries.
- The government's persistent vaccine administration strategy caused the national positivity rate to drop to 1.0 percent. Approximately 50 percent of the total population has been vaccinated till March 24, 2022.
- Till March 24, 2022, the total number of doses administered is recorded at 219.4 million with 101.9 million fully and 128.1 million individuals partially vaccinated.
- As of March 24, 2022, the number of confirmed cases of COVID-19 is reported at 1.52 million along with recoveries of 1.48 million and deaths of 30,333.

3. Economic Outlook

The domestic and international scenario has begun to change which may have implications for the economic recovery. Thus, inflationary and external sectors risks are coming into action to build macroeconomic imbalances.

3.1 Inflation

In the period between Nov – Feb FY2022, YoY inflation was fluctuating around 12 percent on average. This was a marked upward shift from the earlier four months (Jul–Oct FY2022) when average inflation was 8.7 percent. This upward shift was mainly contributed by the persistent and significant rise in international prices, especially oil, food, and other primary commodities. Thus, economic recovery from the COVID-19 pandemic and the supply bottlenecks caused unprecedented surges in inflation in many parts of the world, which also spilled over into Pakistan.

The necessary condition to bring back inflation is to limit further MoM increase in prices as much as possible. Thus, realizing the fact, the government policies continuously focused on limiting these monthly increases. These policies appear to be effective due to the fact that the average MoM inflation during the last four months reached 1.1 percent, which is lower than the observed MoM inflation during the preceding four months.

Currently, due to increased geopolitical tensions, there are expectations about a further increase in international commodities prices. The government is taking possible measures to contain the current pass-through of this increase into domestic consumer prices, especially through relief packages. Still, YoY inflation is expected to remain within the 9.5 to 11.5 percent territory.

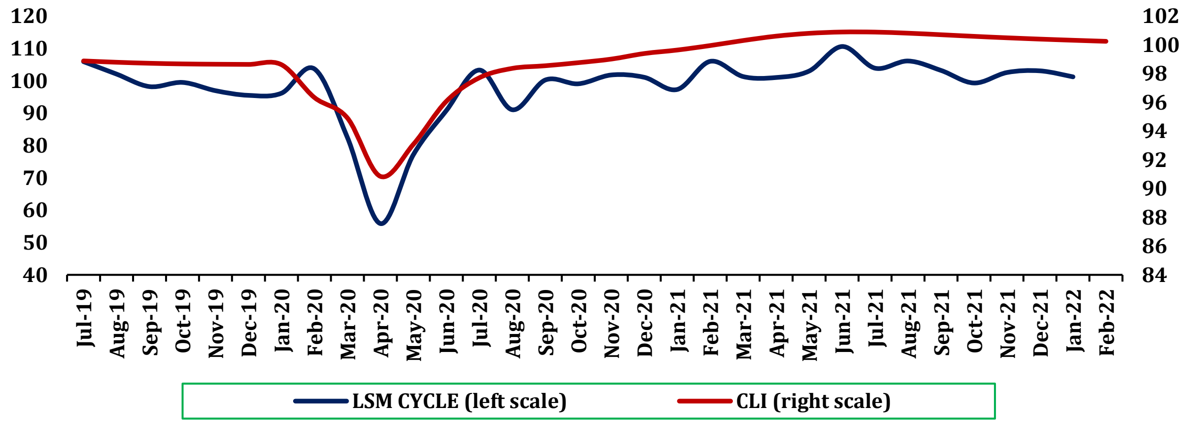
3.2 Agriculture

Till this time, no adverse climate shock was reported and even expected in the coming months. Thus, it is expected that the agriculture sector's performance will remain up to the mark.

3.3 Industrial Activities

Industrial activities, measured by the LSM index although rebased on prices of 2015-16, still sector is exposed to external conditions. Its exposure to developments in international markets is illustrated in Fig-9 which compares the cyclical component of LSM with the weighted average Composite Leading Indicators in Pakistan's main export markets (CLI).

Fig-9: Relationship between CLI and LSMI Cycle



The CLI of some individual countries is 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 is published with a one-month lag.

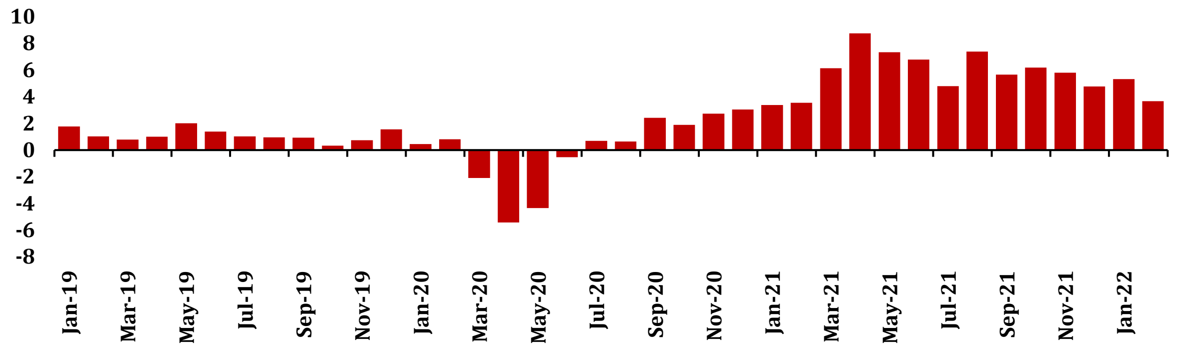
The LSM cycle is following the cyclical movements in the main trading partners, but since it is focused on the main industrial sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets. Pakistan's main export markets continue to experience stable cyclical positions with slightly positive output gaps. Due to recoveries in potential output after the relaxing of economic restrictions imposed during the highs of the pandemic, these countries remain to show solid economic growth. For Jan 2022, LSM maintained the growth pace. It is expected that for Feb 2022, growth in LSM will remain moderate due to the seasonal factors.

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-10 presents the MEI on monthly basis since January 2019.

The MEI remains strong, although some slowdown in growth in Feb 2022 is observed. This observation is based on movements in macroeconomic high-frequency indicators such as growth in LSM (which is known to exert strong multiplier effects in services sectors) and growth in imports. In addition, economic growth in Pakistan's main trading partners continues to remain above trend, although some slowdown may be in the cards due to the uncertainties surrounding the recent geopolitical tensions and the continued increase in international commodity prices. If these tensions continue or intensify, Pakistan's growth may be affected as well.

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



Source: EA Wing's Calculations

3.5 External

According to BOP data, the trade deficit in goods and services declined considerably; from $ 4.3 billion in Jan 2022 to $ 2.6 billion in Feb 2022. Exports of goods and services that unexpectedly declined in January have resumed their upward trend in February. Imports of goods and services were at all-time highs in December and January, but declined substantially in February, helped by negative seasonal effects.

In March, exports are expected to continue their upward trend, backed by the export-oriented policies that have been implemented in the recent past. The stabilizing of the Real Effective Exchange will also help exports in keeping the rising trend. Imports will probably return to a level that is more in line with domestic economic activity and the levels of international commodity prices. As a result, the trade balance may less deteriorate in Mar 2022 as well. However, geopolitical risks still persist.

In January and February, remittance inflows declined to lower levels mainly due to negative seasonality. In March they are expected to revert to normal levels. Taking these factors into account, as well as its other components, the current account deficit is expected to stay well below the unsustainable levels observed during the period from Aug 2021 up to Jan 2022.

3.6 Fiscal

The first seven months of the current fiscal year have witnessed significant pressure on fiscal accounts due to rising expenditures under grants and subsidies. In addition, the PSDP spending has also witnessed a significant rise of 37 percent.

On the revenue side, FBR tax collection has been able to achieve more than 65.2 percent of its annual target during the first eight months of the ongoing fiscal year. However, the government has announced a relief package for the masses to offset the impact of increasing oil prices. These are collectively adding risks to the fiscal sector. Notwithstanding measures to improve tax collection and expenditure management will help in containing the fiscal deficit at a manageable level and keeping the primary balance at a sustainable level.

4. Way Forward

Pakistan's economic performance continues to be strong and is still on a trajectory compatible with an economic growth target of around 5 percent in the current fiscal year. Its cyclical position has returned to a more neutral stance. If this trend continues in the next months, economic growth will be driven primarily by the expansion of manufacturing capacity. However, the intensity of internal and external risks has still not been exactly realized which may adversely affect domestic economic activities.

Further, inflation and the current account deficit are still under pressure. The government is taking measures to limit as much as possible further increases in the cost of living in the coming months. Moreover, the government measures designed to stimulate exports and discourage unnecessary imports are expected to contribute to constrain current account deficit.

The recent geopolitical tensions, in particular the Ukraine crisis, is the most important external risk factor. Likewise, domestic political conditions are building domestic risks. A further escalation of these risks could hamper the positive outlook for Pakistan's economy and may also aggravate the macroeconomic imbalances.

Economic Indicators
(24-03-2022)

	2020-21 (Jul-Feb)	2021-22 (Jul-Feb)	percent Change
External Sector			
Remittances ($ billion)	18.7	20.1	↑7.6
Exports FOB ($ billion)	16.1	20.6	↑28.1
Imports FOB ($ billion)	32.1	47.9	↑49.1
Current Account Deficit ($ billion)	-1.0	12.1	↑
FDI ($ million)	1185.0	1257.4	↑6.1
Portfolio Investment-Public ($ million)	-132.2	904.9	↑
Total Foreign Investment ($ million) (FDI &Portfolio Investment)	799.1	1847.7	↑
Forex Reserves ($ billion)	**20.342 (SBP: 13.213) (Banks: 7.128)** (On 24th Mar 2021)	**18.518 (SBP: 12.108) (Banks: 6.410)** (On 24th Mar 2022)	
Exchange rate (PKR/US$)	**155.40** (On 24th Mar 2021)	**181.74** (On 24th Mar 2022)	

Source: SBP

	2020-21 (Jul-Jan)	2021-22 (Jul-Jan)	percent Change
Fiscal			**(Rs Billion)**
FBR Revenue (Jul-Feb)	2916.3	3802	↑30.4
Non-Tax Revenue (Federal)	941	783	↓16.7
PSDP (Authorization) (Jul-Feb)	479.2	580.6	↑21.2
Fiscal Deficit	1309	1862	↑
Primary Balance	416	(174)	↓

Source: FBR & Budget Wing

	2020-21 (Jul-Feb)	2021-22 (Jul-Feb)	percent Change
Monetary Sector			
Agriculture Credit (provisional)	**806.4**	**835.3**	**↑3.6**
Credit to private sector (Flows)	**403.6** (1st Jul to 26th Feb)	**874.3** (1st Jul to 25th Feb)	↑
Growth in M2 (percent)	**4.6** (1st Jul to 26th Feb)	**0.5** (1st Jul to 25th Feb)	
Policy Rate (percent)	**7.00** (19-Mar-2021)	**9.75** (08-Mar-2022)	

Source: SBP

	2020-21	2021-22	percent Change
Inflation			
CPI (National) (percent)	**8.7** (Feb)	**12.2** (Feb)	
	8.3 (Jul-Feb)	**10.5** (Jul-Feb)	
Real Sector			
Large Scale Manufacturing (LSM) (percent)	**3.6** (Jan)	**8.2** (Jan)	
	1.8 (Jul-Jan)	**7.6** (Jul-Jan)	
PSX Index*	**47801** (On 1st Jul 2021)	**43523** (On 24th Mar 2022)	**↓8.95**
Market Capitalization (Rs trillion)	**8.38** (On 1st Jul 2021)	**7.35** (On 24th Mar 2022)	**↓12.29**
Market Capitalization ($ billion)	**53.22** (On 1st Jul 2021)	**40.43** (On 24th Mar 2022)	**↓24.03**
Incorporation of Companies (Jul-Feb)	**16721**	**17578**	**↑5.13**

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP