

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



Government of Pakistan  
Finance Division  
Economic Adviser's Wing



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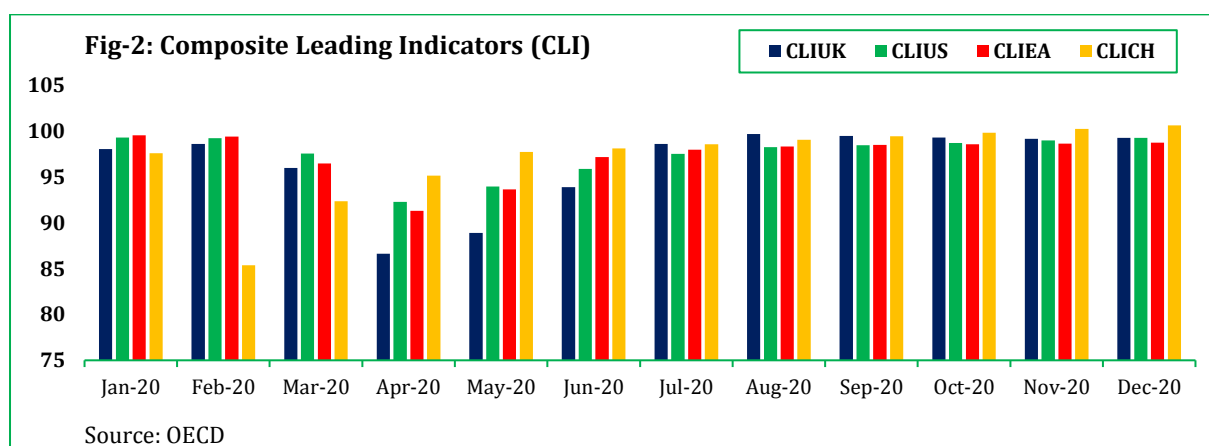
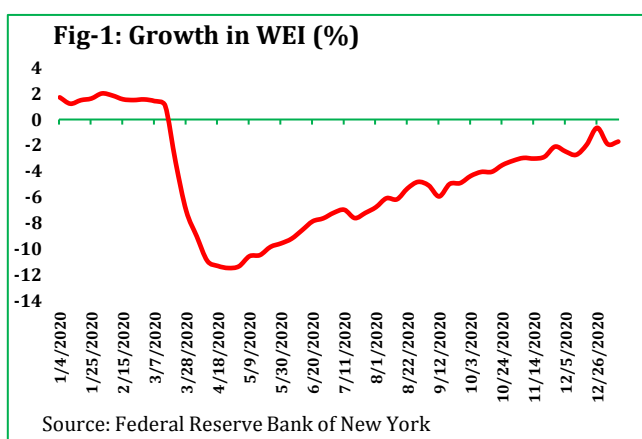
## 1. International Performance and Outlook

Global recovery is still uncertain as COVID-19 yet not over. The World Bank recently downgraded its short and medium-term outlook for the World Economy. In Global Economic Prospects, the World Bank projected worldwide GDP to grow by 4 percent, which is 0.2 percentage points less than in its Jun 2020 forecasts. IMF is also of the view that global economic outlook is still highly uncertain due to intensification of pandemic and divergence between rich and poor countries.

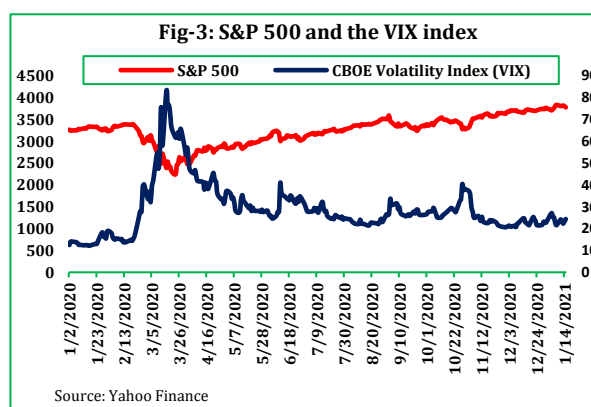
Pakistan's main trading partners like US, UK and many countries in Euro Area recently had taken additional measures to contain the spread of the Virus. These measures have mainly affected catering industry and personal services. However, industrial and Government services sectors are still in operation. Likewise, the services sub-sectors where most of the value is added are also continuing their activities. Therefore, the currently designed restrictions are not expected to generate the same fall in economic activity as was observed during the first Coronavirus-wave last year.

The Weekly Economic Index (WEI) continues its upward trend but remain volatile, reflecting an increase in uncertainty about continuation of recovery (Fig - 1).

According to monthly Composite leading Indicators, Dec 2020, the cyclical position in Pakistan's main export markets is improving especially in China but with a lesser degree in other market areas (Fig - 2).



In US, monetary policy remains very accommodative. The new administration also plans to implement a substantial relief package followed by additional stimulus measures which is a positive news for the US stock markets (Fig - 3). At the same time, the Chicago Board Options Exchange (CBOE) Volatility Index (VIX), indicates that some degree of uncertainty remains present in the markets.



According to Information Handling Services (IHS) Markit, PMI Business Activity Index registered 54.8 in December, down from 58.4 in November, as a rise in Virus cases dampened client demand. At the same time, service providers noted a substantial increase in input prices, which accelerated cost-push inflation.

In December, Commodity Prices continued to surge with energy commodities spiking 15.0 percent and non-energy commodities jumping 4.7 percent. All sub-indexes rose, led by metals and minerals (10.4 percent), base metals (7.2 percent) and grains (3.8 percent).

### **The Global Risks Report 2021**

Jan 19, 2021, World Economic Forum published Global risks report 2021, highlighting the risks and threats to world based on time-horizon and landscape.

<b>Top Global Risks</b>	<b>Response</b>
1. Livelihood Crisis	Considering the emerging risks, Pakistan has already taken initiatives to counter most of these challenges: <ol style="list-style-type: none"> <li>1. Ehsaas Umbrella and Kamyab Jawan Programme.</li> <li>2. Launching of 10BTTP</li> <li>3. 'Raast' first instant digital payment system</li> <li>4. Roshan Digital Account</li> <li>5. Balochistan's first 'Digital Policy 2020-21'</li> <li>6. National Agriculture Emergency program of Rs 277 billion</li> <li>7. Special Construction package</li> <li>8. Trade &amp; Industrial facilitation package &amp; Tax facilitations</li> <li>9. 'Save the Calf' project</li> <li>10. Backyard Poultry project</li> <li>11. National Electric Vehicle Policy</li> <li>12. Mangrove Plantation</li> </ol>
2. Extreme Weather	
3. Climate action failure	
4. Weapons of Mass Destruction	
5. Biodiversity loss	
6. Digital power Concentration	
7. Digital Inequality	
8. Asset Bubble Burst	
9. Price Instability	
10. Debt Crises	
11. Commodity Shocks	

<https://www.weforum.org/agenda/2021/01/global-risks-report-2021/>

## **2. Monthly Performance of Pakistan's Economy**

The key economic indicators has started recovering.

### **2.1 Real Sector**

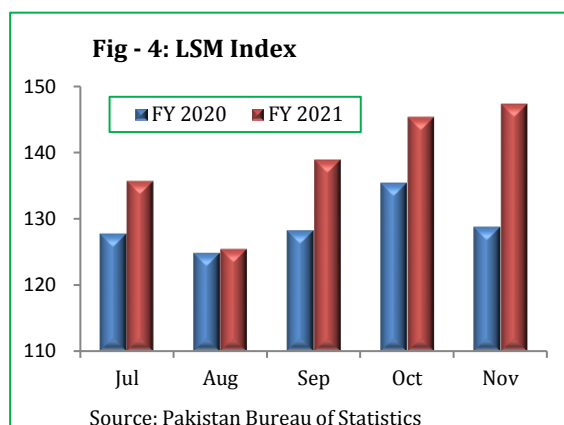
#### **2.1- a Agriculture**

Major Kharif crops (rice, sugarcane and maize) surpassed the production targets of 2020-21. For Rabi season 2020-21, wheat crop production is expected to achieve the production target of 27 million tonnes on the back of increase in wheat support prices as well as Prime Minister's Package of Rs 5.4 billion for Rabi Crops. Regarding input situation, it is quite satisfactory. The tractor production and sales rose by 39 percent and 43 percent, respectively for Jul-Dec FY 2021. The government has given an extension of subsidy on the sales tax of locally manufactured tractors. The irrigation water supply remained 5.29 MAF during Dec 2020 as per IRSA. For Oct-Nov 2020-21, urea off-take

witnessed an increase of 88.5 percent mainly due to waiving off Gas Infrastructure Development Cess (GIDC) for fertilizer.

### 2.1-b Manufacturing

For Jul-Nov FY 2021, LSM grew by 7.4 percent (-5.3 percent last year) showing promising recovery (Fig - 4). On YoY, LSM surged by 14.5 percent in Nov FY 2021 (-4.3 percent Nov FY 2020) highest after Jan 2008. In Nov FY 2021, on YoY, 12 out of 15 subsectors of LSM have witnessed positive growth. Textile, Food Beverages & Tobacco, Non-Metallic Mineral Products, Automobile, Iron & Steel Products, Coke & Petroleum Products and Fertilizer grew by 3.1, 57.6, 12.0, 44.5, 3.4, 1.2 and 9.2 percent, respectively. Total car production and sale increased by 1.9 and 13.4 percent respectively while tractor production and sale increased by 39.4 and 42.9 percent, respectively in Jul-Dec FY 2021.

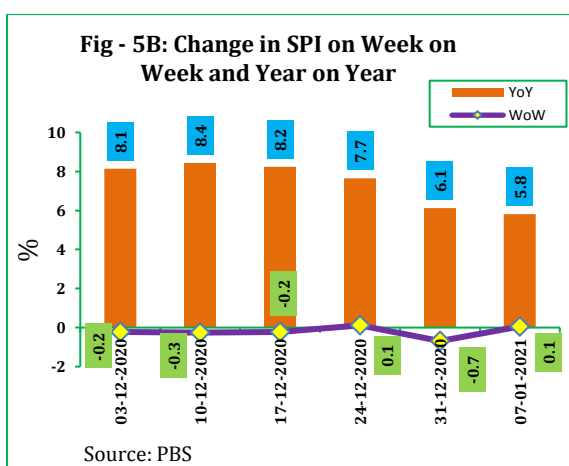
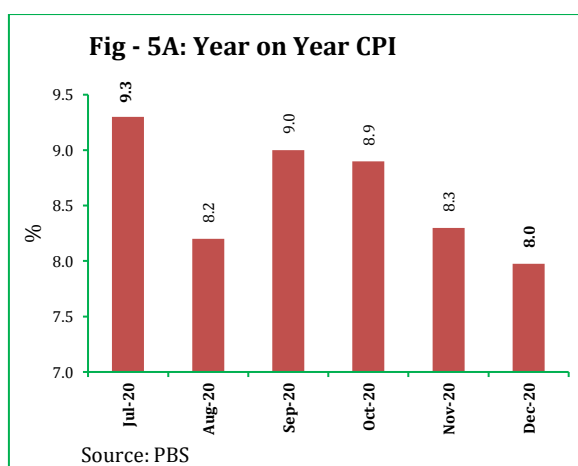


### Recent Facilitation for Industry

NEPRA has approved a Support Package for additional electricity consumption for industrial consumers of DISCOs and K-Electric. Government has extended tax amnesty till June 2021 and fixed tax regime till Dec 2021. Banks have also been directed by SBP to increase their construction sector loans to 5 percent of their total portfolio by Dec 2021.

### 2.2. Inflation

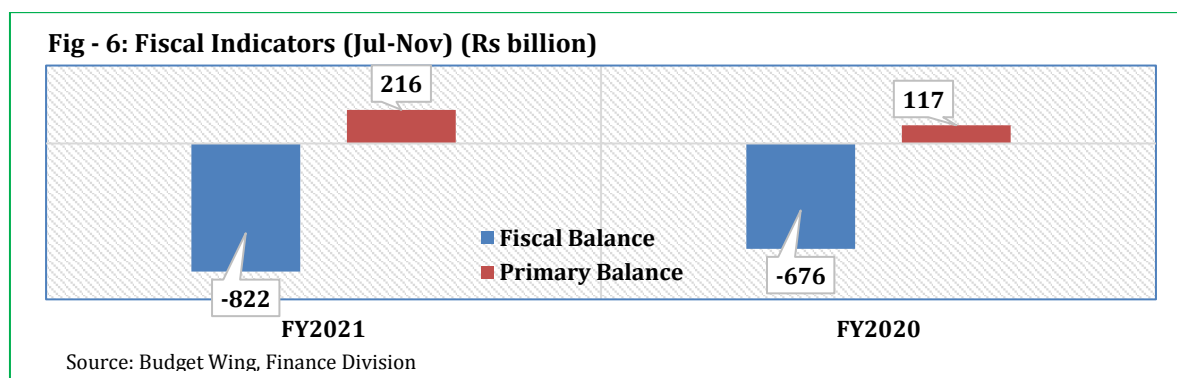
The headline inflation (CPI) is recorded at 8.6 percent for Jul-Dec FY2021 (11.1 percent last year). YoY inflation decelerated to 8.0 percent in Dec 2020 (12.6 percent last year) while on MoM, it recorded a decline of 0.7 percent. The decline observed on account of food prices which tamed down to lighten the CPI basket. Perishable food items recorded decline of 15.1 percent which are the main contributory factor in lowering down the Food and Non-Alcoholic Beverages group, while the Non-Perishable Food items decline by 0.6 percent in Dec 2020. The other groups clothing & Footwear slightly inched up by 0.7 percent, Housing, water, electricity, gas & Fuels 1.2 percent, Furnishing & Household equipment maintenance 0.5 percent, Health 0.9 percent, Transport 1.6 percent, Communication 0.04 percent, Recreation & Culture 0.4 percent and Restaurant & Hotels 0.6 percent.



SPI for the week ended on 14<sup>th</sup> January, 2020 recorded a decline of 0.22 percent. Out of the last 11 weeks (since from November 2020), 8 weeks recorded decline in SPI.

### 2.3. Fiscal

For first five months of FY2021, the fiscal deficit stood at 1.8 percent of GDP (1.6 percent last year). The primary balance remained in surplus of Rs 216 billion (0.5 percent of GDP) during Jul-Nov FY2021 (0.3 percent of GDP, Rs 117 billion last year).



Net federal revenues have witnessed a noticeable increase of 22.2 percent (1391 billion) for Jul-Nov, FY2021 (Rs 1138 billion last year). Within revenues, non-tax posted a healthy growth of 17.7 percent.

Total federal expenditures grew by 14.5 percent to Rs 2383 billion during Jul-Nov, FY2021 (Rs 2081 billion last year). Within total, current expenditures grew by 15.7 percent mainly due to higher mark-up payments and COVID related spending. It is worth to mention that expenditures other than mark-up payments and COVID have decreased, reflecting government adherence of maintaining fiscal discipline. On development side, rupee component of PSDP increased by 11.3 percent to Rs 128 billion (Rs 115 billion last year) in utilization during the period.

#### FBR Tax Collection

FBR Tax collection achieved 99.8 percent of its half-yearly target. The provisional net tax collection grew by 5 percent to Rs 2206 billion (Rs 2101 billion last year). For Dec 2020 alone, revenue collection achieved 97.7 percent of the target (Rs 520 billion). The net collection increased by 7.9 percent to Rs 508 billion during the first half of FY2021 (Rs 471 billion last year).

### 2.4. Monetary

During 01<sup>st</sup> July – 8<sup>th</sup> January, FY2021 Money Supply (M2) observed cumulative expansion of Rs 846.8 billion (Rs 586.3 billion last year). Within Money Supply, Net Foreign Assets (NFA) of the banking system increased by Rs 78.9 billion (Rs 895.2 billion last year). Whereas, Net Domestic Assets (NDA) increased by Rs 267.9 billion (contraction of Rs 308.9 billion last year).

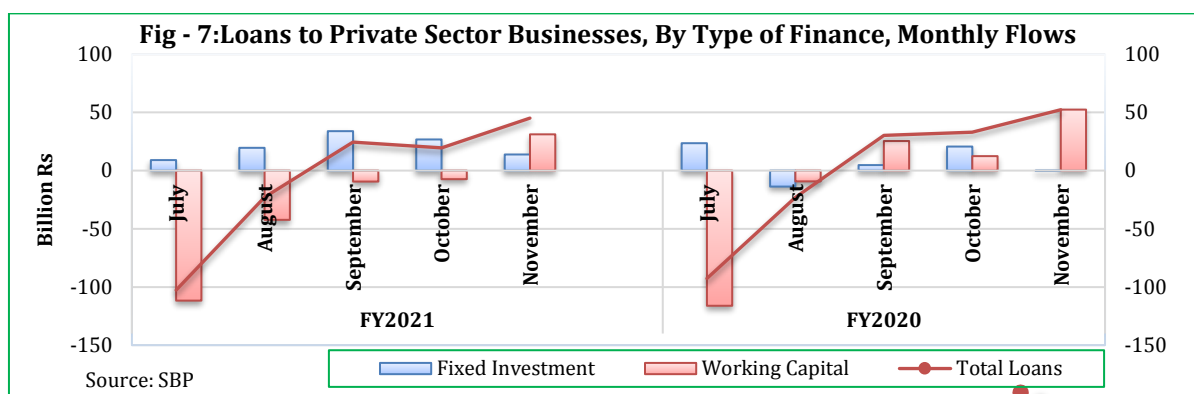
Private sector credit cycle has rebounded and net borrowing has started since Mid-Dec 2020. Private Sector has borrowed Rs 215.5 billion, posting a growth of 3.1 percent on average (2.0 percent last year).

Within loans to private sector business, borrowing under fixed investment loans recorded expansion during first five months of FY2021, taking advantage of subsidized rate of borrowing under Long Term Finance Facility (LTFF) and Temporary Economic Refinance Facility (TERF) schemes. Impact of fixed investment loans expansion is evident



from better performance of LSM during Jul-Nov FY 2021.

Flows under working capital loans increased to Rs 31.1 billion in Nov 2020 (retirement of Rs 7.3 billion in October). The expansion was mainly driven by manufacturing sector, in which manufacturing of food products (manufacturing of grain mill product) and textile borrowed under LTFF and EFS schemes have major contribution.



## 2.5. External Sector

The Current Account posted a surplus of \$1.1 billion (0.8 percent of GDP) for Jul-Dec FY2021. In Dec 2020, Current Account turns deficit (\$662 million) due to imports of essential food items, capital goods, oil, and industrial raw material owing to the domestic economic recovery.

As per PBS, exports during Jul-Dec FY 2021 increased by 5.1 percent to \$ 12.1 billion (\$ 11.5 billion last year). Pakistan's exports grew by 19.0 percent (\$ 2.4 billion) in Dec 2020 (\$1.9 billion last year). However, in regional countries like India and Bangladesh exports trend showed negative growth in Nov/Dec 2020. The textile sector exports increased by 7.8 percent over the last year. Value added exports increased by 12.8 percent. The decrease in quantities of value-added exports was compensated by higher unit price.

The total imports in Jul-Dec FY2021 increased to \$ 24.5 billion (\$ 23.2 billion last year), thus grew by 5.5 percent. The Petroleum group decreased by 22.3 percent while import of petroleum crude decreased by 25.3 percent in value and increased by 14.8 percent in quantity. Import of petroleum product increased by 47.4 percent (quantity) and decreased by 16.3 percent (value).

The food group import jumped by 52.2 percent during Jul-Dec FY2021 reached to \$ 3.9 billion (\$2.6 billion last year). The government allowed import of wheat and sugar to bridge the local shortages. The import of almost all essential food products-spices, palm oil, tea, milk etc witnessed growth during the period.

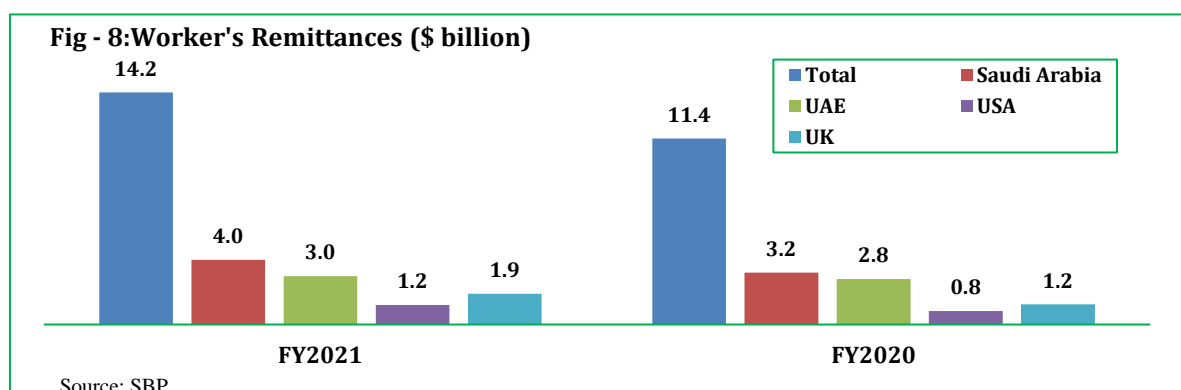
### 2.5.1 Foreign Investment

In Jul-Dec FY2021, FDI reached to \$ 952.6 million (\$ 1,357.4 million last year) while on YOY, FDI recorded at \$193.6 million in Dec 2020 (\$ 493 million last year).

Foreign Private Portfolio Investment recorded a net outflow of \$ 244.4 million during Jul-Dec FY2021. Foreign Public Portfolio Investment witnessed a net outflow of \$ 193.8 million. The total foreign portfolio investment recorded an outflow of \$ 438.2 million during Jul-Dec FY2021 (inflow of \$ 471.0 million last year). Countries with major inflows are UAE (\$ 101.7 million) and Singapore (\$ 21.5 million).

## 2.5.2 Worker's Remittances

In Jul-Dec FY2021, remittances rose to \$ 14.2 billion (\$ 11.4 billion last year), with a growth of 24.9 percent. On YoY basis, remittances recorded \$2.4 billion showing an increase of 16.2 percent in Dec 2020 (\$ 2.1 billion in Dec 2019). Workers' remittances remained above \$ 2.0 billion for the seventh consecutive month in Dec 2020. The major destinations of remittance are Saudi Arabia, U.A.E, USA and U.K, which are given below in the graph:

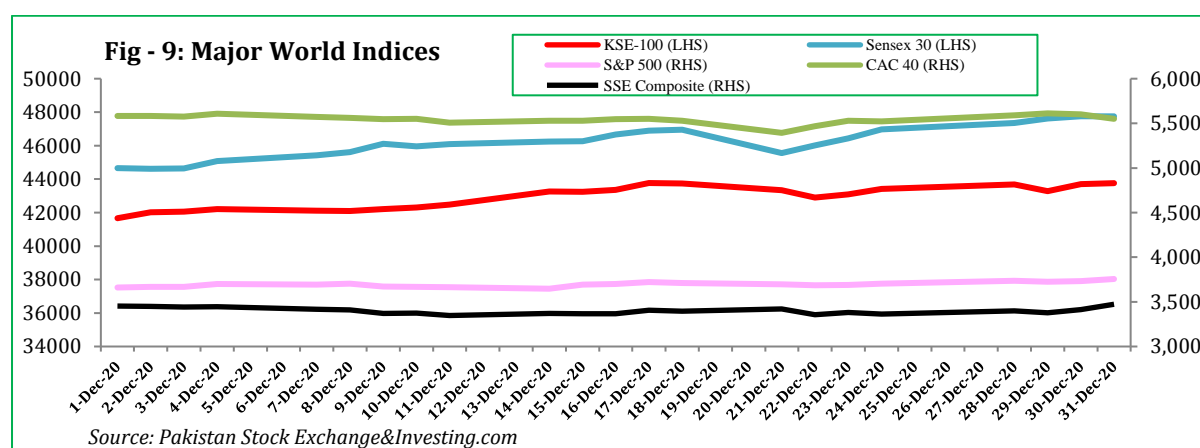


## 2.5.4 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to \$20.5 billion by the end of Dec 2020. The breakup of reserves accumulation shows that the SBP's reserves stood at \$13.4 billion (\$ 11.3 billion last year) and \$7.1 billion (\$ 6.6 billion last year) in commercial banks' reserves. The present reserves level provides the import cover of around 3 months.

## 2.6. Performance of KSE Index

The upward trend in the stock markets continued in Dec 2020. Pakistan's KSE-100 closed at 43,755 points on Dec 31, 2020 – gaining 2,686 points in the month. Market capitalization gained Rs 481 billion and settled at Rs 8,035 billion on Dec 31, 2020. As depicted in the figure below, except for France's CAC 40, all other selected major stock indices have shown a rise in Dec 2020.



## 2.7. Social Sector

- Under Ehsaas Emergency Cash Program Rs 179.2 billion has been disbursed to 14.8 million beneficiaries till Jan 14, 2021.
- Ehsaas Delivery Unit (EDU) has been established in Ministry of Poverty Alleviation & Social safety to oversee implementation and assess progress of the Ehsaas



programme; coordinate, strategize and support delivery of over 140 Ehsaas initiatives.

- Prime Minister inaugurated 100-bed Panagah at Tarnol to provide food and shelter for down-and-out people free of charge in the federal capital.
- 48 Ehsaas Nashonuma Centres across 13 districts are being established countrywide at the district and Tehsil level to provide health services and conditional cash transfers mainly to prevent children from stunting growth.
- Under National Poverty Graduation Program, 31,986 livelihood productive assets have been transferred to the ultra-poor till 31st December 2020 while during the month of December, 1,349 livelihood assets were distributed out of which over 95 percent assets were transferred to the woman.
- PPAF through its 24 Partner Organizations has disbursed 69,477 interest free loans amounting to Rs 2.85 billion during the month of December 2020.
- Under Kamyab Jawan Youth Entrepreneurship Scheme, Rs 2,189 million has been disbursed till November, 2020 to the youth for various businesses.
- During 2020, Bureau of Emigration and Overseas Employment has registered 224,705 emigrants for overseas employment in different countries.
- Bureau of Emigration and Overseas Employment ensured payment of more than Rs 60 million as death / disability compensation to the overseas Pakistanis/their dependents during the month of December, 2020.
- 1532 Foreign Exchange Remittances Cards (FERC) of five categories (Silver, Silver Plus, Gold, Gold Plus, and Platinum) against foreign remittances of US\$ 44.5 million has been issued to overseas Pakistanis.
- Till 18th January 2021, so far 521,211 confirmed cases with 475,228 recoveries and 10,997 deaths recorded in the country due to COVID-19.
- Sindh has recorded the most 235,576 cases, Punjab 149,782, Khyber Pakhtunkhwa 63,615 and Baluchistan 18612.
- Based on reported cases the mortality rate is approximately 2.1 percent.
- The Government is employing available public sector capacity and private community to rapidly scale up the health system to prevent spread of COVID-19.

### 3. Economic Outlook

Current outlook ensures economic revival on the basis of continued recovery seen in recent months but there is possibility of slower economic activities especially in services sector depending on the intensity and duration of pandemic.

#### 3.1. Inflation

Recent developments shows that both YoY and MoM inflation are on downward trend (Fig – 10A).

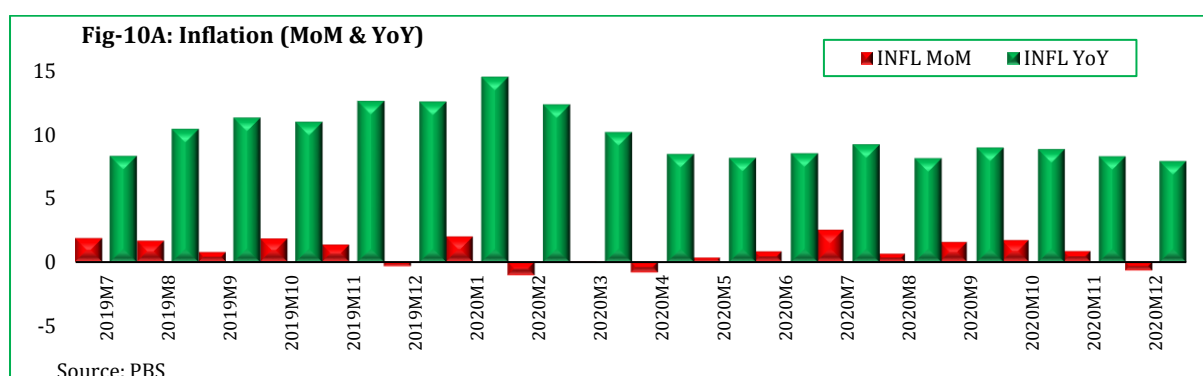
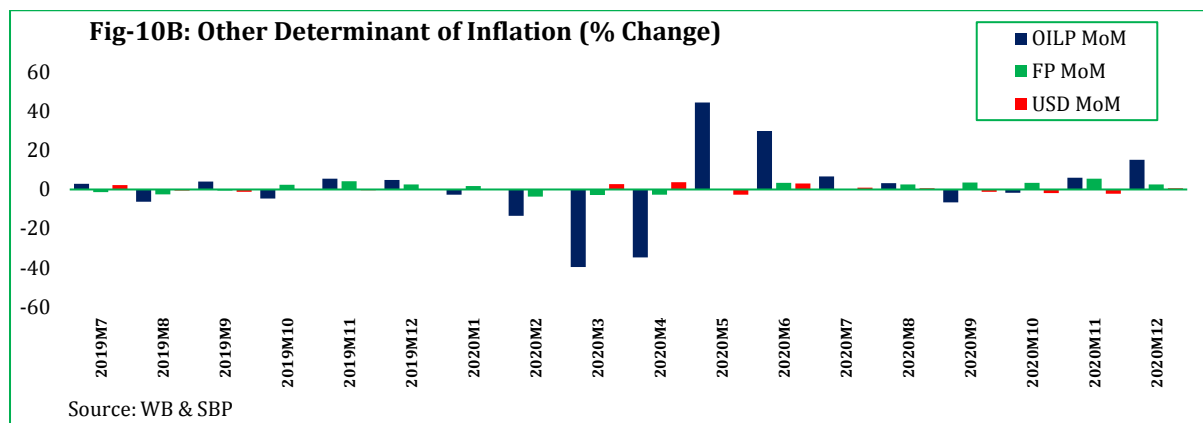


Fig – 10 B shows that in recent months, oil prices have been very volatile, international food prices have been rising. However, exchange rate movements remained almost neutral. The impact of rising international food prices was mitigated by Government policies focusing on improving the supply stream of food products and improving the functioning of domestic food markets. It is expected that the declining trend in YoY inflation will continue in January within a range of 7.2 to 8.2 percent.

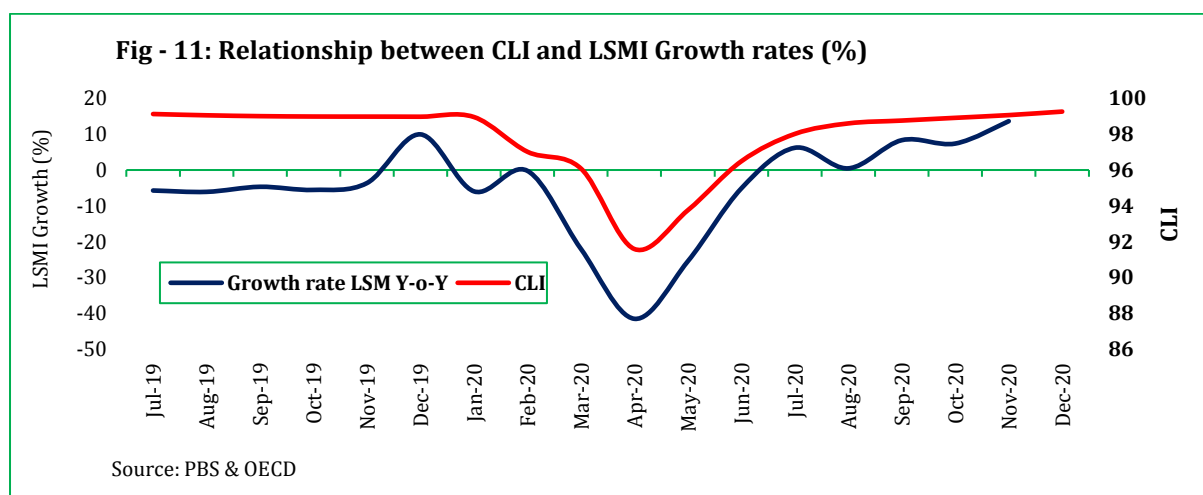


### 3.2. Agriculture

The prospect for growth in agriculture are encouraging on the basis of major Kharif crops. Rice, sugarcane and maize have surpassed the production targets of 2020-21. There is downside risk to cotton production due to heavy rains, locust attack and decline in area under cultivation, which is expected to be mitigated by other Kharif crops. Further, for Rabi season 2020-21, wheat crop production is expected to achieve production target of 27 million tons. On the basis of input availability, better weather forecast and achievement of more than 90 percent sowing target area of wheat in Punjab, wheat is expected to meet its target.

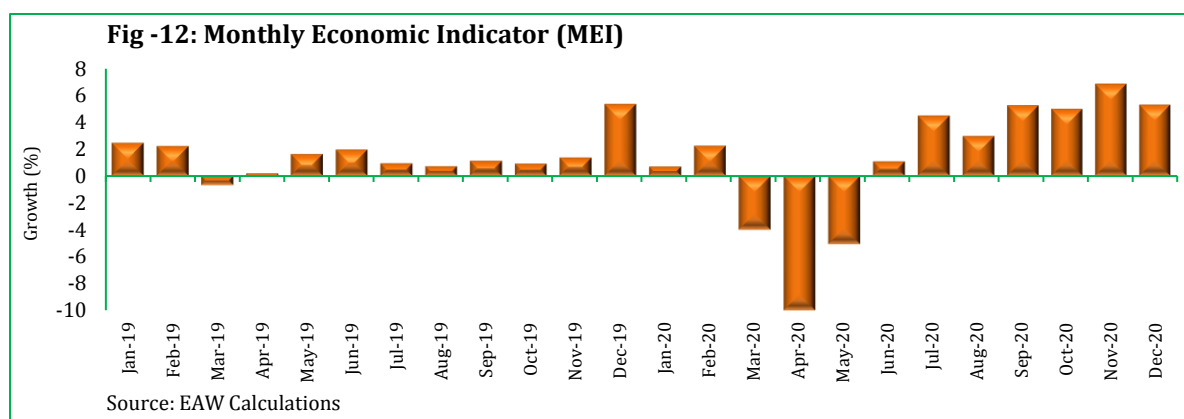
### 3.3. Industrial activity

Industrial activity, measured by the LSM index is the sector which is most exposed to external conditions. Fig-11 compares the year-on-year growth rate of LSM with the weighted average Composite Leading Indicators in Pakistan's main export markets. In recent months, both CLI and YoY growth rate of LSM show positive development. In every month since July 2020, the YoY growth rate of LSM was positive. In recent months LSM continues to recover from the COVID-19 crises that caused industrial output to fall significantly in March and April last fiscal year.



### 3.4. Overall economic activity

Fig-12 presents the MEI on monthly basis since January 2019. Based on available data, the MEI shows continued strong growth in December, in continuation with what was observed in the previous five months. It follows that economic growth has rebounded in the first half of the current FY.



### 3.5. External

The sudden surge in imports due to the increase in international oil prices and import of additional food products enhanced imports by \$ 1.2 billion alone in Dec 2020 (\$ 5.0 billion) compared to Dec 2019 (\$ 3.8 billion). However, there was no pressure on foreign reserves as Current Account remained in surplus for H1 FY 2021. Looking forward, depending on these explanatory factors, imports may remain \$ 4.5 – \$ 5.0 billion in next month. Exports are expected to stabilize around current levels. But in the baseline scenario, the trade balance is not expected to further deteriorate. Remittance inflows remain strong and continue to provide strong support to the financing of the trade deficit.

### 3.6. Fiscal

Fiscal performance remained satisfactory. Currently, the fiscal policy actions are primarily concentrated on relief measures to support businesses stay afloat and to protect vulnerable segments of society. At the same time, the government is focused on containing the fiscal deficit at a manageable level and keeping the primary balance at a sustainable level.

According to latest fiscal numbers, healthy growth in non-tax revenues, satisfactory performance of FBR tax collection despite issuance of higher number of refunds and controlling of expenditures other than mark-up payments and COVID related would pave the way to maintain the fiscal deficit within the reasonable limits in coming months.

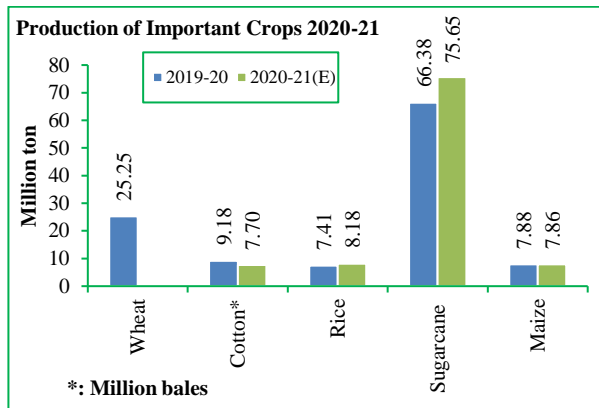
## 4. Way Forward

Pakistan's economy consecutively suffered from BOP crisis and COVID-19 pandemic kept economy below its potential level. Since the start of current FY, economy has started recovering. Government is committed to monitor external balance and its financing closely. Furthermore, the Government has also taken policy and administrative measures to monitor the supply and market functioning wherever necessary to mitigate inflationary pressure. The restoration and acceleration of Pakistan's productive capacity is a necessity to ensure a high and sustainable growth in the near and longer term. In the near future, the economic recovery is expected to translate into more productive investment expenditures. The Government is committed to motivate investments in crucial sectors of the economy to enhance productive capacities and to stimulate economic growth

## HALF-YEARLY ECONOMIC UPDATE (July-December FY 2021)

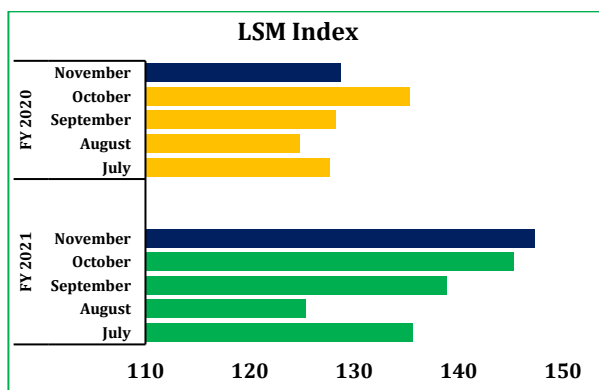
### Real Sector

#### Agriculture



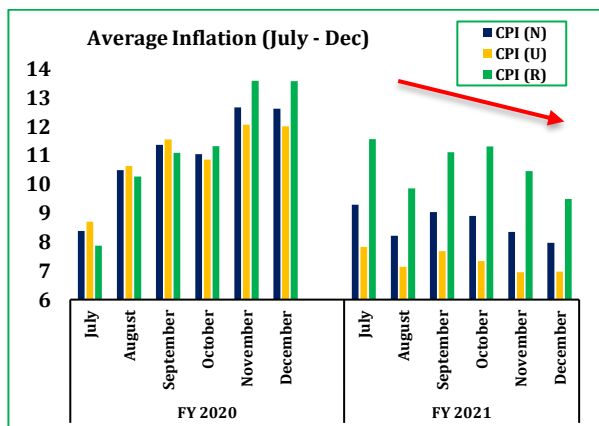
Major Kharif crops (rice, sugarcane and maize) surpassed the production targets of 2020-21. For Rabi season 2020-21, wheat crop production is expected to achieve production target of 27 million tons. According to estimates released by Cotton Crop Assessment Committee, the cotton production during 2020-21 will be at 7.7 million bales against the production of 9.2 million bales last year.

#### LSM



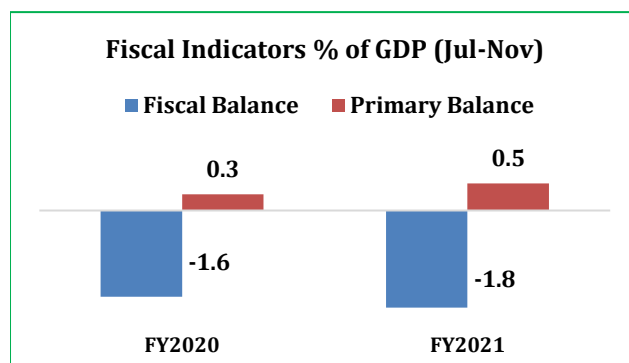
Steps to boost industrialization helped in YoY LSM growth of 14.5% in November 2020 (-4.3% November 2019). 12 out of 15 subsectors improved in Nov FY21. Textile having the highest weight in LSM, increased by 3.1%. Jul-Nov FY 2021 LSM increased by 7.4% (-5.3% last year).

#### Inflation



Intense measures for smoothing supply, removing market abnormalities helped in reducing inflationary pressure even in the presence of accommodative fiscal & monetary policies. Jul-Dec FY 2021, the headline inflation recorded at 8.6 % (11.1 % last year).

#### Fiscal

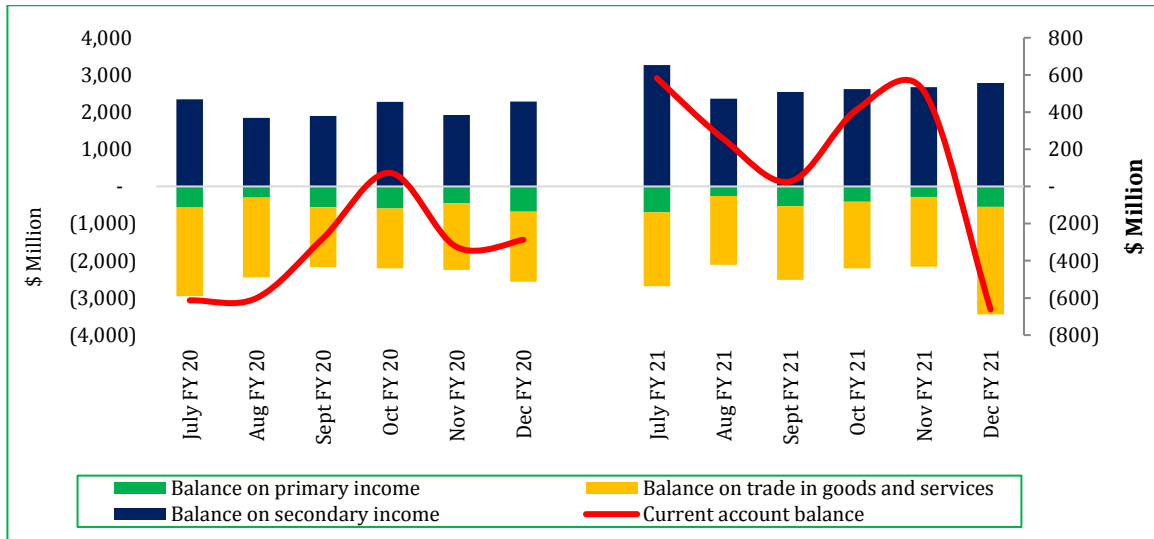


The performance in fiscal sector is satisfactory on the back of continuous efforts to maintain the fiscal discipline. FBR has been able to improve the tax collection in the first half of FY2021 despite the resurgence of COVID 19. While expenditures other than mark-up payments and COVID related have witnessed a decline.

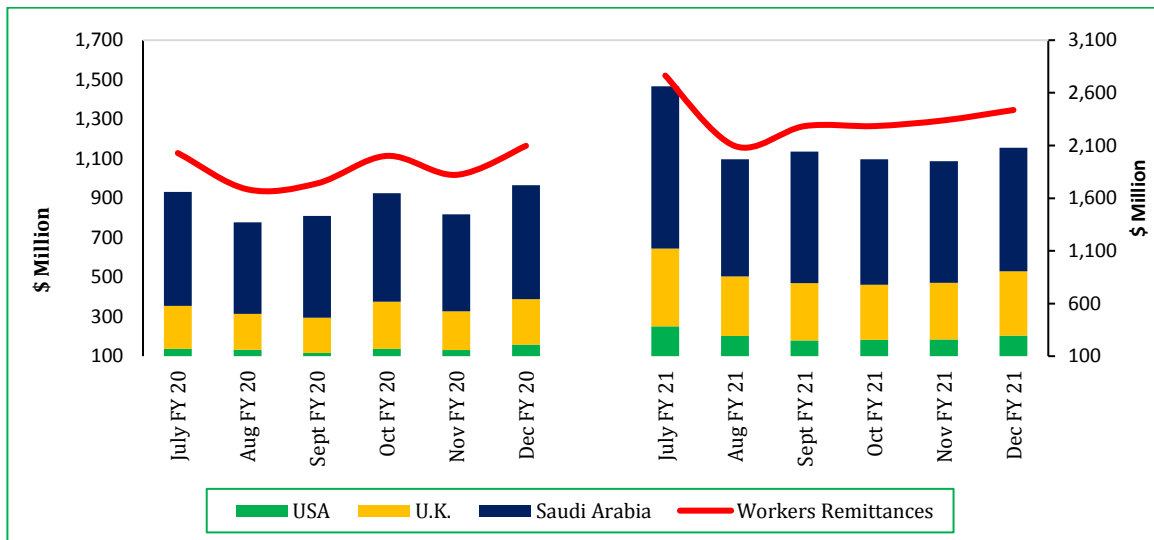
## External

External sector performed well on the account of healthy growth of worker remittances

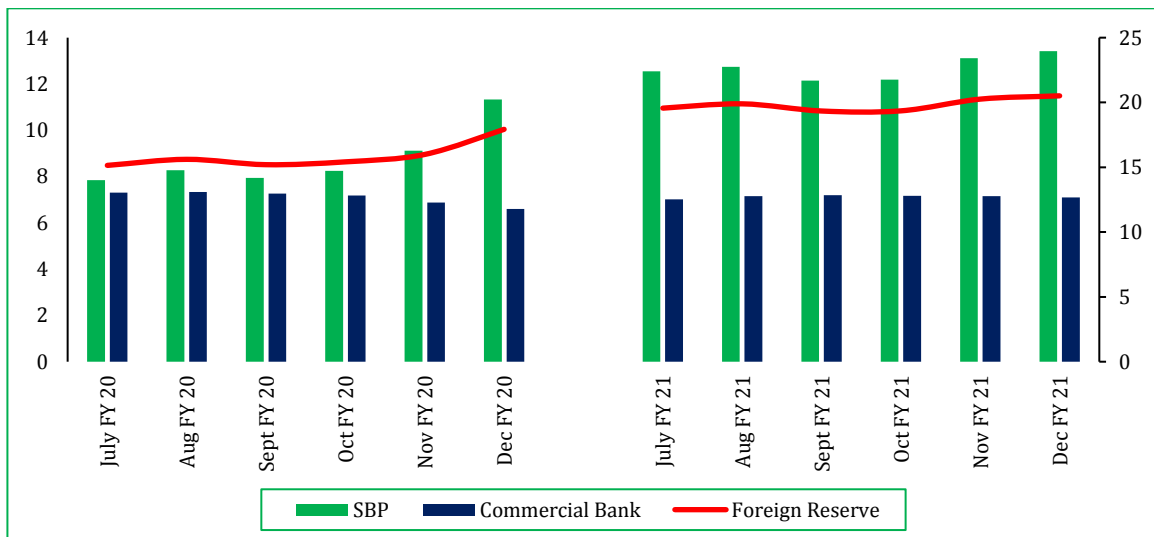
### Performance of Current Account (\$ Million)



### Performance of Workers Remittances (\$ Million)



### Foreign Reserve (US \$ Billion)



## Economic Indicators

(22-01-2021)

	2019-20 (Jul-Dec)	2020-21 (Jul-Dec)	% Change
<b>External Sector</b>			
Remittances (\$ billion)	11.4	14.2	↑ 24.9
Exports (\$ billion)	12.4	11.8	↓ 4.8
Imports (\$ billion)	22.1	23.2	↑ 4.8
Current Account Balance (\$ billion)	-2.0	1.1	↑
Current Account Balance (% of GDP)	-1.5	0.8	↑
FDI (\$ million)	1357.4	952.6	↓ 29.8
Portfolio Investment-Public (\$ million)	452.2	-193.8	↓
Total Foreign Investment (\$ million) (FDI & Portfolio Investment)	1828.4	514.5	↓ 71.9
Forex Reserves (\$ billion)	18.262 (SBP: 11.722) (Banks: 6.540) (On 20 <sup>th</sup> Jan 2020)	20.135 (SBP: 13.031) (Banks: 7.104) (On 20 <sup>th</sup> Jan 2021)	
Exchange rate (PKR/US\$)	154.60 (On 20 <sup>th</sup> Jan 2020)	160.50 (On 20 <sup>th</sup> Jan 2021)	

Source: SBP

	2019-20 (Jul-Nov)	2020-21 (Jul-Nov)	% Change
<b>Fiscal (Rs Billion)</b>			
FBR Revenue	2101 (Jul-Dec)	2206 (Jul-Dec)	↑ 5.0
Non-Tax Revenue (Federal)	566	666	↑ 17.7
PSDP (Authorization)	384.3 (1 <sup>ST</sup> Jul- 17 <sup>th</sup> Jan)	319.6 (1 <sup>ST</sup> Jul- 15 <sup>th</sup> Jan)	↓ 16.8
Fiscal Deficit	676	822	↑ 21.6
Primary Balance	117	216	↑ 84.6

Source: SBP & FBR, Budget Wing



	2019-20 (Jul-Nov)	2020-21 (Jul-Nov)	% Change
<b>Monetary Sector</b>			
Agriculture Credit (provisional)	481.8	470.1	↓ 2.4
Credit to private sector (Flows)	130.2 (1 <sup>st</sup> Jul to 10 <sup>th</sup> Jan)	215.5 (1 <sup>st</sup> Jul to 8 <sup>th</sup> Jan)	
Growth in M2 (%)	3.3 (1 <sup>st</sup> Jul to 10 <sup>th</sup> Jan)	4.1 (1 <sup>st</sup> Jul to 8 <sup>th</sup> Jan)	
Policy Rate (%)	13.25 (w.e.f 28-Jan-2020)	7.00 (w.e.f 22-Jan-2021)	

Source: SBP & FBR, Budget Wing

	2019-20	2020-21	% Change
<b>Inflation</b>			
CPI (National) (%)	12.6 (Dec)	8.0 (Dec)	
	11.1 (Jul-Dec)	8.6 (Jul-Dec)	
<b>Real Sector</b>			
Large Scale Manufacturing (LSM) (%)	-4.3 (Nov)	14.5 (Nov)	
	-5.3 (Jul-Nov)	7.4 (Jul-Nov)	
<b>Miscellaneous</b>			
PSX Index*	34889 (On 1 <sup>st</sup> Jul 2020)	45677 (On 20 <sup>th</sup> Jan 2021)	↑ 30.92
Market Capitalization (Rs trillion)	6.61 (On 1 <sup>st</sup> Jul 2020)	8.28 (On 20 <sup>th</sup> Jan 2021)	↑ 25.26
Market Capitalization (\$ billion)	39.33 (On 1 <sup>st</sup> Jul 2020)	51.57 (On 20 <sup>th</sup> Jan 2021)	↑ 31.12
Incorporation of Companies	8807 (Jul-Dec)	12196 (Jul-Dec)	↑ 38.48

\*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP