



# **Monthly Economic Update & Outlook September 2021**

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Government of Pakistan  
Finance Division  
Economic Adviser's Wing

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# Contents

<b>Executive Summary .....</b>	<b>1</b>
<b>International Performance and Outlook.....</b>	<b>2</b>
<b>Monthly Performance of Pakistan's Economy.....</b>	<b>4</b>
<b>Economic Outlook.....</b>	<b>9</b>
<b>Way Forward .....</b>	<b>12</b>
<b>Economic Indicators.....</b>	<b>13</b>

## Executive Summary

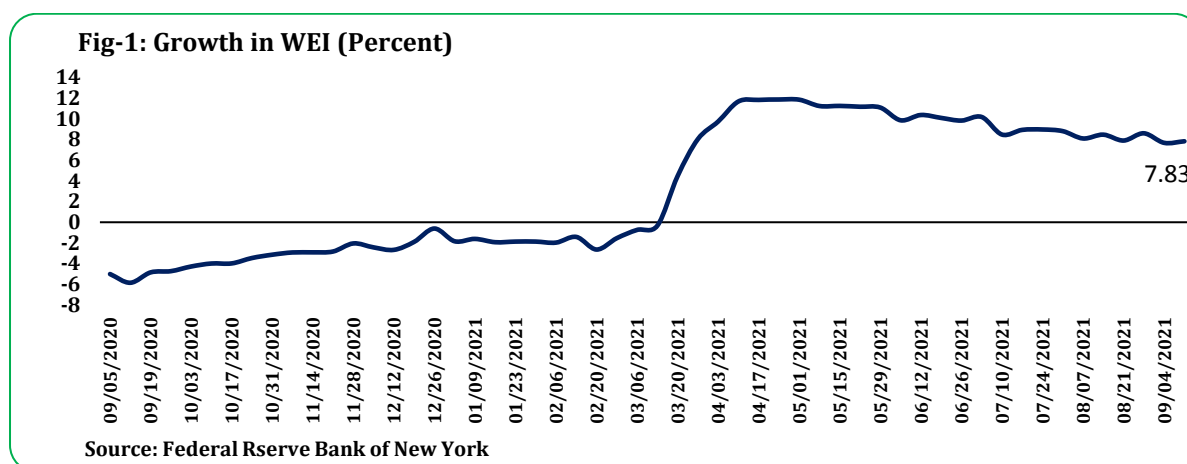
- The global economy expanded for a 14th straight month in August, however, the rate of expansion has remained slow might be due to the spread of Delta variant in some countries. After rising in 9 of the previous 10 months, energy prices decreased by 2.1 percent in August, 2021, non-energy prices fell by 1 percent while the prices of agriculture commodities & fertilizers increased by 0.6 and 3.0 percent, respectively.
- **Real Sector:** According to Cotton Crop Assessment Committee, the overall cotton production will reach to 8.5 million bales during FY2022 showing an increase of 20 percent compared to 7.1 million bales last year. In July 2021, LSM witnessed an increase of 2.3 percent against 8.1 percent in July 2020. LSM performance remained sluggish temporarily due to closure of industrial activities during holidays in Eid-ul-Adha and monsoon rain which spread over 15 days. However, the latest upward trend of other high frequency variables such as car production and sales, oil sales, cement dispatches etc. will boost the LSM in coming months. The Consumer Price Index (CPI) is recorded at 8.4 percent during Jul-Aug FY2022 as compared to 8.7 percent last year.
- **Fiscal, Monetary & External:** The fiscal deficit in terms of GDP contained at 0.4 percent (Rs 237.8 billion) in July FY2022 against 0.5 percent (Rs 211.6 billion) in the last year. In July FY2022, expenditures under PSDP grew by 72 percent to Rs 25.3 billion against Rs 14.7 billion in the same period of last year. During the period 1st July-03rd September FY2022, Broad Money (M2) observed contraction of Rs 318.5 billion as compared to contraction of Rs 181.3 billion during same period last year. The Current Account posted a deficit of \$ 2.3 billion (4.1 percent of GDP) for Jul-Aug FY2022 as against a surplus of \$ 838 million (1.8 percent of GDP) last year. Current account deficit widened due to constantly growing import volume of energy and non-energy commodities like COVID-19 vaccines, food, and metals along with a rising trend in its global prices. Exports on fob grew by 35.4 percent during Jul-Aug FY2022 and reached to \$ 4.6 billion (\$ 3.4 billion last year).
- **Economic Outlook:** The revival of economic activities all over the world has increased the prices of commodities unprecedentedly, thus, putting inflationary pressure globally. The revival of economic activities domestically has increased imports mainly due to an increase in raw materials for consumer and capital goods.
  - In September, MoM inflationary impulses may come from 2<sup>nd</sup> round effects of previous increase in international commodity prices and currency depreciation. Inflation rate in September 2021 is expected between 7.5 to 8.4 percent.
  - Since March 2021, the MEI is on a higher level as compared to the previous months. This is based on favorable movements in macro-economic high frequency indicators which exert strong multiplier effects on services sector, along with recovery in Pakistan's main trading partners. Therefore, the MEI is expected to remain significant with continuation of dynamism in domestic value-added creation.
  - Exports of goods and services for next month will remain above \$ 3 billion on account of prudent pro-exports government measures. Remittances are likely to keep its momentum, consequently current account deficit will be in manageable range.
  - Tax collection has surpassed the target by Rs 94 billion in August 2021 as a result of robust FBR measures and strong domestic economic recovery, setting the strong base for higher tax collection.

Pakistan's economy is currently on a higher growth path. For long term sustainable economic growth, the expansion of domestic production stands vital, which is being managed by appropriate structural reforms introduced by the Government.

## 1. International Performance and outlook

The global economic recovery is still uncertain due to the spread of delta variant in many countries. The subsequent supply bottlenecks are stifling growth across advanced economies and emerging markets, thus dragging global growth below outlook's baseline. Currently, the delta variant is causing an increase in COVID-19 cases and hospitalizations in the United States. This had a dampening effect on job growth, which significantly slowed down in August. Some high frequency indicators issued mixed signals. Indicators on mobility and consumer spending remained fairly stable, whereas others, including restaurant reservations and consumer confidence signaled a modest pullback by consumers.

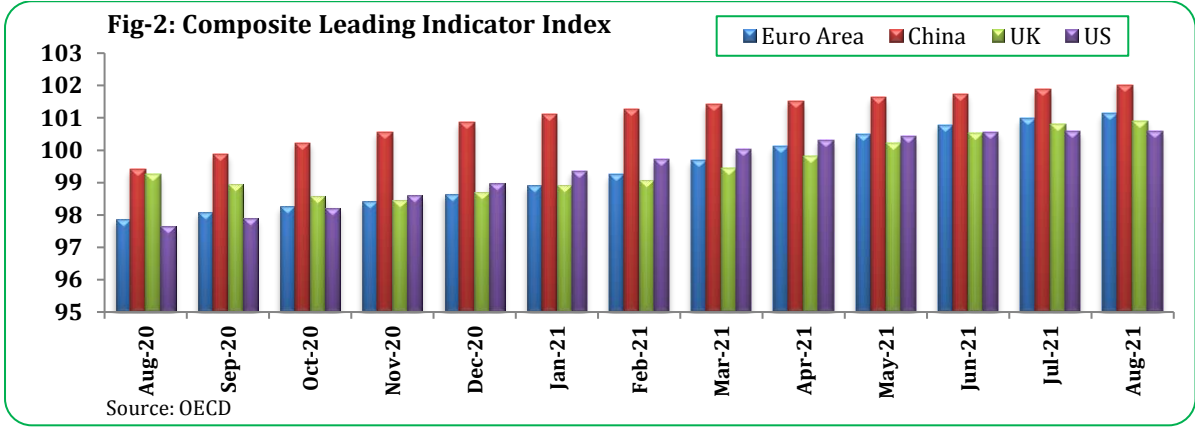
The Weekly Economic Index (WEI) of the Federal Reserve Bank of New York is an index of ten daily and weekly indicators of real economic activity, scaled to align with the four-quarter GDP growth rate (Fig-1). Since end March 2021, index is moving upward reflecting expansion of the US economy. The increase in the latest WEI is due to an increase in consumer confidence. However, the composite output PMI of US has shown a steep slowdown, which reflects lower growth in weekly WEI during August, 2021. As the WEI measures changes over a 52-week period, the large positive reading also reflects the sharp deterioration in economic conditions during the same time last year.



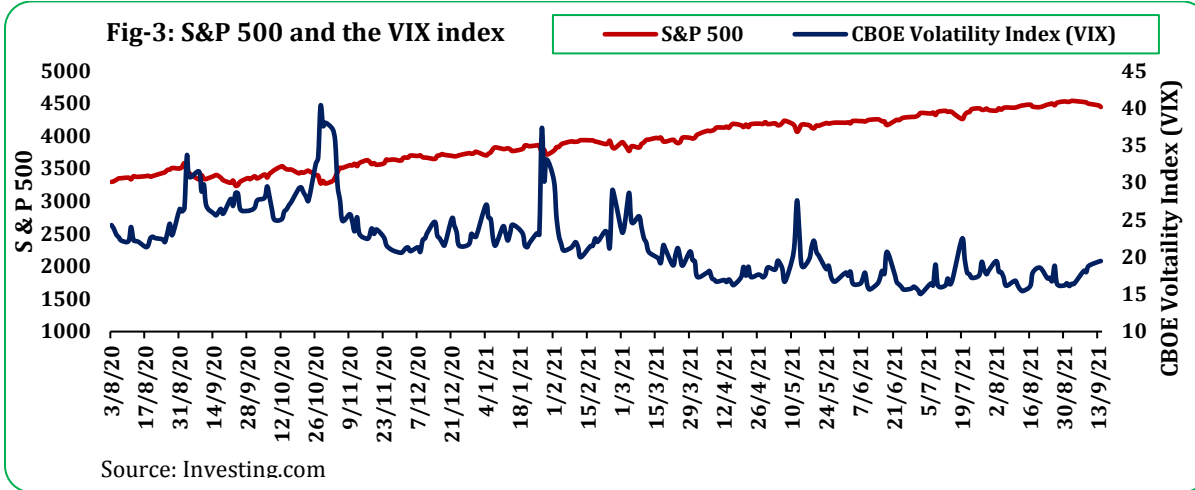
Differences in vaccine access and availability of revenues for the provision of fiscal incentives are creating a growing divergence among advanced, emerging and developing economies. Faced with high deficits and historic levels of debt, countries with limited access to financing are walking a fiscal tightrope between providing adequate support and preserving financial stability. Without resolute measures to address this growing divide, COVID-19 will continue to claim lives and limiting jobs, deteriorating investment, productivity, and further increasing the vulnerabilities of weak economies.

Inflation is expected to return to its pre-pandemic level in most countries in 2022 once these disturbances and vulnerabilities die out. Central banks should generally look through transitory inflation pressures and avoid tightening until there is more clarity on underlying price dynamics. Clear communication from central banks on the outlook for monetary policy will be key to shaping inflation expectations and safeguarding against premature tightening of financial conditions. There is, however, a risk that transitory pressures could become more persistent and central banks may need to take preemptive action.

The Composite leading Indicator (CLI) index is compiled by the OECD, available up to August 2021 (Fig-2), which maintained its upward trajectory. The CLI position of major trading partners of Pakistan has improved continuously and the index crossed 100 since April, 2021 reflecting continuation of economic activities in these economies.



Worldwide, stocks showed some weakness in September 2021. The Chicago Board Options Exchange (CBOE) Volatility Index which is commonly used as a measure of investors' uncertainty settled below 20 since June, 2021. However in September 2021 VIX increased marginally showing uncertainty. Resultantly S&P 500 Index fallen to 4,433 points on 17<sup>th</sup> September, 2021 showing uncertainty in market sentiments (Fig-3). The higher uncertainty is attributed to concerns related to the risk of monetary tapering, inflation, the health of the job market condition, higher long term interest rates and COVID-19 infections. Also, psychological considerations played a role; September is generally considered to be a negative month for stocks.



The J.P.Morgan Global Manufacturing PMI™ – a composite index produced by J.P.Morgan and IHS Markit plummeted to a six-month low of 54.1 in August-2021 (55.4 in July), as rates of output growth decelerated in several major markets including the US, and Euro Area along with major Asian markets. The global economy expanded for a 14<sup>th</sup> straight month in August, however, the rate of expansion remained slow. Out of the 31 nations for which August data was available, 21 registered PMI readings above the neutral mark of 50.0 compared to ten signaling contraction (below 50.0).

Both manufacturing and service sectors contributed to the easing of growth as COVID-19 cases rose around the world and induced further caution. Impeded by sustained supply-side constraints, global manufacturing growth fell to the lowest in 14 months. Differing vaccination rates also continued to play a part, as seen by the strong correlation between vaccination rates and factory output. Asia noticeably continued to lag behind most western economies in August.

After rising in 9 of the previous 10 months, energy prices decreased by 2.1 percent in August, 2021 (5 percent in July 2021). Non-energy prices fell by 1 percent (-0.2 percent in July 2021). Results were mixed for key subgroups, with agriculture commodities and fertilizers rising 0.6 percent and 3.0 percent, respectively. Metal and minerals dropped

4.4 percent and precious metals decreased by 2.3 percent in August 2021.

## 2. Monthly Performance of Pakistan's Economy

Due to the government's growth oriented policies, Pakistan's economy is set to achieve higher, inclusive and sustainable economic growth in FY2022. However, there are some downside risks to the outlook of Pakistan's economy associated with rising international commodity prices, new variants of virus and geopolitical dynamics especially post August 15 scenario, emerged in Afghanistan.

### 2.1 Real Sector

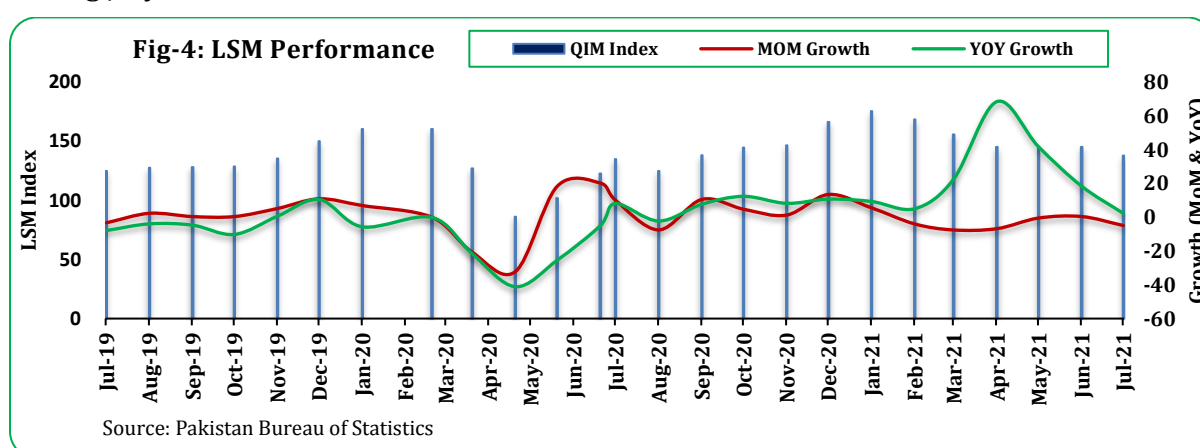
#### 2.1-a Agriculture

According to the Cotton Crop Assessment Committee meeting held on 1st September 2021, the overall cotton production is estimated at 8.5 million bales during FY2022 showing an increase of 20 percent compared to 7.1 million bales last year. In Sindh production of cotton is expected to reach 3.5 million bales compared to 1.9 million bales last year. While in Punjab cotton production is estimated to be 4.5 million bales. The better production in cotton crop is expected due to favorable conditions. Sugarcane production may increase during FY2022 mainly due to an increase in cropped area, effective and timely crop management activities.

On agriculture inputs side, the situation remained favorable. According to Pakistan Automotive and Manufacturing Association (PAMA), farm tractors production increased by 38.7 percent to 9,263 in Jul-Aug FY2022 and its sales also witnessed an increase of 18.5 percent to 6,457 compared to the same period last year. Most importantly, agriculture credit disbursement target set at Rs 1,700 billion for FY2022, 13.3 percent more than last year. During July-August, FY 2022, the agriculture credit disbursement increased by 7.5 percent reached to Rs 171.6 billion compared to disbursement of Rs 159.7 billion over the same period last year. The urea off-take during July 2021 was 622 thousand tonnes showing an increase of 8.1 percent over July 2020.

#### 2.1-b Manufacturing

Overall performance of LSM was very encouraging with 15.2 percent growth during FY2021 after a sharp contraction in FY2020. Government's proactive measures in the form of early resumption of economic activities and industrial support packages helped LSM in gaining momentum. In July 2021, LSM witnessed an increase of 2.3 percent against 8.1 percent in July 2020. LSM performance remained sluggish offsetting the base effect as the graph shows a hefty contraction followed by a sharp recovery. The closure of industrial activities during holidays in Eid-ul-Adha and monsoon rains which spread over 15 days also hampered the growth momentum. Meanwhile, some revision in the previous data (FY2021) has also been observed which have caused a low pace in LSM growth during July FY2022.



In July FY 2022, 11 out of 15 subsectors of LSM have witnessed positive growth. Automobile shows a massive growth of 44.62 percent, Wood Products grew by 24.20 percent, Chemicals by 13.61 percent, Iron & Steel Products by 11.34 percent, and Leather Products by 11.72 percent.

Car production and sale increased by 111.7 percent and 92.8 percent while tractor production and sale increased by 38.7 percent and 18.5 percent respectively. Total Oil sales increased by 22.0 percent to 3.9 mn tonnes in Jul-Aug FY2022 (3.3 mn tonnes last year). In Aug FY2022, total cement dispatches increased by 22.8 percent to 4.3 mn tonnes (3.5 mn tonnes last year).

Based on recent performance and the government's proactive measures, it is expected that the industrial sector will follow an upward trend and achieve growth target.

### **Economic Measures for Industry**

The government is fully committed to promote industrial activities and taking all proactive measures wherever it is necessary to facilitate the industrial sector and its counterparts. Major relief has been given to Automobile industry in Budget 2021-22 by reducing sales tax on 850cc cars from 17 percent to 12.5 percent along with exemption from value-added tax (VAT), Imports of electric vehicles exempted from VAT while the sales tax on locally produced electric vehicles @ 1% instead of 17%.

The minimum annual threshold level of turnover for sales tax imposition on cottage industry is proposed to be increased from Rs 3 million to Rs 10 million. Moreover, PSDP authorization has increased by 250 percent to Rs 393 billion (as on 3<sup>rd</sup> Sep, 2021). Import of plant, machinery and raw material by Special Technology Zone (STZ) are exempted from sales tax. Ten-year tax exemption is given to Special Technology Zone Authority, Zone Developers and Zone Enterprises. Moreover, tax exemption has been granted on the import of capital goods and dividend income of private funds from investment in special technology zone enterprise. The ten years tax exemption is allowed on income of deep conversion new refineries and BMR projects of existing refineries. The tax liability has been reduced by 25 percent for women entrepreneurs. Industrial support package and construction package announced in the wake of COVID-19 remained continued.

### **2.2 Inflation**

The Consumer Price Index (CPI) is recorded at 8.4 percent during Jul-Aug FY2022 as compared to 8.7 percent last year. Urban CPI recorded at 8.5 percent as against 7.5 percent, while Rural CPI observed at 8.2 percent as compared to 10.7 percent during the same period last. The risks that could raise inflation include higher trend in global commodity prices, especially food and energy items. However, the government is taking all possible measures to control inflationary pressures and provide relief to the masses in order to mitigate the impact of price hike.

The government has decided to immediately reduce vegetable ghee/oil by Rs. 45-50 per kg to Rs. 290 from Rs. 340 and wheat flour to Rs. 55 per kg. Government has decided to increase wheat release price to Rs. 1950 per 40 kg from and flour mills would immediately start providing 20 Kg bag for Rs 1100. Government has further decided that sugar be available across the country at Rs. 89.75 per kg to provide relief to 40-42 percent population.

Months	International Prices				
	Sugar (\$/MT)	Palm Oil (\$/MT)	Soya bean Oil (\$/MT)	Wheat (\$/MT)	Crude Oil (\$/Brl)
Aug-20	290.0	760.0	867.0	208.9	44.3
Aug-21	430.0	1136.0	1436.0	276.2	70.0
% Change	<b>48.3</b>	<b>49.5</b>	<b>65.6</b>	<b>32.2</b>	<b>58.0</b>

**Source: Pink sheet (World Bank)**

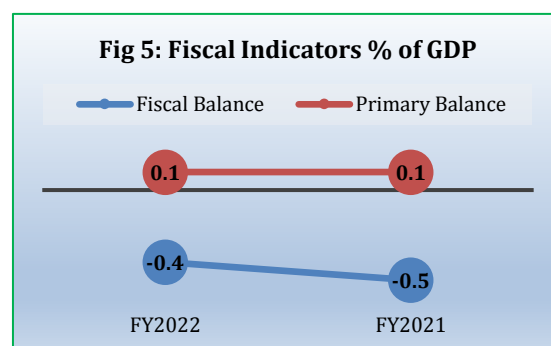
Domestic Prices in Pakistan						
Months	Sugar Refined (Rs/Kg)	Cooking Oil Dalda (Rs/5Kg)	Vegetable Ghee Dalda (Rs/Kg)	Wheat Flour (Rs/20Kg)	Petrol (Rs/Liter)	Hi-Speed Diesel (Rs/Liter)
Aug-20	94.90	1256.77	244.21	999.88	104.92	107.49
Aug-21	105.46	1677.22	330.39	1134.4	120.76	117.58
% Change	<b>11.13</b>	<b>33.45</b>	<b>35.29</b>	<b>13.45</b>	<b>15.10</b>	<b>9.39</b>

Source: PBS

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

### 2.3. Fiscal

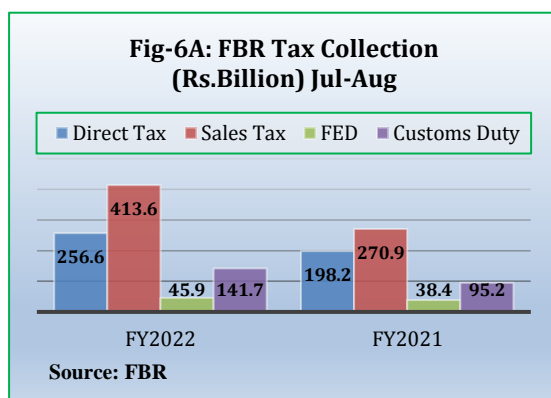
The fiscal deficit in terms of GDP contained at 0.4 percent (Rs 237.8 billion) in July FY2022 against 0.5 percent (Rs 211.6 billion) in the comparable period of last year. While the primary balance remained in surplus and stood at Rs 71.7 billion (0.1 percent of GDP) against Rs 55 billion (0.1 percent of GDP) during the period under review.



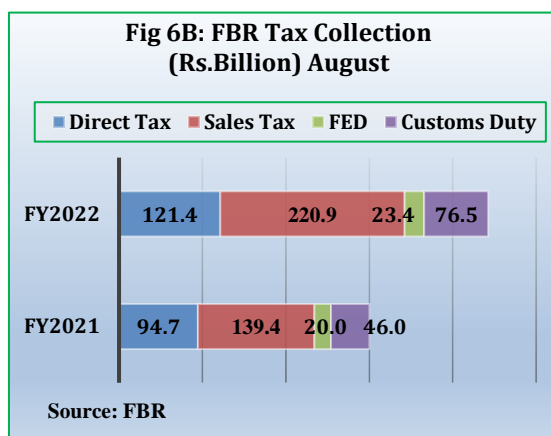
In July, FY2022 expenditures under PSDP grew by 72 percent to Rs 25.3 billion against Rs 14.7 billion in the same period of last year.

#### FBR Tax Collection

During Jul-Aug, FY2022, net provisional collection grew by 42.3 percent, to Rs 857.8 billion against Rs 602.6 billion in the comparable period of last year which is unprecedented.



The provisional net collection surpassed the target of Rs 690.3 billion by Rs 167.5 billion. All the tax components registered a healthy growth. Direct taxes grew by 29.5 percent, sales tax by 52.7 percent and FED 19.3 percent. Similarly, customs duty recorded a growth of 48.9 percent during the period under review as compared to previous year.



For the month of August 2021, provisional tax collection increased by 47.4 percent to Rs 442.3 billion against Rs 300.0 billion last year.

### 2.4. Monetary

The Monetary Policy Committee (MPC) decided to raise the policy rate by 25 basis points to 7.25 percent, in last Monetary Policy decision announced as on 20th September, 2021.

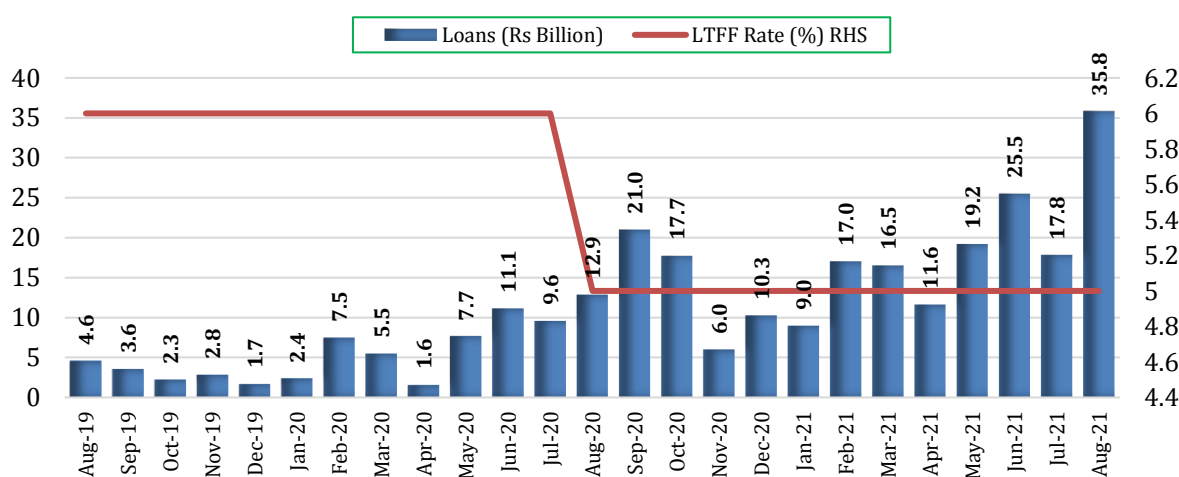
During the period 1st July-03rd September FY2022, Broad Money (M2) observed contraction of Rs 318.5 billion (negative growth of 1.3 percent) as compared to contraction of Rs 181.3 billion (negative growth of 0.9 percent) during same period last year. The contraction in M2 was observed mainly due to negative Net Domestic Assets



(NDA) which were partially offset by positive Net Foreign Assets (NFA) point contribution. NFA point contribution stood at 0.13 percent, witnessed expansion of Rs 30.6 billion against expansion of Rs 343.2 billion last year. Whereas, Net Domestic Assets (NDA) point contribution is negative 1.44 percent (Rs -349.1 billion) against -2.52 percent (Rs -524.5 billion) in last year. The NDA remained negative during the period under review on account of private sector credit (PSC) retirement. The PSC observed retirement of Rs 145.7 billion as compared to retirement of Rs 157.1 billion during same period last year, maintaining the credit cycle behavior. Normally, Jul-Sep is considered to be the retirement period and borrowing period starts from October, as major borrowers in manufacturing sector, textile starts borrowing to purchase raw material in the month of October/November after the arrival of cotton in the market.

However, loans under Long Term Finance Facility (LTFF) concessional rate are continuously increasing, reflecting expansion in economic activity and fixed investment, which confirm well for industrial sector growth in coming months.

**Fig-7: Loans Under Long Term Finance Facility (LTFF) Scheme**



Source: SBP

## 2.5 External Sector

The Current Account posted a deficit of \$ 2.3 billion (4.1 percent of GDP) for Jul-Aug FY2022 as against a surplus of \$ 838 million (1.8 percent of GDP) 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 35.4 percent during Jul-Aug FY2022 and reached \$ 4.6 billion (\$ 3.4 billion last year).

As per PBS, during Jul-Aug, FY 2022, exports increased by 27.9 percent to \$ 4.6 billion (\$ 3.6 billion last year). The major exported commodities which have grown well during the review period include Knitwear (31.1 percent), Readymade garments (22.6 percent), Bed wear (24.5 percent), Cotton Yarn (68.0 percent), Cotton Cloth (24.7 percent), Chemical & pharma products (67.0 percent), leather manufactured (8.2 percent), Fruits (23.5 percent) and Basmati rice (27.6 percent). The increase in overall exports is contributed by the growth in exports of value-added sectors. The total imports in Jul-Aug, FY2022 increased to \$ 12.2 billion (\$ 6.9 billion last year), thus posted 74.1 percent growth. 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-Aug FY2022, total foreign investment registered an inflow of \$ 1,164.9 million while FDI recorded at \$ 203.1 million (\$ 254.8 million last year). On MOM in August 2021 FDI stood at \$113.2 million (\$89.9 million in July 2021) increased by 25.9 percent. FDI received from: China \$ 53.9 million (26.5 percent of total FDI), United States \$ 32.2 million (15.8 percent), Singapore \$ 23.1 million (11.4 percent of total FDI), and Hong Kong \$ 18.6 million (9.2 percent). Power sector attracted highest FDI of \$ 85.8 million (42.3 percent of total FDI), Communication \$ 46.0 million (22.6 percent), financial business \$ 39.1 million (19.3 percent) & Oil & Gas exploration \$ 35.5 million (17.5 percent).

Foreign Private Portfolio Investment has registered a net outflow of \$ 14.7 million during Jul-Aug FY2022. Foreign Public Portfolio Investment recorded a net inflow of \$ 976.5 million. In April 2021, Pakistan established a Global Medium-Term Note (MTN) program which will allow Pakistan to tap the market at short notice. Through this program, Pakistan successfully raised \$ 2.5 billion in April and \$ 1.0 billion in July 2021 through a multi-tranche transaction of 5-, 10- and 30-years Eurobonds. The total foreign portfolio investment recorded an inflow of \$961.8 million during Jul-Aug FY2022 as against an outflow of \$ 135.6 million last year.

## 2.5.2 Worker's Remittances

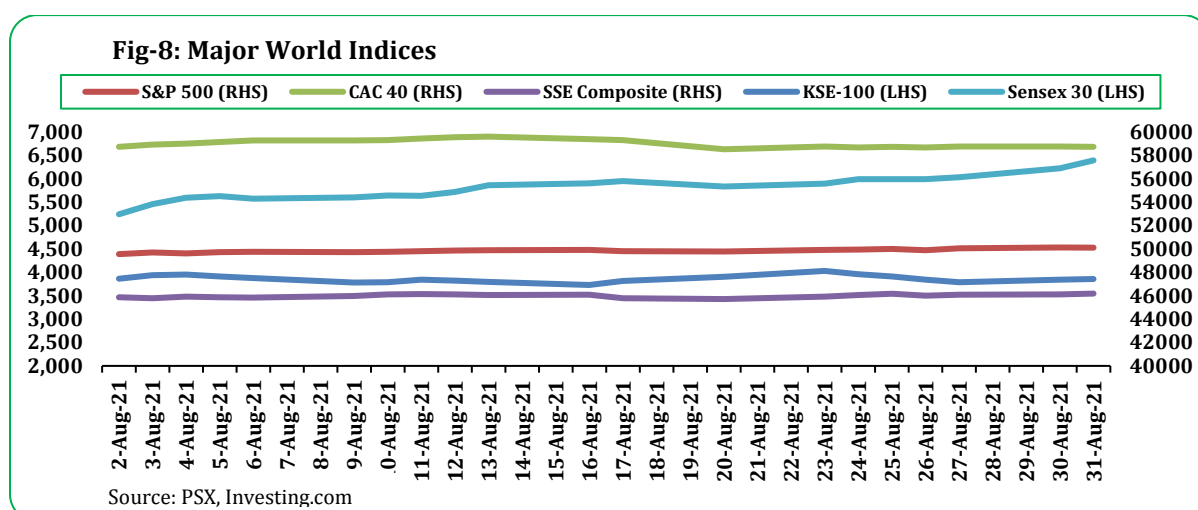
In Jul-Aug FY2022, workers' remittances reached \$ 5.4 billion (\$ 4.9 billion last year), increased by 10.4 percent. Workers' remittances continued their unprecedented streak of above \$ 2.0 billion for the 15th consecutive month in August 2021. YoY, remittances grew by 26.8 percent to \$ 2.6 billion in August 2021 (\$ 2.1 billion in August 2020). This is a decade high growth rate for the August. Share of remittances (Jul-Aug FY2022) from Saudi Arabia remained 24.9 % (\$ 1335.0 million), U.A.E 19.4 percent (\$ 1042.9 million), U.K 13.9 percent (\$ 745.7 million), USA 11.0 percent (\$ 591.0 million), other GCC countries 10.9% (\$ 583.0 million), EU 11.0 percent (\$ 590 million), Malaysia 0.4 percent (\$ 21.7 million), and other countries 8.5 percent.

## 2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to \$26.4 billion on September, 20 2021 with the SBP's reserves now stood at \$19.5 billion, while commercial banks' reserves remained at \$6.9 billion.

## 2.6 Performance of KSE Index

The KSE-100 index hovered around 47,000 and closed at 47,420 points on 31st August 2021, gaining 365 points in August, 2021. Similarly, Market capitalization increased by Rs 47 billion in the month and settled at Rs 8,290 billion. The trend of major world indices is depicted in Fig-8:



## 2.7 Social Sector

- Ehsaas digital survey, a nationwide assessment of socio-economic and poverty condition of households has been completed and 3.4 million people added to the list of beneficiaries. The number of BISP beneficiaries increased to 8.2 million.
- Under National Poverty Graduation Program, 67,936 livelihood productive assets worth Rs 4,076 million have been transferred to the ultra-poor households till 31<sup>st</sup> August, 2021, while 5,030 livelihood assets of Rs 301.8 million were distributed during the month of August.
- PPAF through its 24 Partner Organizations has disbursed 39,177 interest free loans amounting to Rs 1.5 billion during the month of August, 2021. From July, 2019 till 31<sup>st</sup> August, 2021, a total of 1,489,376 interest free loans amounting to Rs 53.13 billion have been disbursed to the borrowers.
- Bureau of Emigration and Overseas Employment (BEOE) has registered 8500 emigrants during August, 2021 for overseas employment in different countries. BEOE paid more than Rs 45 million as death/disability compensation during the month.
- Under Kamyab Jawan Youth Entrepreneurship Scheme the government has disbursed Rs 17,039 million till July, 2021 to the youth for businesses.
- Overseas Employment Corporation signed a Cooperation Agreement with the Ministry of Health (MoH), Kuwait for the supply of medical professionals and 186 medical professionals have been joined their duties in Kuwait during the month of August, 2021.
- As of 24<sup>th</sup> September 2021, confirmed cases of COVID-19 were 1,234,828 along with 1,146,394 recoveries and 27,482 total deaths.
- Till 24<sup>th</sup> September 2021, a total number of doses administered is recorded at 76,141,484 while 25,493,964 people are fully and 56,229,457 are partially vaccinated.

## 3. Economic Outlook

The revival of economic activities all over the world has increased the prices of commodities unprecedentedly, thus, putting inflationary pressure globally. Further, Pakistan is the country in which imports are mostly related to growth oriented Capital goods. The revival of economic activities domestically has surged imports bills mainly due to an increase in Raw Materials for Consumer and Capital Goods especially in last three months. The substantial rise in international commodity prices is the major reason of increase in our import bills, which has put pressure on the Pakistani rupee. Further, changing geo-political situation is also building pressure on domestic production and the money market. The government's pro-growth initiatives, as well as the building of strategic reserves, particularly in the food sector, will help the domestic economy by ensuring adequate supply. Further, measures taken by the government to enhance exports and ongoing workers remittances performance will definitely mitigate associated risks.

### 3.1 Inflation

Pakistan's inflation rate is mainly driven by the demand factors as well as international commodity prices, exchange rate, seasonal factors and economic agents' expectations concerning the future developments of these indicators. The structural policies of the government to improve the functioning of markets and in particular the food markets playing an important role to ease out inflationary pressures.

In September, MoM inflationary impulses may come from second round effects of

previous increases in international commodity prices, currency depreciation and some seasonal factors. On the other hand, Government efforts to temper the pass-through of international commodity prices into domestic retail prices are still in place and being continuously monitored and strengthened. Furthermore, new price impulses in September may have been somewhat compensated by significant base effects. If no new inflationary impulses would have occurred in September as compared to August, YoY inflation may decelerate in September 2021. However, taking into account new price impulses in September and the low base effect, YoY inflation in September is likely to resume its declining trend observed in recent months. Based on current information, the September inflation rate is expected to end up between 7.5 percent to 8.4 percent.

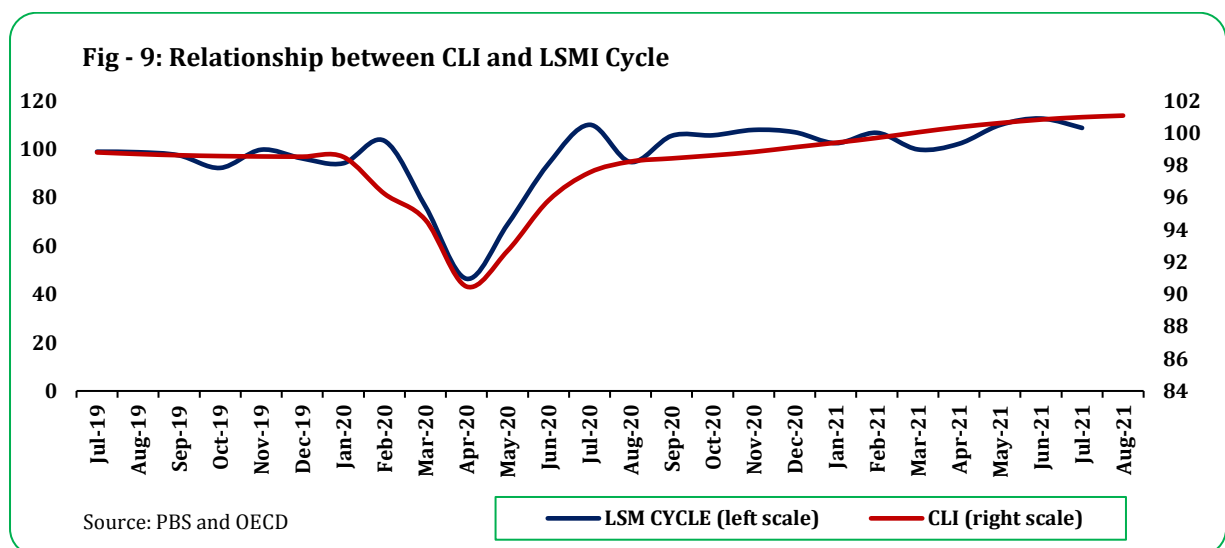
### 3.2 Agriculture

With available information there is 20 percent increase in cotton production, likewise news about sugarcane production is also encouraging. Agriculture credit disbursement has shown a growth of 7.5 percent during July-August FY2022. Further, other input availability is also satisfactory, thus it is expected in absence of any adverse climate shock, agriculture sector growth will remain as per target of 3.5 percent.

### 3.3 Industrial Activity

Industrial activity, measured by the LSM index is the sector that is most exposed to external conditions. The Fig-9 compares the cyclical component of LSM with the weighted average Composite Leading Indicators (CLI) of Pakistan’s main export markets. 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 recovery with 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. Both the CLI and LSM’s cyclical components stood well above the 100 level, indicating that Pakistan along with its major trading partners, are currently experiencing upward cyclical movements and positive output gaps.

After taking into account the substantial revisions in past LSM data (especially for July and August 2020) as published by PBS in September, the LSM index for July was found close to expectations. For August, it is expected that LSM will roughly stabilize around the level observed in July, but will still show healthy YoY growth.

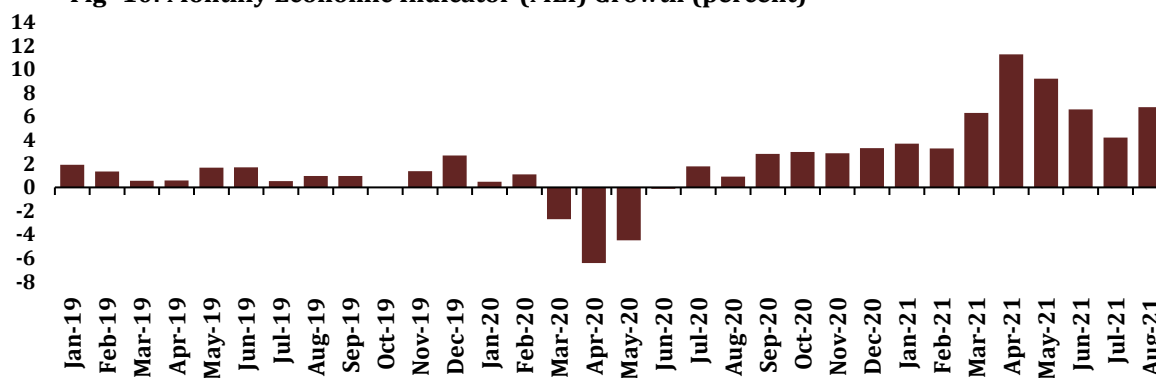


### 3.4 Overall Economic Activity

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. It should be noted that some of the data underlying the August MEI is still provisional and may be revised next month.

Since March 2021, the MEI is on a higher level as compared to the previous months. This is based on observed favorable movements in macroeconomic high frequency indicators such as strong growth in LSM (which is known to exert strong multiplier effects in services sectors) and favorable recovery in Pakistan's main trading partners. Therefore, the growth in MEI is expected to remain significant, reflecting low base effects and continuation of the dynamism in domestic value-added creation.

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



Source: EAW's Calculation

### 3.5 External

According to BOP data, imports of goods and services increased in June 2021 and came back to more normal levels in July, but spiked again in August. The recent increase in international oil prices, imports of food products and especially the ongoing revival of economic growth have stimulated imports.

Nevertheless, the August number for imports of goods and services was higher than expected. Consequently, the M-o-M fluctuations of imports (and also exports) are extremely volatile. In fact, the observed August imports number still falls within the 95 percent forecast probability margin. It will be important to observe whether this will continue to be the case in the months ahead. Otherwise, structural changes or special events away from the normal driving forces of imports may be at play. Given the continuing pace of economic recovery and the observed dynamism of recently observed import activity, imports of goods and services for the coming month are expected to decline from the August level.

Exports of goods and services in August 2021 according to BOP data, were not far behind the expected \$ 3 billion mark. For next month, the ongoing strong recovery in Pakistan's main export markets, the momentum in domestic economic dynamism and specific Government policies to stimulate exports are expected to get exports of goods and services above the \$ 3 billion level and more in the subsequent months.

These expected developments would reduce the balance on trade in goods and services around \$ 3 billion in September 2021, as well as in the coming months. If remittances were to stabilize approximately \$ 2.5 billion and taking into account the other secondary and primary income flows, the current account would remain in deficit but in manageable range.

These expectations depend on the absence of unexpected negative shocks. These may be generated by the potential slowdown of the economic revival abroad (due to loss of confidence, inflation fears, fears for tapering of monetary accommodation and geopolitical risks) and by an unexpected continued surge in imports. An international and domestic upsurge in COVID-19 infections remains an important risk factor as well.

### 3.6 Fiscal

The government's efforts at fiscal consolidation, prudent expenditure management since FY2019 had a strong carry-over impact in FY2021. It is likely to continue in the current fiscal year. In the current budget, the government significantly increased development spending with a view to give a further boost to economic growth. For this purpose, various initiatives in almost all the sectors have been introduced. Similarly, the government is dealing with the 4th wave of pandemic through effective containment measures so that economic activities may not be disrupted. Moreover, the government is accelerating vaccine procurement so that a large number of people can be protected against the COVID-19 virus. Therefore, with higher development and COVID-19 related spending, overall expenditures may likely to come under pressure.

On revenue side, FBR tax collection grew by 47.4 percent to Rs 442.3 billion in the month of August, FY2022 against Rs 300.0 billion in the comparable period of FY2021. Tax collection has surpassed the target by Rs 94 billion set for the month of August. FBR tax collection continues to be strong, showing that domestic economic activity is on the upswing. In addition, efforts to boost tax collection are yielding results. It is expected that FBR tax collection would achieve its target.

### 4. Way Forward

Pakistan's economy is currently on a higher growth path. For long term enhancement and sustainability of economic growth, it is important that it is driven by the expansion of domestic production. Value-added creation generates income that can be spent on consumption and investment. Attaining sustainable higher growth path requires a much larger proportion of the value added to be directed towards gross fixed capital formation, instead of consumption. This can be managed by appropriate long term structural policies, which are being implemented by the Government.

In the short term, sustainability of the current growth requires that the trade deficit remains manageable. In this regard, import dynamics are being closely monitored. Exports can benefit from the current domestic and foreign economic dynamism. It is mentionable that inflation in some of Pakistan's main export markets is rising significantly. However, domestic inflation is expected to decline. Maintaining REER at current level, the need for depreciation of the Rupee exchange rate is reduced significantly. The government policies for export promotion will also anchor for providing external sector stability.

**Economic Indicators**  
**(24-09-2021)**

	2020-21 (Jul-Aug)	2021-22 (Jul-Aug)	percent Change
<b>External Sector</b>			
<b>Remittances</b> (\$ billion)	4.9	5.4	↑10.4
<b>Exports FOB</b> (\$ billion)	3.4	4.6	↑35.4
<b>Imports FOB</b> (\$ billion)	6.8	11.4	↑67.8
<b>Current Account Deficit</b> (\$ billion)	-0.8	2.3	↑
<b>Current Account Deficit</b> (percent of GDP)	-1.8	4.1	↑
<b>FDI</b> (\$ million)	254.8	203.1	↓20.3
<b>Portfolio Investment-Public</b> (\$ million)	-59.3	976.5	↑
<b>Total Foreign Investment</b> (\$ million) (FDI &Portfolio Investment)	119.2	1,164.9	↑
	19.906	26.323	
	<b>(SBP: 12.704)</b>	<b>(SBP: 19.474)</b>	
<b>Forex Reserves</b> (\$ billion)	<b>(Banks: 7.202)</b>	<b>(Banks: 6.849)</b>	
	(On 21 <sup>st</sup> Sep 2020)	(On 21 <sup>st</sup> Sep 2021)	
	166.30	168.52	
<b>Exchange rate</b> (PKR/US\$)	(On 21 <sup>st</sup> Sep 2020)	(On 21 <sup>st</sup> Sep 2021)	

Source: SBP

	2020-21 (July)	2021-22 (July)	percent Change
<b>Fiscal</b> (Rs Billion)			
<b>FBR Revenue</b> (Jul-Aug)	602.3	857.8	↑42.3
<b>Non-Tax Revenue</b> (Federal)	77.7	46.9	↓39.6
<b>PSDP</b> (Authorization)	112.0	392.7	↑250
	(1 <sup>st</sup> Jul to 4 <sup>th</sup> Sep)	(1 <sup>st</sup> Jul to 03 <sup>rd</sup> Sep)	
<b>Fiscal Deficit</b>	211.6	237.8	↑
<b>Primary Balance</b>	55.1	71.7	↑

Source: FBR & Budget Wing

	2020-21 (Jul-Aug)	2021-22 (Jul-Aug)	percent Change
<b>Monetary Sector</b>			
<b>Agriculture Credit (provisional)</b>	159.7	171.6	↑7.5
<b>Credit to private sector (Flows)</b>	-161.8 (1 <sup>st</sup> Jul to 11 <sup>th</sup> Sep)	-74.3 (1 <sup>st</sup> Jul to 10 <sup>th</sup> Sep)	↑
<b>Growth in M2 (percent)</b>	-0.8 (1 <sup>st</sup> Jul to 11 <sup>th</sup> Sep)	-1.0 (1 <sup>st</sup> Jul to 10 <sup>th</sup> Sep)	
<b>Policy Rate (percent)</b>	7.00 (21-Sep-2020)	7.25 (20-Sep-2021)	
Source: SBP			

	2020-21	2021-22	percent Change
<b>Inflation</b>			
<b>CPI (National) (percent)</b>	8.2 (Aug)	8.4 (Aug)	
	8.7 (Jul-Aug)	8.4 (Jul-Aug)	
<b>Real Sector</b>			
<b>Large Scale Manufacturing (LSM) (percent)</b>	8.1 (July)	2.3 (July)	↑
<b>Miscellaneous</b>			
<b>PSX Index*</b>	47801 (On 1 <sup>st</sup> Jul 2021)	46009 (On 21 <sup>st</sup> Sep 2021)	↓3.75
<b>Market Capitalization (Rs trillion)</b>	8.38 (On 1 <sup>st</sup> Jul 2021)	8.00 (On 21 <sup>st</sup> Sep 2021)	↓4.53
<b>Market Capitalization (\$ billion)</b>	53.22 (On 1 <sup>st</sup> Jul 2021)	47.45 (On 21 <sup>st</sup> Sep 2021)	↓10.84
<b>Incorporation of Companies</b>	3,785	3,984	↑5.3
*: Formerly Karachi Stock Exchange (KSE)		Source: PBS, PSX & SECP	