Monthly Economic Update & Outlook

December 2021

Government of Pakistan
Finance Division
Economic Adviser's Wing

Contents

Executive Summary

- The latest Omicron mutant of the coronavirus has clouded the world economy with uncertainty. The spread of omicron has forced economists across the globe to cast a shadow of doubt on the ongoing global economic growth recovery. The new variant coupled with global inflationary pressure are the key concerns and making the economic outlook more difficult. Global energy prices for the month of November 2021 declined by 6.4 percent, while non-energy prices fell by 0.2 percent as compared to October 2021.
- **Real Sector:** Wheat crop has been cultivated on an area of 22.1 million acres (94.5% of targeted area). Better input situation is expected to make prospects of crops in Rabi season promising. Jul-Oct FY2022, agriculture credit disbursement increased by 6.5 percent and reached Rs 381.3 billion compared to Rs 358.0 billion during same period last year. LSM posted a growth of 3.6 percent during Jul-Oct FY2022.
- **Fiscal, Monetary & External:** The fiscal deficit in Jul-Oct FY2022 was recorded at 1.1 percent of GDP (Rs 587 billion). The primary balance remained in surplus and stood at Rs 206 billion (0.4% of GDP). Non-tax revenue grew by 5.4 percent to Rs 452 billion in Jul-Oct FY2022 against Rs 429 billion in the same period of last year. During 1st July–3rd December FY2022 money supply (M2) shows negative growth of 0.2 percent (Rs. -41.8 billion) compared growth of 1.73 percent (Rs. 361.3 billion) in last year. During Jul-Nov FY2022, the current account deficit recorded at $ 7.1 billion mainly due to import of vaccines, necessary food items to build strategic reserves and energy related commodities.
- **Economic Outlook:** Economy of Pakistan has recovered after better performance at coping with the Covid-19 pandemic. Despite the spread of Omicron variant, the cyclical position in the main trading partners as witnessed by the CLI remained stabilize which is encouraging for Pakistan's exports.
  - YoY inflation has increased in the recent months. The major contributor of inflation include higher global commodity prices, electricity charges, house rent and transportation cost. However, government is taking administrative, relief and policy measures to ease out the inflationary pressures in the coming months.
  - 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. The momentum in the economic dynamism observed in recent months is expected to have further supported economic activity in November.
  - Exports of goods and services settled well above the 3 billion USD mark and are expected to climb further in coming months to reach a new higher level for the foreseeable future.
  - The government's fiscal consolidation efforts are paying off in terms of improved fiscal accounts. With prudent expenditure management and an effective revenue mobilization strategy, it is expected that the overall fiscal deficit would remain within the reasonable level.

Pakistan is on a higher growth trajectory, compared to growth observed in FY2021. However, there is inflationary pressure due to low base effects and surge in global commodity prices. Both international food and oil prices are currently quoted at or near the upper regions of the present international commodity price cycles and drop is expected in coming months. Relief is coming from continuous government efforts, not to pass on proportionate global impact of prices on domestic consumers.

1. International Performance and Outlook

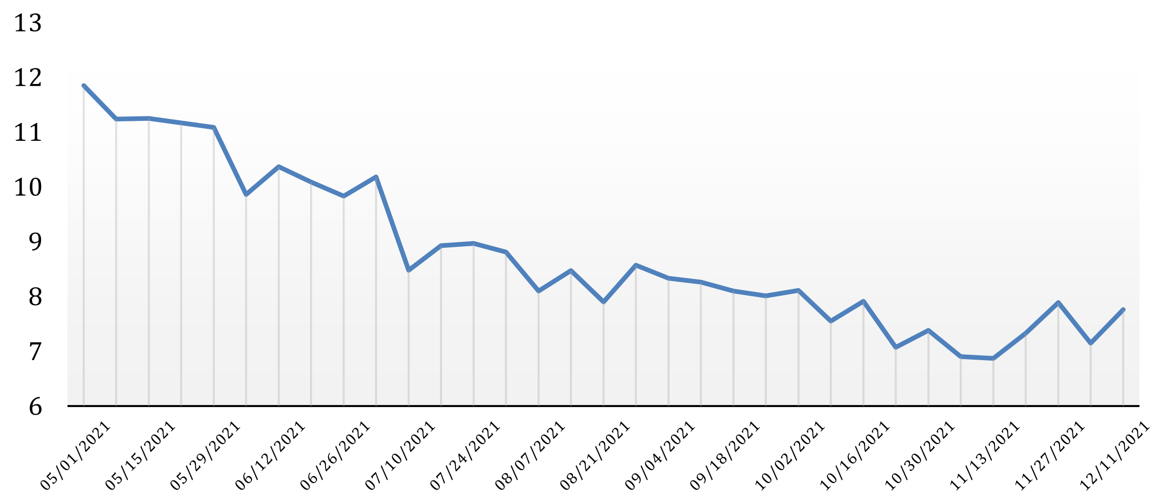
The resurgence of the pandemic owing to latest variant Omicron, has sharply increased uncertainty around global economic prospects. Consequently, several countries grapple with inflation well above their monetary policy targets. It is however evident that the strength of the economic recovery and magnitude of underlying inflationary pressures diverge significantly across countries.

IMF has foreseen grounds for monetary policy in the United States with GDP growth close to pre-pandemic trends. Meanwhile, the tight labor markets and current broad-based inflationary pressures also placing greater weight on inflation risks as compared to some other advanced economies including the euro area. It would be appropriate for the Federal Reserve to accelerate the taper of asset purchases and bring forward the path for policy rate increases. It is likely that IMF may downgrade global economic projections due to the rising uncertainty amid possible spread of Omicron variant.

Over time, if inflationary pressures were to become widespread in other countries, stance of monetary policy may be tightened earlier than expected globally. Needless to say, given the rising uncertainty caused by Omicron, policymakers should remain agile, data-dependent, and ready to adjust policy course in a timely manner.

The US economy created far fewer jobs to level of 210,000 than expected 573,000 in November despite a surge in the Labor Force participation to 61.8 percent, highest level since March 2020. Other economic activities gained momentum close to end of calendar year. Manufacturing production rose to its highest level in nearly three years in November while homebuilding accelerated to an eight-month high. The economic situation also reflected better growth in WEI during last weeks of November and start of December.

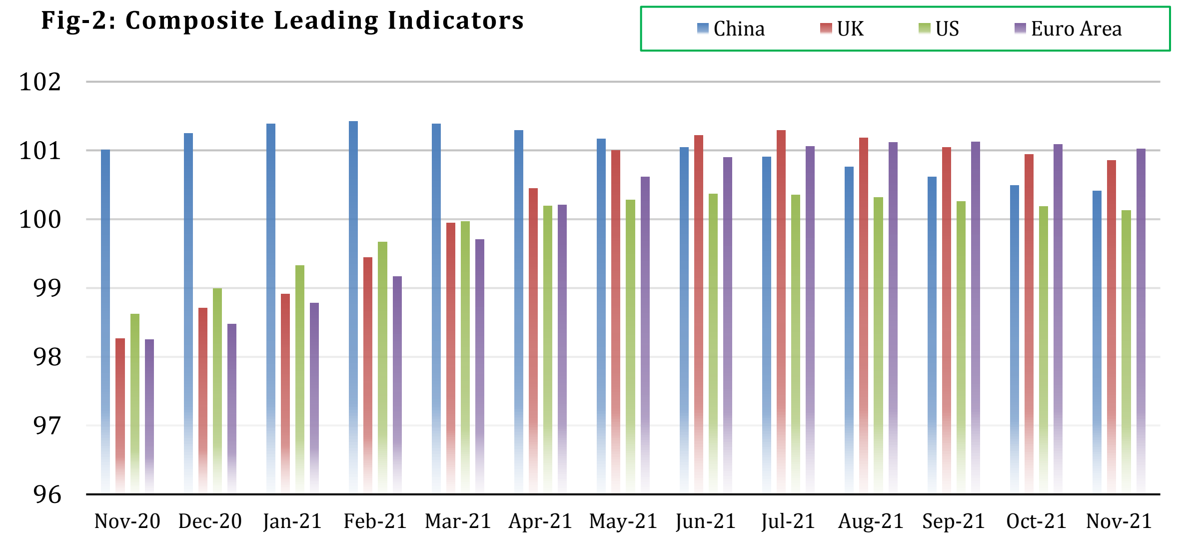
Fig-1: Growth in WEI



Source:Federal Reserve Bank of New-York

The Composite Leading Indicators (CLIs) provided by OECD, is available up to November 2021, is designed to provide early signals of turning points in business cycles showing fluctuation of the economic activity around its long-term potential level. The CLI index of Pakistan's main export markets remained above 100 but momentum has slowed during second half of 2021 compared first half months as evident during the month of November, US at 100.13 (100.19 in Oct-21), UK 100.86 (100.94), Euro Area 101.02 (101.08) and China at 100.41 (100.49), lowest in last 13 months.

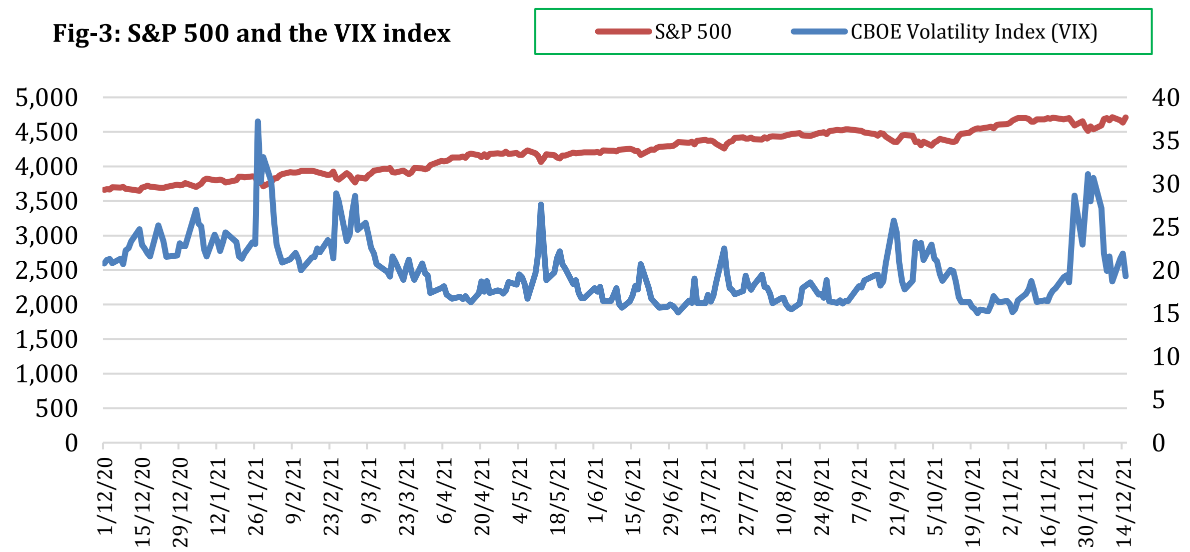
Fig-2: Composite Leading Indicators



Source: OECD

The S&P 500, remained up about 25 percent in 2021 and recorded all time high of 4712 points in December 2021. This is also supported by the Chicago Board Options Exchange (CBOE) Volatility Index which is commonly used as a measure of investors' uncertainty, slipped to a three-week low (Fig-3). In the US, recent readings on surging producer and consumer prices, as well as the fast-spreading Omicron variant of the coronavirus, have fuelled anxiety, possibly looms recovery in the future.

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–posted a four month high of 54.8 in November, up from 54.5 in October. The headline index has signaled expansion throughout the past 17 months.

Growth of service sector and business activity held steady in November and October's three-month high and has now outpaced that of manufacturing production for eight successive months. All six of the sub-sectors covered by the survey registered increases in economic activity during November. Growth was led by the financial and business services categories, while consumer goods remained the best performer among the manufacturing sub-industries. Investment goods performed positively following October's contraction, while the upturn weakened at consumer service providers.

Russia was the only nation for which composite PMI registered a contraction in output in

November. Growth accelerated in the euro area, Japan, India and Australia, but slowed in the US, China, UK and Brazil.

Business optimism improved to a five-month high in November, especially in five of the sub-industries covered by the survey (business services, consumer goods, consumer services, financial services and investment goods) and was unchanged in (intermediate goods). The combination of current growth, positive expectations and handling backlogs of work contributed to further job creation. Employment increased marginally from October's four-months high, with China (which saw a minor decrease) the only nation reporting a decline.

The inflationary pressure remained substantial in November. Average input costs escalated at the fastest rate since July 2008, while cost of production increased at a pace close to October's -record high.

Global commodity prices for the month of November 2021 showed that energy prices decreased by 6.4 percent in November, the largest monthly decline since April 2020. However, on Year-on-Year basis, it increased by 110 percent. Non-energy prices fell by 0.2 percent. Prices remained mixed for key subgroups: agriculture commodities rose 1.3 percent and fertilizers soared 19.2 percent. Precious metals also rose by 2.6 percent, but metals and minerals tumbled 9.1 percent.

2. Monthly Performance of Pakistan's Economy

The growth momentum remained intact with the government's pro-growth policies. The trend of high frequency variables is encouraging and it is expected that the economy will achieve its growth target.

2.1 Real Sector

2.1-a Agriculture

For Rabi season 2021-22, wheat crop has been cultivated on an area of 22.1 million acres (94.5 percent of target area of 23.3 million acres)[1]. The input situation is expected to remain smooth to achieve wheat production target of 28.9 million tonnes. The better input situation is expected to increase crops production in Rabi season.

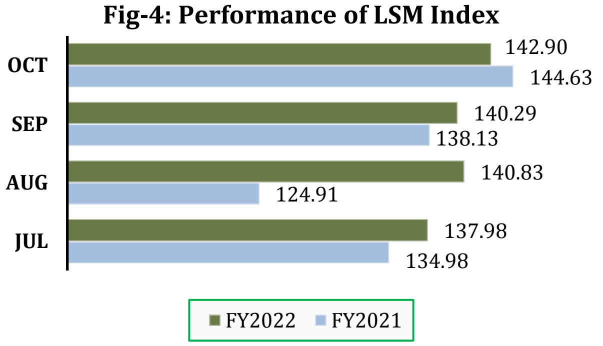
During July-November FY2022, the agriculture credit disbursement recorded an increase of 3.9 percent and reached Rs 488.5 billion (Rs 470.1 billion same period last year). The farm tractors production increased by 15.1 percent to 22,034 in Jul-Nov FY2022 and its sales also increased by 18.9 percent to 22,003 compared to same period last year. The urea off-take during Rabi 2021-22 (Oct-Nov), was 1,088 thousand tonnes which recorded an increase of 15.0 percent over same period last year, while DAP offtake was recorded at 562 thousand tonnes which decreased by 4.1 percent over Rabi 2020-21 (Oct-Nov).

2.1-b Manufacturing

The overall LSM posted a growth of 3.56 percent during Jul-Oct FY2022 against the growth of 5.14 percent same period last year.

During Jul-Oct FY 2022, 11 out of 15 subsectors of LSM have witnessed positive growth. Automobile shows a massive growth of 37.9 percent, Iron &

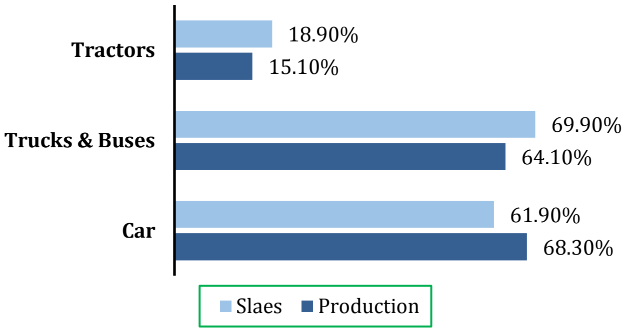
Fig-4: Performance of LSM Index



[1] As on 20-12-2021, sowing is still in progress. Khyber Pakhtunkhwa and Balochistan's progress is up to 10-12-2021.

Steel Products by 11.6 percent, Leather Products by 10.5 percent, Paper & Board by 9.6 percent, pharmaceuticals by 6.6 percent and Wood Products grew by 6.6 percent.

Fig-5: Performance of Auto Sector



High frequency indicators such as auto sector also showing an economic recovery (Fig-5). Meanwhile, in November FY2022, total cement dispatches registered a growth of 6.9 percent to 4.8 Mt (4.5 Mt in November FY2021). Domestic consumption increased by 10.2 percent to 4.1 Mt in Nov FY2022 (3.7 Mt Nov FY2021).

Total Oil sales increased by 17.6 percent to 9.6 million tonnes during Jul-Nov FY2022 (8.2 million 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 perform better in the current fiscal year.

2.2 Inflation

CPI during Jul-Nov FY2022 recorded at 9.32 percent against 8.76 percent during the same period last year. The food prices have increased globally due to shortage of supply of commodities and high demand after the post pandemic scenario. Pakistan has also been affected, as the country is a net importer of food items especially wheat, sugar, pulses and edible oil. The government is committed to sustained pressure and provide relief as full inflationary pressure was not passed on to the consumers (Table-1).

Table-1	**International Prices**				
Months	**Sugar ($/MT)**	**Palm Oil ($/MT)**	**Soya bean Oil ($/MT)**	**Wheat ($/MT)**	**Crude Oil ($/Brl)**
Nov-20	310.0	918.0	974.0	247.9	43.2
Nov-21	430.0	1348.0	1440.0	334.5	80.8
% Change	38.7	46.8	47.8	34.9	87.0
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**
Nov-20	99.2	1265.0	247.6	983.4	102.5	103.3
Nov-21	99.6	1918.0	381.7	1197.5	144.7	141.5
% Change	0.4	51.6	54.2	21.8	41.1	37.0
Source: PBS						

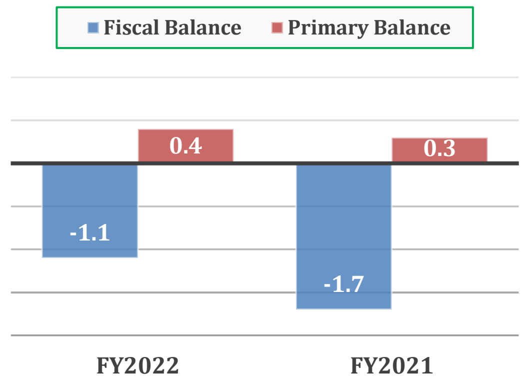
2.3. Fiscal

The fiscal accounts have continued to improve reflecting the government's commitment to prudent expenditure management and effective revenue mobilization strategy. This is evidenced by the fact that net federal revenue receipts climbed by 17.4 percent to Rs 1205 billion in Jul-Oct FY2022, up from Rs 1026 billion during the same period last year. A significant rise of 36.7 percent increase in FBR tax and 5.4 percent increase in non-tax collection propelled the growth in government revenues.

Total expenditures, on the other hand, increased by 11.7 percent to Rs 2171 billion in Jul-Oct FY2022, compared to Rs 1943 billion last year. The increase has been witnessed owing to 8.5 percent increase in current expenditures and 55.6 percent growth in PSDP spending.

Consequently, the overall fiscal deficit reduced to 1.1 percent of GDP (Rs 587 billion) in the first four months of FY2022, down from 1.7 percent (Rs 775 billion) recorded in the comparable period of last year. Similarly, the primary balance posted a surplus of Rs 206 billion in Jul-Oct FY2022, compared to Rs 156 billion in the same period last year.

Fig-6: Fiscal Indicators % of GDP

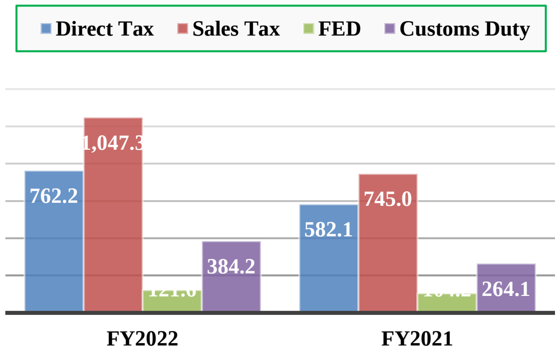


FBR Tax Collection

FBR was able to boost net collection by 36.8 percent to Rs 2319.1 billion during Jul-Nov FY2022, compared to Rs 1695.4 billion in the same period last year. While maintaining the momentum, FBR has exceeded the target set for Jul-Nov FY2022 by 15 percent (Rs 303.1 billion). FBR has been able to achieve this unprecedented increase in revenue despite issuance of higher 40.9 percent refunds, which stood at Rs 123.6 billion in Jul-Nov 2021, compared to Rs. 87.7 billion during the corresponding period last year.

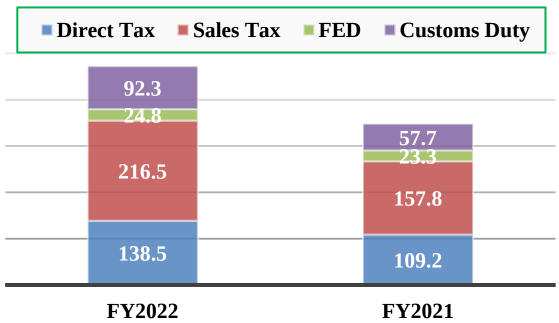
According to net tax collection, domestic taxes grew by 35 percent to stand at Rs 1931.3 billion during Jul-Nov FY2022 against Rs 1431.3 billion last year. Within total domestic taxes, the collection under direct tax grew by 31 percent, sales tax by 40.7 percent and FED by 16.7 percent. Whereas collection under customs duty increased by 46.5 percent during the period under review.

Fig-7A: FBR Tax Collection (Rs Billion) Jul-Nov



Source: FBR

Fig-7B: FBR Tax Collection (Rs Billion) November



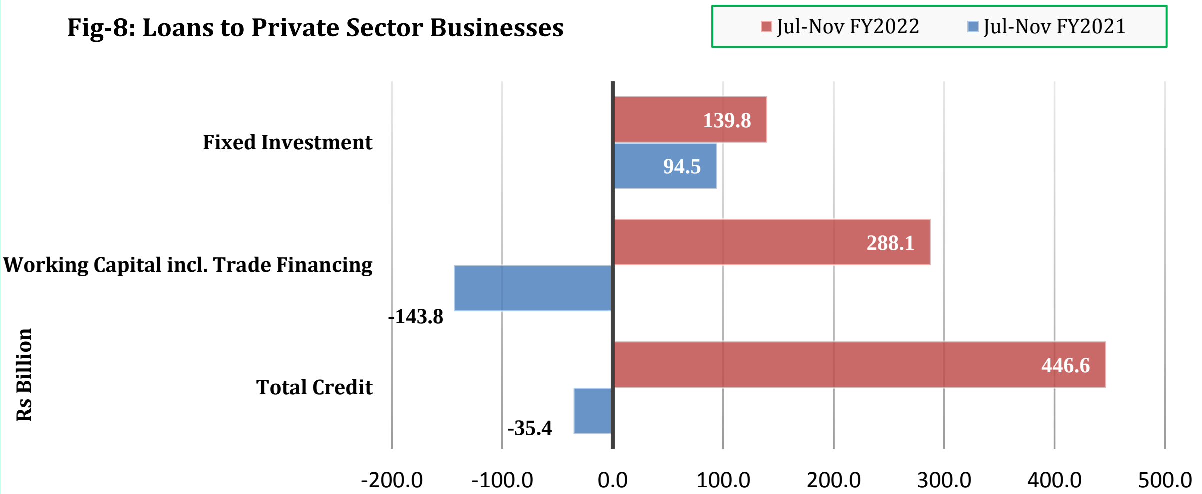
Source: FBR

2.4. Monetary

SBP raised policy rate by 100 basis points to 9.75 percent on 14th December 2021 with the objective to counter inflationary pressures. During 1st July – 03rd December, FY2022 money supply (M2) shows negative growth of 0.2 percent (Rs. -41.8 billion) compared to the growth of 1.73 percent (Rs. 361.3 billion) in last year. Within M2, Net Foreign Assets (NFA) decreased by Rs 147.0 billion as compared to an increase of Rs 515.9 billion in last year. On the other hand, NDA of the banking sector increased by Rs. 105.2 billion as compared to a decline of Rs. 154.6 billion last year. Private Sector has borrowed Rs. 454.3 billion against the retirement of Rs. 15.6 billion last year. Major share acquired by

Manufacturing (of which textile), electricity, gas, steam and air conditioning supply and information and technology got higher credit compared to last year. The construction sector, loans amount released Rs 18.7 billion during Jul-Nov, FY2022 compared Rs 13.9 billion during same period last year.

Fig-8: Loans to Private Sector Businesses



Source: SBP

2.5 External Sector

The Current Account posted a deficit of $ 7.1 billion (5.3 percent of GDP) for Jul-Nov FY2022 as against a surplus of $ 1.9 billion (1.6 percent of GDP) last year. Previously, the current account deficit was $ 7.2 billion (5.5 Percent of GDP) during Jul-Nov FY2018. 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 28.9 percent during Jul-Nov FY2022 and reached $ 12.3 billion ($ 9.6 billion last year).

As per PBS, during Jul-Nov, FY 2022, exports increased by 26.9 percent to $ 12.4 billion ($ 9.7 billion last year). The exports grew by 33.7percent in November 2021 to $ 2.9 billion as against $ 2.1 billion last year. The major export commodities which have shown tremendous performance during the review period include Readymade garments (23.4 percent in value & 23.6 percent in quantity), Bed wear (23.6 percent in value & 23.9 percent in quantity), Cotton Yarn (65.5 percent in value & 13.0 percent in quantity), Cotton Cloth (22.3 percent in value & 16.2 percent in quantity), Knitwear (36.6 percent in value despite decline of 14.0 percent in quantity), Chemical & pharma products (23.1 percent in value), leather manufactured (11.0 percent in value) and Basmati rice (33.0 percent in value & 45.5 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-Nov, FY2022 increased to $ 33.0 billion ($ 19.5 billion last year), thus posted almost 70 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-Nov, FDI reached $ 797.7 million ($ 710.3 million last year) increased by 12.3 percent. FDI received from Netherlands $ 153.0 million (19.2 percent of total FDI), China $149.0 million (18.7 percent), United States $ 129.9 million (16.3 percent of total FDI), and U.E.A $ 66.8 million (8.4 percent). Power sector attracted highest FDI of $ 229.2 million (28.7 percent of total FDI), Financial business $ 155.7 million (19.5percent) Oil & Gas exploration $ 110.7 million (13.9 percent) & Communication $ 100.8 million (12.6 percent).

Foreign Private Portfolio Investment has registered a net outflow of $ 263.2 million during Jul-Nov FY2022. Foreign Public Portfolio Investment recorded a net outflow of $ 79.0 million. In October 2021, an outflow of $ 1040 million was recorded due to the repayment of sukuk bond. The total foreign portfolio investment recorded an outflow of $ 342.2 million during Jul-Nov FY2022 as against outflow of $ 447.0 million last year. The total foreign investment registered an inflow of $ 455.5 million during the period under review.

2.5.2 Worker's Remittances

In Jul-Nov FY2022, workers' remittances reached $ 12.9 billion ($ 11.8 billion last year), increased by 9.7 percent. Workers' remittances continued their unprecedented streak of above $ 2.0 billion for the 18th consecutive month in November 2021. Share of remittances (Jul-Nov FY2022) from Saudi Arabia remained 25.4 percent ($ 3271.4 million), U.A.E 19.0 percent ($ 2453.3 million), U.K 13.7 percent ($ 1768.4 million), USA 10.1 percent ($ 1305.7 million), other GCC countries 11.3 percent ($ 1452.7 million), EU 11.2 percent ($ 1442.7 million), Malaysia 0.4 percent ($ 57.0 million), and other countries 8.9 percent.

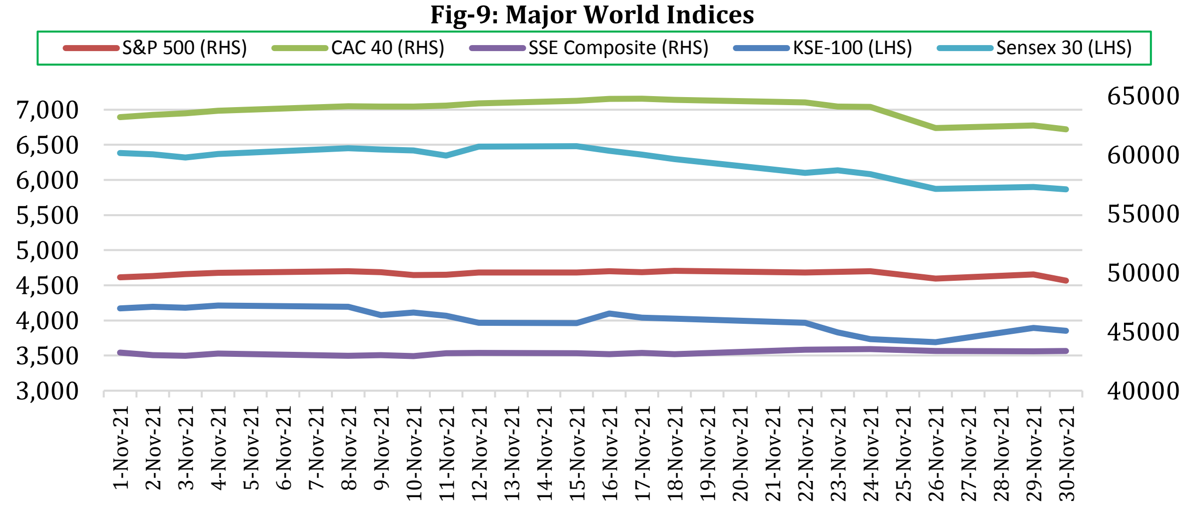
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to $24.6 billion on December 17, 2021, with the SBP's reserves now stood at $18.1 billion as SBP has received $3.0 billion from Saudi Arabia. Commercial banks' reserves remained at $6.5 billion.

2.6 Performance of KSE Index

The KSE-100 index closed at 45,072 points on 30th November 2021, while market capitalization closed at Rs 7,720 billion. The trend of major world indices is depicted in Fig-9:

Fig-9: Major World Indices



Source: PSX, Investing.com

2.7 Social Sector

- The Asian Development Bank (ADB) approved a $603 million loan to support Ehsaas social protection programme to strengthen and expand social protection network.

- Under the 'Ehsaas Rashan' programme, 9.6 million families and over 10,000 retail (Kiryana) stores have been registered till 15th December.
- Under this programme, 20 million families with income below Rs.50,000 and those who fall below a certain poverty score will be entitled to receive a discount of Rs. 1000 every month on the purchase of three grocery items: flour, pulses, cooking oil/ghee.
- Under National Poverty Graduation Program, 75,000 livelihood productive assets worth Rs 4.55 billion have been transferred to the ultra-poor households till 30th November, 2021 while during the month of November, 1,300 livelihood assets of Rs 78 million were distributed.
- PPAF through its 24 Partner Organizations has disbursed 40,227 interest free loans amounting to Rs 1.44 billion during the month of November 2021. Since July, 2019 till 30th November, 2021, a total of 1,644,809 interest free loans amounting to Rs 58.73 billion have been disbursed to the borrowers.
- Under Kamyab Jawan Youth Entrepreneurship Scheme, the government has disbursed Rs 24,565 million till October, 2021 to the youth for businesses.
- Bureau of Emigration and Overseas Employment has registered 45030 emigrants during November, 2021 for overseas employment in different countries.
- Since October, 2020, a total of 1775 medical professionals (doctors/nurses/ technicians) have proceeded to Kuwait for employment.
- Bureau of Emigration & Overseas Employment ensured payment of an amount of more than Rs. 33million as death/disability compensation during the month of November 2021.
- As of December 21, 2021, the number of confirmed COVID-19 cases is recorded at 1,291,737 along with recoveries 1,253,298 and total deaths 28,882.
- Till December 21, 2021, the total number of doses administered are reported at 142,713,705 while 61,761,440 are fully and 89,091,860 are partially vaccinated.

3. Economic Outlook

Pakistan's economy has recovered after better performance at coping with the Covid-19 pandemic and resulting constraints. Furthermore, despite the spread of omicron variant, the cyclical position in the main trading partners as witnessed by the CLI remained above 100. But we should also not ignore the impending risks including the concerns of the policy makers about the inflationary effects and the resulting policy response.

3.1 Inflation

Pakistan's inflation rate is driven by the international commodity prices, exchange rate, seasonal factors and economic agents' expectations concerning the future developments of these indicators.

YoY inflation is increased in the recent months. This increase in inflation is mainly derived from electricity charges, fuel, house rent, transport and non-perishable food items among the largest contributors. The price adjustments were directly and indirectly induced by recent exceptional increase in international commodity prices and exchange rate movements.

It is expected that MoM inflation will soften in December. International oil prices have retreated somewhat from previous highs. The exchange rate continued to slightly depreciate but government efforts to dampen the pass-through of high international food prices into domestic retail markets is continued. At present government aims to increase agriculture productivity by taking multiple initiatives to ensure food security by countering the food inflation in future.

The low base effect may contribute to keep inflation rate of December in double digit. Although the forecast probability margins are wide, most likely, YoY inflation is expected to remain in double digit in December but slightly less than the last month number.

3.2 Agriculture

The revised estimates for cotton production released by Cotton Crop Assessment Committee are more encouraging. The inputs availability will remain satisfactory as more certified seeds for wheat, gram and maize will be ensured for Rabi 2021-22 season. The credit to agriculture also shows an increasing trend in FY2022, thus it is expected that in the absence of any adverse climate shock, the agriculture sector will perform better.

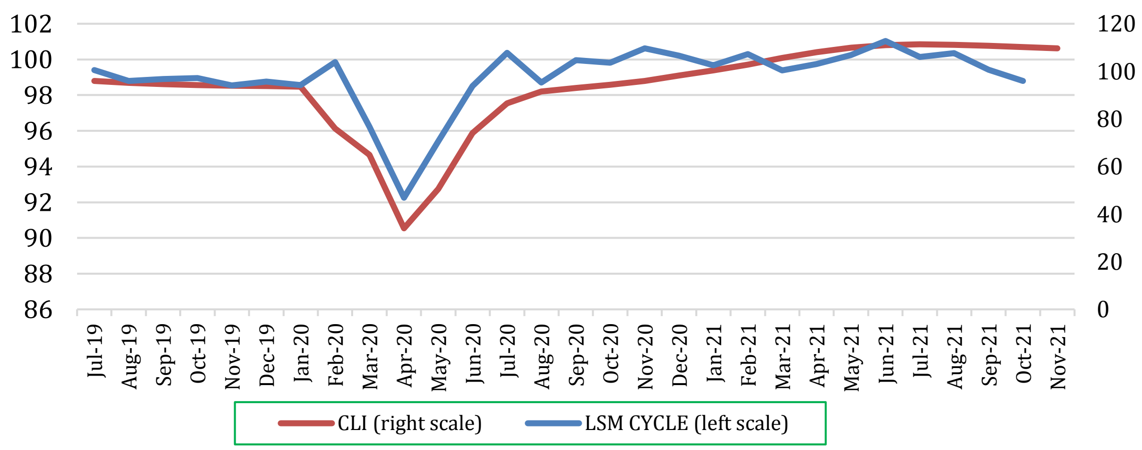
3.3 Industrial activity

Industrial activity, measured by the LSM index is the sector that is most exposed to external conditions. Its exposure to developments in international markets is illustrated in Fig-10 which 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 movements of 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 components of GDP of Pakistan's main export markets.

Since July 2021, the cyclical dynamics of Pakistan's main export markets, measured by the CLI, showing somewhat decreasing trend as economic expansion is still confronted with supply chain related bottlenecks. Additionally, new variant of COVID-19 (Omicron) also led to panic in many economies which forced countries to revise travel policies and even to revert to partial lockdowns of their economies. Furthermore, high international commodity prices have strongly accelerated inflation in many countries, curbing consumers' spending power.

As expected, the LSM index for October showed moderate growth compared to the previous month. Also, for November relative stability of the LSM index is expected. This expected outcome is based on stabilizing cyclical conditions in the main export markets and by the historically observed negative seasonality that usually depresses LSM activity during the months April through November of each year. It is expected that LSM for the month of December will resume growth following the start of sugar crushing season.

Fig-10: Relationship Between CLI and LSMI Cycle

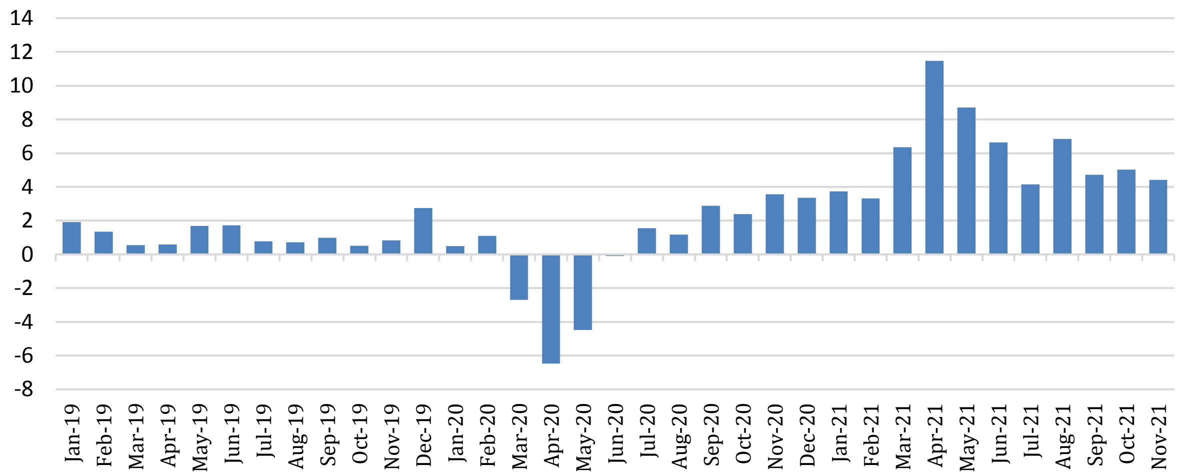


3.4 Overall economic activity

The Monthly Economic Indicator (MEI) is based on combining monthly data of indicators that are correlated with GDP at constant prices. Fig-11 presents the MEI on monthly basis since January 2019. It should be noted that some of the data underlying the November 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 growth in LSM (which is known to exert strong multiplier effects in services sectors), recovery in Pakistan's main trading partners and strong growth in imports of capital goods. The momentum in the economic dynamism observed in recent months is expected to support economic activity in November. The average MEI for the first 5 months of the current FY indicates that average economic growth during this period may be estimated to be around 5 percent.

Fig-11: Monthly Economic Indicator (MEI) Growth (%)



Source: EAW's Calculation

3.5 External

According to BOP data, exports of goods and services increased by around 13 percent in November as compared to October. They have now settled well above the 3 billion USD mark and are expected to climb further in coming months so as to reach a new higher level for the foreseeable future. This strong export performance is the result of several positive factors. First, although the cyclical position in the main trading partners (as witness by the CLI) seems to stabilize, the underlying growth trend in those countries remains very strong, following the recovery in their potential output growth. Second, Pakistan's Real Effective Exchange rate has been improving significantly in recent months. Third, the domestic economic dynamism remains strong. Fourth, specific Government policies to stimulate exports are bearing fruit. The main risk factor here is the appearance of a new COVID-19 variant, of which the effects on economic activity are still unknown.

BOP data further indicated that imports of goods and services increased about 5% in November compared to October. Strong domestic economic dynamism requires imported energy, capital goods and intermediate goods, necessary in the production process. Furthermore, recent increase in international commodity prices have inflated the cost of these imported goods. However imports may settle at lower levels gradually in the coming months. Imports are indeed expected to react to higher domestic interest rates, given the historically observed negative interest rate effect on import demand.

Furthermore, the Government continues on implementing measures to curb unnecessary imports and to supply domestic alternatives in some markets, especially food products. Also, the baseline scenario is based on a downward correction of international commodity prices.

On the basis of these events, the trade deficit will stabilize in coming months. The expected developments in export and import activities imply that the trade balance may gradually improve in coming months and settle down at significantly lower levels in the second half of the current FY.

Assuming stable remittance inflows, the expected improvement in the trade balance will be reflected in declining current account deficits, such that these deficits remain manageable and financeable.

3.6. Fiscal

The government's fiscal consolidation efforts are paying off in terms of improved fiscal accounts. During Jul-Oct FY2022, the growth in net federal revenues outpaced the growth in expenditures. Resultantly, the fiscal deficit has been brought down to 1.1 percent of GDP during the first four months of FY2022 against 1.7 percent of GDP in the same period last year. With prudent expenditure management and an effective revenue mobilization strategy, it is expected that the overall fiscal deficit would remain within the reasonable level.

FBR tax revenues are performing remarkably well and continue to surpass its revenue target during the first five months of the current fiscal year. It shows that FBR is well on its way to achieve the assigned target for FY2022. It is worth mentioning that various tax reforms are underway to improve the documentation and maximum taxpayer's facilitation that will further improve the tax collection and support in achieving the target set for the current fiscal year.

4. Way Forward

In the first four months of the current FY, Pakistan remains on a higher growth trajectory, accelerating from the growth rate observed in FY2021. However inflation may ease out in the coming months due to the declining commodity prices in the global market. In addition, relief may also come from continuous Government efforts to soften food prices in the local markets by following appropriate fiscal and monetary policies.

While these developments and policies may keep the monthly price dynamics in check, the current stress on the trade balance is expected to soften, easing exchange rate pressure and subsequently stabilizing the MoM inflation.

Economic Indicators
(27-12-2021)

	2020-21 (Jul-Nov)	2021-22 (Jul-Nov)	percent Change
External Sector			
Remittances ($ billion)	11.8	12.9	↑ 9.7
Exports FOB ($ billion)	9.6	12.3	↑ 28.9
Imports FOB ($ billion)	18.2	29.9	↑ 64.4
Current Account Deficit ($ billion)	-1.9	7.1	↑
Current Account Deficit (percent of GDP)	-1.6	5.3	↑
FDI ($ million)	710.3	797.7	↑ 12.3
Portfolio Investment-Public ($ million)	-261.5	-79.0	↑
Total Foreign Investment ($ million) (FDI & Portfolio Investment)	263.4	455.5	↑ 72.9
Forex Reserves ($ billion)	20.275 (SBP: 13.173) (Banks: 7.102) (On 23rd Dec 2020)	23.968 (SBP: 17.518) (Banks: 6.450) (On 23rd Dec 2021)	
Exchange rate (PKR/US$)	160.55 (On 23rd Dec 2020)	178.12 (On 23rd Dec 2021)	

Source: SBP

	2020-21 (Jul-Oct)	2021-22 (Jul-Oct)	percent Change
Fiscal			**(Rs Billion)**
FBR Revenue (Jul-Nov)	1695.4	2319.1	↑ 36.8
Non-Tax Revenue (Federal)	429	452	↑ 5.4
PSDP (Authorization)	112.0 (1st Jul to 4th Sep)	392.7 (1st Jul to 03rd Sep)	↑ 250
Fiscal Deficit	775	587	↓
Primary Balance	156	206	↑

Source: FBR & Budget Wing

	2020-21 (Jul-Nov)	2021-22 (Jul-Nov)	percent Change
Monetary Sector			
Agriculture Credit (provisional)	**470.1**	**488.5**	↑ **3.9**
Credit to private sector (Flows)	**-15.6** (1st Jul to 4th Dec)	**454.3** (1st Jul to 3rd Dec)	↑
Growth in M2 (percent)	**1.7** (1st Jul to 4th Dec)	**-0.2** (1st Jul to 3rd Dec)	
Policy Rate (percent)	**7.00** (23-Nov-2020)	**9.75** (14-Dec-2021)	

Source: SBP

	2020-21	2021-22	percent Change
Inflation			
CPI (National) (percent)	**8.3** (Nov)	**11.5** (Nov)	
	8.8 (Jul-Nov)	**9.3** (Jul-Nov)	
Real Sector			
Large Scale Manufacturing (LSM) (percent)	**6.8** (Oct)	**-1.2** (Oct)	
	5.1 (Jul-Oct)	**3.6** (Jul-Oct)	
Miscellaneous			
PSX Index*	**47801** (On 1st Jul 2021)	**44267** (On 23rd Dec 2021)	↓ **7.39**
Market Capitalization (Rs trillion)	**8.38** (On 1st Jul 2021)	**7.58** (On 23rd Dec 2021)	↓ **9.55**
Market Capitalization ($ billion)	**53.22** (On 1st Jul 2021)	**42.57** (On 23rd Dec 2021)	↓ **20.01**
Incorporation of Companies (Jul-Nov)	**10,239**	**10,395**	↑ **1.52**

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP