Monthly

ECONOMIC UPDATE & OUTLOOK

November 2022

Government of Pakistan
Finance Division
Economic Adviser's Wing

Contents

Executive Summary

The world economy is suffering from multiple and complex challenges. The sustained impact of Russian-Ukraine conflict and higher commodity prices are dragging down growth at the global level. Additional threats to the economic recovery are coming from China where the manufacturing hubs are the epicenter of the current new waves of Covid-19. The emergence of these new waves is defying China's government plans of targeted and less disruptive Covid measures. Global GDP stagnated in the second quarter of 2022 and output declined in major G20 economies. High inflation is persisting for longer than expected. With recent indicators taking a turn for the worse, the global economic outlook has darkened.

Real Sector:

The targets fixed for current Rabi-2022-23 crops seem to be challenging due to delayed sowing in the flood affected areas. However, timely rains may positively impact the production in the agriculture sector. Furthermore, the Kissan Package will reduce burden on farmers and revive the agriculture sector. In industrial sector, compression in economic activities at the global as well as at the domestic level have pushed down the performance of LSM at -0.4 percent in the first quarter of FY23. Consumer Price Index (CPI) recorded at 25.5 percent during Jul-Oct FY23 as compared to 8.7 percent in the same period last year.

Fiscal, Monetary & External:

During Q1 FY23, total revenue increased by 12 percent to Rs. 2017 billion. Within revenues, total tax collection grew by 16 percent while receipts from non-tax fell by 15 percent. Total expenditures grew by 26 percent to reach Rs.2826 billion. Fiscal deficit reached to 1.0 percent of GDP in Q1 FY23 against 0.7 percent recorded in the same period of last year. During the period 01st July – 28th October, FY23 money supply (M_2) shows negative growth of 0.7 percent.

Current Account Deficit (CAD) declined due to increase in exports and contraction in imports. The CAD reached to $ 2.8 billion for Jul-Oct FY23 as compared to $ 5.3 billion last year.

International Performance and Outlook

Global economic growth prospects are confronting with many headwinds, including Russia-Ukraine conflict, increase in interest rate, and lingering pandemic effects such as China's lockdowns and disruptions in supply chains. The global deceleration will be broad-based, and the 2023 projection is less than half of 6 percent expansion in 2021. Countries accounting for about a third of the global economy are estimated to downgrade growth massively this year or next.

Within global scenario, European economies outlook fraught with more uncertainty, growth is deteriorating across the continent, while inflation is slightly declining. During the winter, more than half of the countries in the euro area will witness technical recessions, with at least two consecutive quarters of contracting output.

In China, intermittent pandemic lockdowns and the struggling real estate sector are contributing to a slowdown that can be seen not only in PMI data but also in investment, industrial production, and retail sales. This will inevitably have a significant impact on other economies due to China's larger role in trade.

The challenges that the global economy is facing are immense and weakening economic indicators point to further challenges ahead. However, with careful policy action and joint multilateral efforts, the world can move toward stronger and more inclusive growth.

The U.S. economy grew at an annual rate of 2.6 percent in the third quarter, marking its first increase in 2022 and a sharp turnaround after six months of contraction - despite lingering fears that the country is at risk of a recession. Contraction in the housing sector along with slowdown in consumer spending indicates the absence of broad based growth. Federal Open Market Committee increases the policy rate by 0.75 percentage points to 4.0 percent. The Fed also keeps a close watch on unemployment, and so far the U.S. jobs market is running relatively better. It gives the Fed more freedom to fight inflation without too much concern for impacting the jobs market, so far.

According to WEI, U.S. business activity contracted for a fourth straight month in October, on account of weaker demand in manufacturer and services firms. The contraction was led by the decline in services activity, flared by the higher cost of living and tightening of financial conditions (Fig-1).

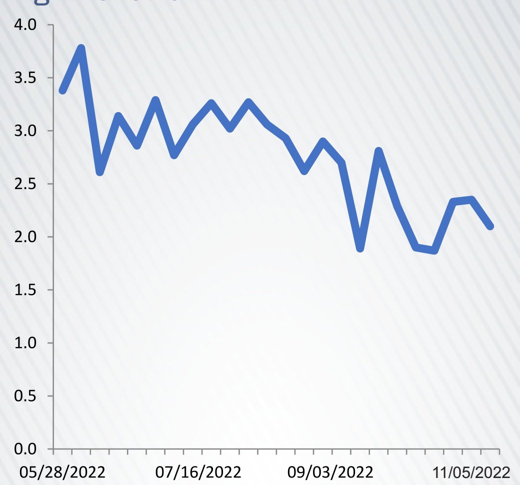
The J.P. Morgan Global Composite Output Index declined to 49 in October 2022, from 49.7 in September 2022. Output contracted in both the manufacturing and service sectors. Three out of the six sub-industries covered by the survey – business services, financial services and intermediate goods observed decrease in output. Activity levels marginally raised in the consumer goods, consumer services and investment goods categories.

The level of incoming new business contracted for the third straight month in October. International trade flows deteriorated again, as new export business fell to the greatest extent in 28 months. The downturns in economic activity contributed to a further dip in business optimism as positive sentiment dropped to its lowest since June 2020. However, the labor market remained resilient at the start of the fourth quarter as employment increased for the twenty-sixth consecutive month.

Inflationary pressures remained high despite easing of input costs and output charges to 19-month lows. Price measures stayed much sharper in developed nations compared to emerging markets.

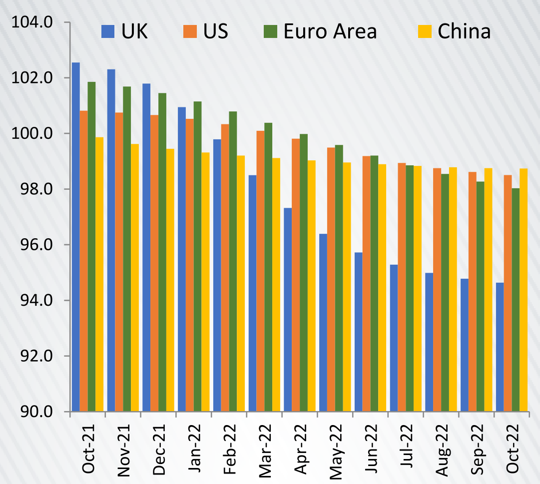
The CLIs continued slowing growth in October 2022 in OECD and major

Fig-1: Growth in WEI



Source: Federal Reserve Bank of New-York

Fig-2: Composite Leading Indicator



Source: OECD

economies, dragged down by high inflation, rising interest rates and falling share prices, remain below trend and continue to anticipate growth losing momentum in the US, the UK and the euro area as a whole, including Germany, France and Italy. The CLI for China (industrial sector) shows stabilisation driven by production of motor vehicles and crude steel but remained below the trend.

Global commodity prices declined in October 2022. Energy prices fell by 7.5 percent, led by natural gas, Europe (34 percent) and US (27.6 percent). Non-energy price fell 1.2 percent, Agricultural prices eased 0.7 percent. Food prices increased 0.8 percent led by grains 5.7 percent, Fertilizers declined 3.7percent. Metal prices dropped 1.7 and Precious metals eased 0.4 percent.

Monthly Performance of Pakistan's Economy

2.1 Real Sector

2.1-a Agriculture

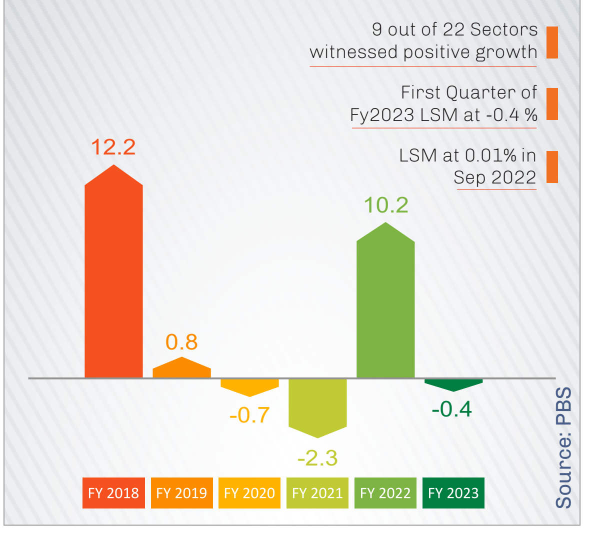
The targets fixed for current Rabi-2022-23 crops seem to be challenging due to delayed sowing in the flood affected areas. However, timely rains may positively impact the production in the agriculture sector. Furthermore, the Kissan Package will reduce burden on farmers and revive the agriculture sector. The Kissan Package-2022 is providing a waiver of mark-up on outstanding loan as well as provision of free wheat seeds, subsidy for interest free loans in flood affected areas, PM's Youth Business & Agriculture Loan Scheme, mark-up subsidy and risk sharing scheme for farm mechanization reduction in DAP price, inclusion of agro-SMEs in SME modernisation scheme, allowed import of second hand tractors upto 5 years old with duty reduction, reduction in CKD duty from 35% to 15% for new tractor manufacturers.

During Rabi 2022-23 (October 2022), urea and DAP off-take recorded at 430 thousand tonnes (16.4 percent less over October 2021) and 71 thousand tonnes (79.1 percent less over October 2021).

2.1-b Manufacturing

The worsening of global and challenging domestic environment coupled with contractionary monetary policy have pushed down the performance of LSM at -0.4 percent in the first quarter of FY23. On YoY basis, LSM remained subdued at 0.01 percent in September 2022, while on MoM basis it grew by 0.1 percent. During the period, 9 out of 22 sectors witnessed positive growth which includes Beverages, Wearing apparel, leather Products, Chemicals, Iron & Steel products, Wood Products, Paper & Paperboard, Furniture and others while it decreased in Food, Tobacco, Textile, Coke & Petroleum Products, Pharmaceuticals, Rubber Products, Non-Metallic Mineral Products, Fabricated metal, Electrical Equipment, Machinery and Equipment, Automobiles and Other Transport Equipment.

Fig-3: LSM Growth (%) July-September



Pressure on automobile sector also remain sustained throughout first four months of FY23. Car production and sale decreased by 38.5 and 47.0 percent, respectively, trucks & buses production and sale decreased by 25.1 and 39.9 percent and tractor production and sale decreased by 36.7 and 46.7 percent, respectively. The contraction of automobile both on supply and demand front, also suppressed the sale of petroleum products by 22 percent in Jul-Oct FY23 to 6.2 mn tons from 7.9 mn tons in the same period last year. YoY, oil sales decreased by 17% in Oct 2022 to 1.7mn tons (1.9mn tons in Oct 2021). During Jul-Oct FY2023, total cement sales were 13.4 mn tons, which were 23.1% lower than sales of 18.04 mn tons in the corresponding period of last year.

2.2 Inflation

The Consumer Price Index (CPI) increased to 26.6 percent on a YoY basis in October 2022 as compared to an increase of 23.2 percent in the previous month and 9.2 percent in October 2021. On MoM basis, CPI increased to 4.7 percent in October 2022 as compared to a decrease of 1.2 percent in the previous month and an increase of 1.9 percent in October 2021. The average CPI in the first four months of the current fiscal year was 25.5 percent compared to 8.7 percent during the same period of last year.

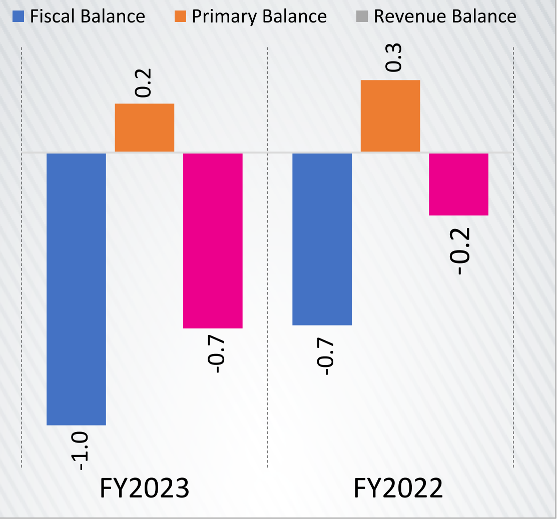
The SPI for the week ended on 17th November 2022, recorded at 0.62 percent as compared to previous week. Prices of more than 50% essential items either declined or remained stable which shows the effectiveness of policy measures.

2.3 Fiscal

During Q1 FY23, total revenue increased by 12 percent to Rs.2017 billion against Rs.1809 billion in the same period last year. Within revenues, total tax collection grew by 16 percent while receipts from non-tax fell by 15 percent.

Similarly, total expenditures grew by 26 percent to reach Rs. 2826 billion in Q1 FY23 against Rs.2247 billion in the same period of last year.

Fig-4: Fiscal Indicators % of GDP (Q1)



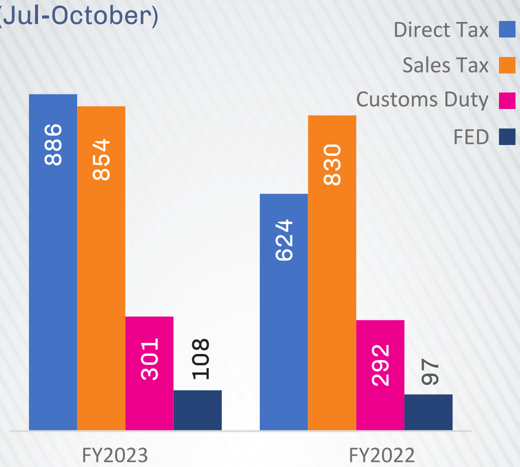
Consequently, the fiscal deficit increased to 1.0 percent of GDP in Q1 FY2023 against 0.7 percent recorded in the same period of last year. The primary balance posted a surplus of Rs.145.3 billion in Q1 FY2023 against a surplus of Rs.184.2 billion in the comparable period of last year. While the revenue deficit deteriorated and increased to 0.7 percent of GDP in Q1 FY2023 against the deficit of 0.2 percent last year, indicating a substantial increase in current expenditures compared to revenue growth.

FBR Tax Collection

During the first four months of the current fiscal year, FBR has collected Rs.5 billion in excess of the target. The provisional net tax collection has increased by 17 percent to Rs.2,149 billion against Rs,1,843 billion in the same period of last year. Within total tax collection, domestic tax collection increased by 19 percent while collection from customs duty grew by 3 percent.

The performance is mainly based on the 42 percent growth in direct taxes against a 4 percent increase in indirect taxes which is consistent with the government's policy to tax the rich and affluent. Overall, the revenue performance reflects FBR's

Fig-5: FBR Tax Collection (Rs. Billion) (Jul-October)



Source: FBR

strong revenue mobilization strategy and efficient enforcement.

2.4 Monetary

During the period 01st July – 28th October, FY23 money supply (M_2) shows negative growth of 0.7 percent (Rs -187.0 billion) compared negative growth of 1.0 percent (Rs -244.0 billion) in last year. The negative growth due to NFA which dominates the growth of NDA. Within M2, NFA decreased by Rs 345.2 billion as compared to the decrease of Rs 419.7 billion in last year. On the other hand, NDA of the banking sector increased by Rs. 158.2 billion as compared to an increase of Rs. 175.8 billion last year.

2.5 External Sector

The Current Account posted a deficit of $ 2.8 billion for Jul-Oct FY2023 as against a deficit of $ 5.3 billion last year, mainly due to increase in exports and contraction in imports. However, the current account deficit stood at $ 567 million in October 2022 as against $ 363 million in September 2022. Exports on fob grew by 2.6 percent during Jul-Oct FY2023 and reached $ 9.8 billion ($ 9.6 billion last year). Imports on fob declined by 11.6 percent during Jul-Oct FY2023 and reached $ 20.6 billion ($ 23.3 billion last year). Resultantly the trade deficit (Jul-Oct FY2023) reached to $ 10.8 billion as against $ 13.7 billion last year.

As per PBS, during Jul-Oct FY 2023, exports increased by 1.1 percent to $ 9.6 billion ($ 9.5 billion last year). The major export commodities which have shown tremendous performance during the review period include Readymade garments (2.5 percent in value & 58.8 percent in quantity), Cotton Cloth (1.3 percent in value despite 19.5 percent decline in quantity), Knitwear (6.9 percent in value & 47.1 percent in quantity), Carpet, Rugs & Mats (4.0 percent in value & 5.6 percent in quantity) Foot wear (31.1 percent in value and 82.4 percent in quantity), Foot Balls (62.2 percent in Value & 63.6 percent in quantity) and pharmaceutical products (25.1 percent in value & 82.2 percent in quantity).

The total imports in Jul-Oct FY2023 decreased to $ 21.1 billion ($ 25.1 billion last year), thus declined by 15.9 percent. Main commodities imported were Petroleum products ($2844.1 million), Medicinal products ($ 477.7 million), Petroleum crude ($ 1727.3 million), Liquefied Natural gas ($ 1266.7 million), Palm Oil ($ 1406.6 million), Plastic materials ($ 873.2 million) and Iron & Steel ($ 695.3 million).

2.5.1 Foreign Investment

FDI reached $ 348.3 million during Jul-Oct FY2023 ($ 726.5 million last year). FDI received from China $ 87.6 million (17 percent of total FDI), U.A.E $73.2 million (14.2 percent), Netherland $ 61.5 million (12.0 percent) and Switzerland $ 48.2 million (9.4 percent). Power sector attracted highest FDI of $ 168.9 million (32.8 percent of total FDI), Financial Business $ 105.1 million (20.4 percent), and Communications $ 51.6 million (10.0 percent).

Foreign Private Portfolio Investment has registered a net outflow of $ 15.6 million during Jul-Oct FY2023. Foreign Public Portfolio Investment recorded a net outflow of $ 18.2 million. The total foreign portfolio investment recorded an outflow of $ 33.8 million during Jul-Oct FY2023 as against outflow of $238.7 million last year. Total foreign investment during Jul-Oct FY2023 reached $ 314.5 million ($ 487.8 million last year).

2.5.2 Worker's Remittances

Jul-Oct FY2023, workers' remittances recorded at $ 9.9 billion ($ 10.8 billion last year). MoM basis, remittances decreased by 9.1 percent in October 2022 ($ 2.2 billion) as compared to September ($ 2.4 billion). Share of remittances (Jul-Oct FY2023) from Saudi Arabia remained 24.8 percent ($ 2459.5 million), U.A.E 19.1 percent ($ 1888.9 million), U.K 13.8 percent ($ 1367.9 million), USA 10.8 percent ($ 1069.9 million), other GCC countries 11.5 percent ($1135.4 million), EU 10.7 percent ($ 1061.5 million), Malaysia 0.5 percent ($ 47.0 million), and Other Countries 8.8 percent.

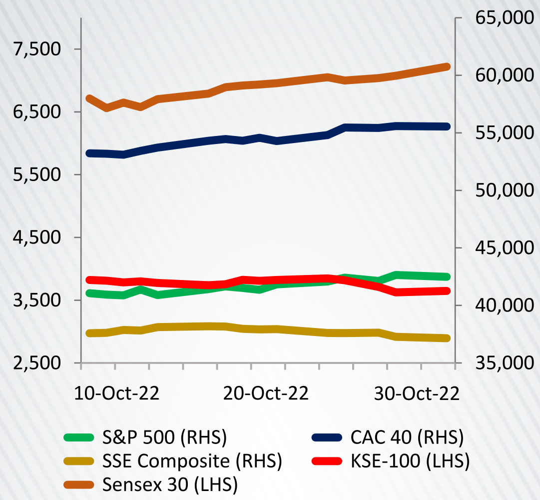
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to $ 13.8 billion on November 11, 2022, with the SBP's reserves now stood at $ 7.96 billion. Commercial banks' reserves remained at $ 5.83 billion.

2.6 Performance of KSE Index

The KSE-100 index closed at 41,265 points as on 31st October 2022 while market capitalization settled at Rs 6,667 billion. The performance of major world indices is depicted in Fig-6:

Fig-6: Major World Indices



Source: Investing.com, PSX

2.7 Social Sector

- ADB released $1.5 billion to the government of Pakistan under Building Resilience Under-Active Countercyclical Expenditures (BRACE) Programme aims to support the government's efforts to deal with the adverse impacts of devastating floods, supply chain disruptions, rising energy & fuel prices and inflation-hit vulnerable segment.
- The government has decided to launch a new survey across the country from the next month in order to expand the coverage of BISP Programme. For this purpose, an agreement has also been made with NADRA.
- Till 16th November, 2022 the government has disbursed Rs 67.2 billion among 2.7 million families of flood affected areas to help them recover their financial losses, which is almost 97.3 percent of the total identified beneficiaries.
- PPAF through its 24 Partner Organizations has disbursed 44,127 interest free loans amounting to Rs 1.76 billion during the month of October, 2022. Since inception of interest free loan component, a total of 2,100,821 interest free loans amounting to Rs 76.84 billion have been disbursed to the borrowers.
- During January – October 2022, Bureau of Emigration and Overseas Employment has been registered 691712 emigrants while 76602 emigrants have registered during the month of October, 2022 for overseas employment in different countries.

- Cases of water and vector-borne diseases and acute respiratory illnesses, especially among children and older adults, remain a key public health challenge in flood-affected areas of Sindh and Balochistan. As of 8th November, according to WHO, around 8 million flood-affected people need health assistance, including the provision of essential medical supplies and access to essential health care.
- Since the beginning of the year, around 1,000 confirmed cholera cases and 64,767 dengue fever cases, with 147 deaths, have been reported.
- According to United Nations Population Fund (UNFPA), as of 10 November, more than 5.1 million women are of reproductive age (15-49 years), including an estimated 410,846 women who are currently pregnant, with approximately 136,950 births expected in the next three months.

Economic Outlook

3.1 Inflation

Inflationary pressure is expected to marginally ease out MoM due to smooth domestic supplies, unchanged energy prices in November and a stable exchange rate. Further, the recent PM Package for agriculture has made an optimistic crop outlook which will decelerate food inflation in the months ahead. Moreover, the food supply chain disruption caused by flash floods is also settling down which has smoothened the food and other related markets. Thus, food inflation is also expected to remain on the lower side because the administered prices are maintained restricting the pass-through of energy-led inflation. Though International commodity prices are showing an upward trend on YoY basis and being net importer, we are affected by it. However, the stable exchange rate, government's administrative, policy and relief measures are providing cushion to absorb its impact. It is expected that CPI inflation on a YoY basis will marginally decline in the month of November and may remain in the range of 23-25 percent.

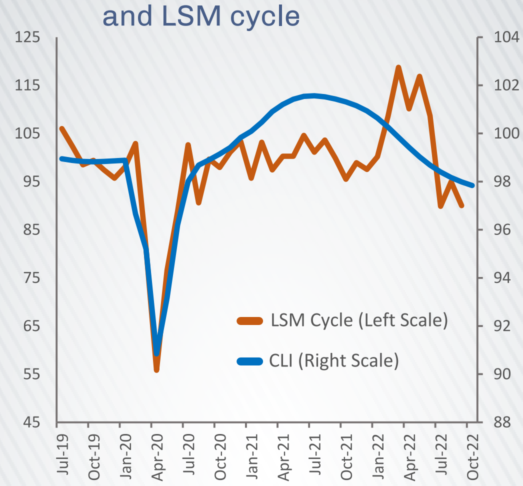
3.2 Agriculture

Delayed sowing of wheat crop in Sindh is making it challenging to achieve the targets set for Rabi-2022-23 season. However, the supporting measures by both federal and provincial governments may reverse the negative effects on agriculture sector.

3.3 Industrial Activities

Industrial activity, measured by the LSM index is the sector that is most exposed to the developments in international markets as illustrated in Fig-7. It compares the cyclical component of LSM with the weighted average CLI in Pakistan's main export markets. The CLI reflects the deviation of 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.

Fig-7: Relationship between CLI and LSM cycle



Source: PBS, OECD and EAW Calculations

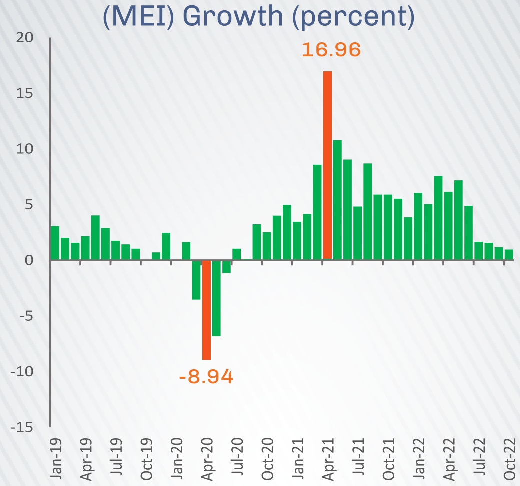
The LSM cycle is following the cyclical movements in the main trading partners, but since it is focused on the main industrial sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets. The cyclical position of Pakistan's main trading partners has deteriorated which reflects the widening of the negative output gap. On a YoY basis, the LSM cyclical component of Pakistan although remained positive but showing convergence to that of its main trading partners as it remained below its potential path in September 2022.

For October, LSM is expected to show moderate positive growth both on YoY and MoM basis if no adverse shock is observed. But shocks emanating from the floods and the energy crises represent downside risks.

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-8 presents the MEI on monthly basis since January 2019. It should be noted that some of the data underlying the October MEI is still provisional and may be revised next month.

Fig-8: Monthly Economic Indicator (MEI) Growth (percent)



Source: EA Wing's Calculation

Several high-frequency indicators point to lower growth since the start of the current FY. These are reflected in the MEI which continues to remain on a lower path of economic expansion. But although the economic situation is faced with severe headwinds following the devastating floods and the higher energy prices. The Government has supported the incomes of the most needed as well as key sectors of the economy. As a result, it is highly expected that contraction or recession will be avoided.

3.5 External

According to BOP data, October imports of goods and services were at $ 5.3 billion marginally lower than their level of $ 5.6 billion observed in September. Exports of goods and services ended at just around $2.8 billion in October compared to the $3.0 billion mark observed in September.

In fact, imports have roughly stabilized at relatively low levels during the first four months of FY23. The soothed international oil prices, stable exchange rate, and contained domestic demand are contributing to the decline in imports. Given these recent dynamics and under unchanged policy assumptions, imports would remain at around current low levels during the coming months.

On the export side, sluggish foreign demand, and domestic supply issues, following the floods-induced destruction of exportable crops are responsible for the weak export performance. However, in the coming months, it is expected that exports will improve on account of targeted policies announced recently by the government to stimulate exports. But these dynamics may be hindered if the economic conditions in the main export markets remained volatile and uncertain.

As a result, the trade balance in goods and services has marginally improved. For November 2022, further improvement in trade balance is expected.

Remittance inflows are expected to remain above from its current level. Given the expected other components of secondary income, as well as primary income balance, the expected improvement in the trade balance will be reflected in the current account balance.

3.6 Fiscal

During the first quarter of FY23, acceleration in total expenditures outpaced the growth in revenues. The additional requirement of substantial expenditures on flood-related activities has brought various challenges to fiscal sustainability. Furthermore, in an already constrained fiscal position, the government is compelled to allocate additional funds to maintain the law-and-order situation due to the ongoing long march in the country. All these would put pressure on total expenditures. On the revenue side, although FBR tax collection has maintained its growth trajectory above 16 percent during the first four months, the slowdown in economic activity due to floods and political activity may have some repercussions on tax collection.

3.7 Final Remarks

The MEI shows positive but slower economic growth during the first 4 months of the current fiscal year. The lower pace of economic activity especially due to floods also weighs on tax revenues. However, the support of the Government to the most needed income groups as well as key sectors of the economy especially agriculture will help in turning the economy toward normal.

A manageable current account deficit and its guaranteed financing by healthy financial inflows are required. Government has a vibrant financial plan in place for FY23. Government has met all its Debt obligations in timely manner and is comfortable on its medium to long term obligations.

Over the medium term, sustainable growth requires economic fundamentals based on balanced economic policies. Sufficient investment is needed to increase production capacity and productivity in the economy to realize the high growth of potential output. Stabilizing the output gap demands accommodative fiscal and prudent monetary policy to ensure balance growth path.

Economic Indicators

24th November, 2022

External Sector			
	2021-22 Jul-Oct	2022-23 Jul-Oct	% Change
Remittances ($ billion)	10.8	9.9	↓8.6
Exports FOB ($ billion)	9.6	9.8	↑2.6
Imports FOB ($ billion)	23.2	20.6	↓11.6
Current Account Deficit ($ billion)	5.3	2.8	↓
FDI ($ million)	726.6	348.3	↓52.1
Portfolio Investment- ($ million)	-238.6	-33.8	↑
Total Foreign Investment ($ million)	487.8	314.5	↓35.5
Forex Reserves ($ billion)	22.756 (SBP: 16.236) (Banks: 6.520) (On 22nd Nov 2021)	13.619 (SBP: 7.804) (Banks: 5.815) (On 22nd Nov 2022)	
Exchange rate (PKR/US$)	174.77 (On 22nd Nov 2021)	223.42 (On 22nd Nov 2022)	

Source: SBP

Fiscal (Rs Billion)			
	2021-22 Jul-Sep	2022-23 Jul-Sep	% Change
FBR Revenue (Jul-Oct)	1,843	2,149	↑16.6
Non-Tax Revenue	249	211	↓15.5
PSDP (incl. grants to provinces)	144	75	↓48.2
Fiscal Deficit	438	809	↑84.4
Primary Balance	184	145	↓

Source: FBR & Budget Wing

Monetary Sector			
	2021-22	2022-23	% Change
Agriculture Credit (provisional)	291.9	383.8	↑31.5
Credit to private sector (Flows)	270.9 (1st Jul to 29th Oct)	1.9 (1st Jul to 28th Oct)	↓
Growth in M2 (percent)	-1.0 (1st Jul to 29th Oct)	-0.7 (1st Jul to 28th Oct)	
Policy Rate (percent)	8.75 (19-Nov-2021)	15.00 (10-Oct-2022)	

Source: SBP

Inflation			
	2021-22	2022-23	% Change
CPI (National) (percent)	9.2 (Oct) 8.7 (Jul-Oct)	26.6 (Oct) 25.5 (Jul-Oct)	

Real Sector			
Large Scale Manufacturing (LSM) (percent)	7.6 (Sep) 10.2 (Jul-Sep)	0.01 (Sep) -0.4 (Jul-Sep)	
PSX Index*	41630 (On 1st Jul 2022)	42928 (On 22nd Nov 2022)	↑3.12
Market Capitalization (Rs trillion)	6.96 (On 1st Jul 2022)	6.84 (On 22nd Nov 2022)	↓1.72
Market Capitalization ($ billion)	33.99 (On 1st Jul 2022)	30.60 (On 22nd Nov 2022)	↓9.97
Incorporation of Companies (Jul-Oct)	8,234	8,937	↑8.5

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP