Monthly Economic Update & Outlook

October 2021

Government of Pakistan
Finance Division
Economic Adviser's Wing

Contents

Executive Summary

- The global economic recovery is continuing, but the pace has slowed amid rising uncertainty due to pandemic and growing international commodity prices. The World Economic Outlook (WEO, October-2021) has revised global growth projection down marginally for 2021 by 0.1 percent to 5.9 percent and kept the growth unchanged for 2022 at 4.9 percent. Upward trend witnessed in global energy prices in September, jumping 10.8 percent. The non-energy prices fell by 1.1 percent, prices of agriculture commodities and fertilizers falling 0.7 and 1.0 percent respectively.
- **Real Sector:** Significant improvement in the production of important Kharif crops reported in 2021. Production of sugarcane is estimated at 87.7 million tonnes (81.0 million tonnes last year), rice production at 8.8 million tonnes (8.4 million tonnes last year), while maize production at 9.0 million tonnes (last year 8.9 million tonnes). Cotton production estimated at8.5 million bales (7.1 million bales last year). The performance of LSM witnessed a broad-based YoY growth of 12.74 percent in August 2021 on the back of improved business confidence and consumer demand. On MoM basis, LSM accelerated by 2.09 percent as compared to -5.08 percent in July 2021. The overall growth of LSM during Jul-Aug FY 2022 clocked at 7.26 percent reaching well above the pre-pandemic level.
- **Fiscal, Monetary & External:** The fiscal deficit in Jul-Aug FY2022 recorded at 0.9 percent of GDP (Rs 462 billion). Expenditures under PSDP grew by 19 percent to Rs 63 billion in Jul-Aug FY2022 against Rs 53 billion in the same period of last year. Broad Money (M2) witnessed expansion of Rs 89.7 billion in Jul-Sep FY2022 against expansion of Rs 130.1 billion during comparable period last year. The current account deficit declined by 24.4 percent to $ 1,113 million in September, 2021 on M-o-M basis ($ 1,473 million in August, 2021) due to significant increase in exports and workers' remittances.
- **Economic Outlook:** Revival of domestic economic activities remained on track; however risk of inflationary pressure persists on account of both demand and supply conditions. The unprecedented increase in global commodity prices is putting pressure on prices as well as on the Pakistani rupee.
  - Despite the risk of higher international commodity prices, exchange rate depreciation and adjustments in administered prices, the government's pro-supply side policies, administrative and relief measures may neutralize the associated risks.
  - The MEI is expected to remain strong, reflecting favorable macroeconomic environment and significant growth in LSM with multiplier effects in services sectors. Exports of goods and services crossed the $ 3 billion mark due to strong economic recovery in Pakistan's main trading partners. The momentum in domestic economic dynamism and pro-growth policies will keep exports above the $ 3 billion mark in the months ahead.
  - FBR is focused on sustaining its successful streak of surpassing tax collection target during first quarter of FY2022. It is expected that the momentum of tax collection will continue and FBR will achieve the revenue target set for FY2022.

The economic recovery accelerated since March 2021, is expected to continue on account of strong growth in agriculture (important and other crops) and manufacturing sectors. The performance of commodity producing sector will accelerate activities in the services sector through multiplier effects. Furthermore, government has lifted COVID related restrictions due to massive decline in COVID-19 cases and higher vaccination. All these developments will further stimulate the confidence of economic agents.

The economic expansion may go along with a current account deficit. However, measures are underway to curb the trade deficit at manageable level to ensure the external sector stability. As long as the deficits are financeable, their contribution remains productive for developing countries in achieving the higher growth trajectory, necessary for the convergence of their per capita incomes with developed countries.

1. International Performance and Outlook

The global economic recovery remains on track in the long run despite the delta variant, supply chain problems and rising commodity prices. In the short run, US economy may slowdown amid global uncertainties, thus increasing the complex policy trade-off between growth and inflation. The uncertainty about the emergence of new delta variant and global vaccine divide causing divergence in economic prospects across countries which remains a major concern.

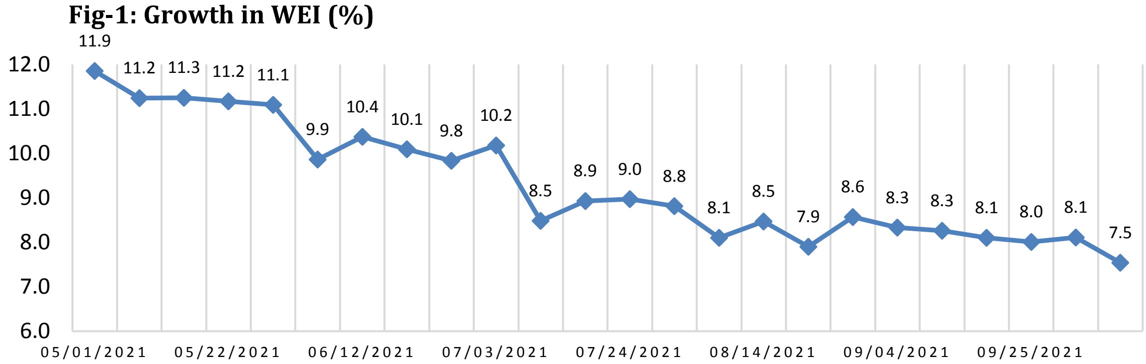
The World Economic Outlook (WEO, October-2021) has revised global growth projection down marginally for 2021 (0.1 percent to 5.9 percent) but kept 2022 projection unchanged at 4.9 percent. The downward revision for 2021 reflects a downgrade for advanced economies, in part due to supply disruptions and for low-income developing countries, largely due to slow vaccination. This is partially offset by stronger near-term growth prospects among some commodity-exporting emerging markets and developing economies. The labor market recovery is partially compromised by the pandemic-related disruptions in the labor-intensive sectors, thus, causing output gap in most countries.

The job growth in September was lower than expected. In addition, the economic and financial sentiments were also perturbed by continuing fears concerning the inflation upsurge, increase in COVID-19 cases and tapering off bond purchases by the FED.

Headline inflation rates have increased rapidly in the United States, in some emerging market and developing economies. In most cases, rising inflation reflects pandemic-related supply-demand mismatches and higher commodity prices compared to their low base from a year ago. Global Financial Stability Report (GFSR, Oct-2021) highlighted inflation risks skewed to the upside and could worsen if pandemic-induced supply-demand mismatches continue longer than expected, leading to more sustained price pressures and rising inflation expectations that prompt a faster than-anticipated monetary normalization in advanced economies.

The Weekly Economic Index (WEI) of the Federal Reserve Bank of New York, provides a signal of the state of the U.S. economy based on data available at a daily and weekly frequency. The growth in WEI index moving positively, signaling expansion of US economic activity, but registered slow growth in September compared to June & July (Fig-1). Delta variant inhibited US job growth in September which stood weak, particularly in education and hospitality sectors.

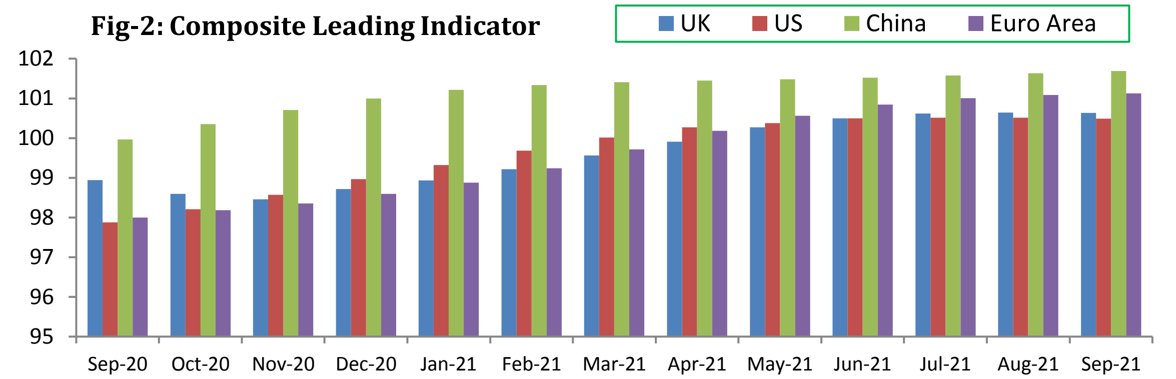
Fig-1: Growth in WEI (%)



Source: Federal Reserve Bank of New York

The Composite Leading Indicator (CLI) 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 available up to September 2021 is compiled by OECD. It has been shown that the CLI of Pakistan's major export markets maintained its upward trend during first nine months of 2021 (Fig-2). However, Euro Area and China's CLI are in better position as their indices stood at 101.12 and 101.69 respectively as compared to UK (100.63) and US (100.49). Thus, recent trends of WEI and CLI show continuation of economic activities, which will significantly contribute to global GDP for 2021.

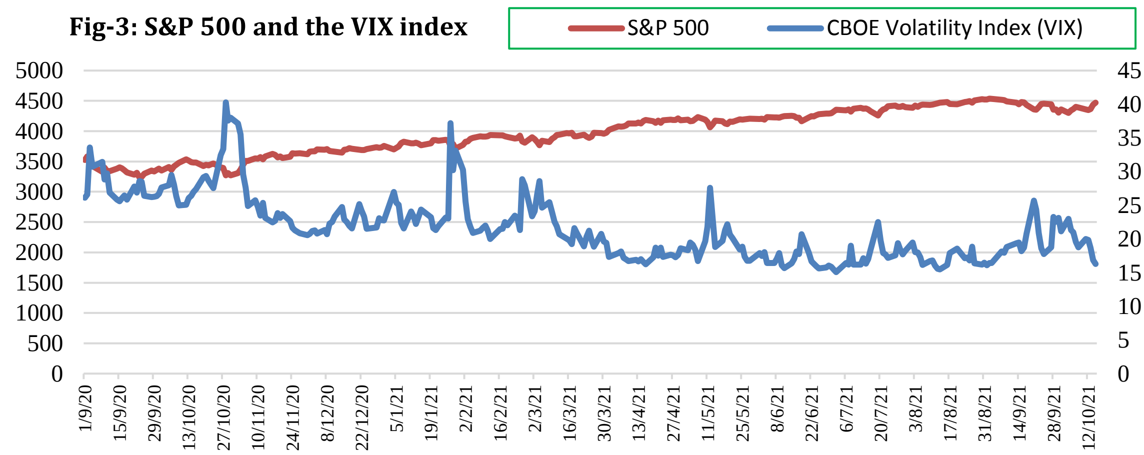
Fig-2: Composite Leading Indicator



Source: OECD

The Chicago Board Options Exchange (CBOE) Volatility Index which is commonly used as a measure of investors' uncertainty, showing downward trend and recorded at 16.3 as on 15th October, 2021, while the latest rally came as investors welcomed encouraging quarterly report cards from several companies giving S&P 500 its best week since July, 2021 (Fig-3).

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



Source: Investing.com

The J.P.Morgan Global Manufacturing PMI– a composite index produced by J.P.Morgan and IHS Markit – posted 54.1 in September, unchanged from August's six-month low. The PMI has now signaled expansion for 15 successive months.

The global manufacturing upturn was subdued by supply chain disruptions and material shortages in September. Although output growth accelerated for the first time in five months, it remained among the slowest during the current 15-month sequence of expansion. The pace of expansion in new orders also ticked higher from a recent low. Marked inflation of both input costs and factory gate selling prices are caused by Supply related constraints.

PMI September data is available for 31 nations, of which 24 registered PMI readings above 50.0 signaling expansion. European manufacturing dominated the top of the growth rankings, followed by US manufacturing, while the Asian countries lagged behind the best performers in PMI readings.

Global commodity prices revealed that energy prices resumed their upward surge by 10.8 percent in September (-2.1% in Aug-21). Energy prices recorded 79 percent growth over the last year. Non-energy prices fell by 1.1percent (-1.0% in Aug-21). Results were broadly lower for key subgroups, with agriculture commodities and fertilizers falling 0.7

percent and 1.0 percent respectively. Whereas metals & minerals and precious metals dropped by 1.9 percent (-4.4% in Aug-21) and 1.1percent (-2.3% in Aug-21), respectively.

2. Monthly Performance of Pakistan's Economy

The economic recovery remained intact keeping the economic growth on upward trajectory. The estimates of important kharif crops along with broad based growth in LSM and other high frequency variables are encouraging and setting optimistic baseline scenario for FY2022. Furthermore, prudent government measures are being taken to counter the challenges mainly associated with rising international commodity prices, domestic inflation and widening of trade deficit to ascertain the positive outlook of the economy.

2.1 Real Sector

2.1-a Agriculture

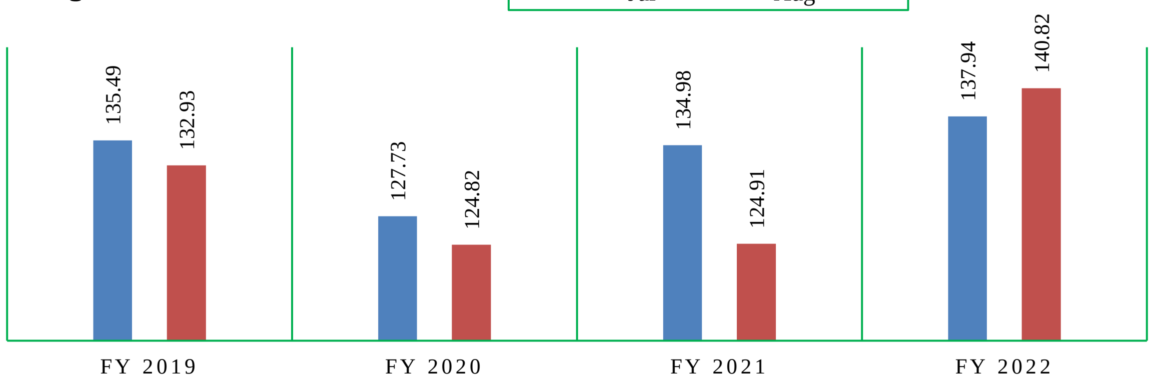
Preliminary estimates of important Kharif crops 2021 reported the production of sugarcane increased to 87.7 million tonnes from 81.0 million tonnes of last year's production witnessing an increase of 8.2 percent. Rice production estimated at 8.8 million tonnes, showing an increase of 5.0 percent over last year's production of 8.4 million tonnes. Maize production estimated at 9.0 million tonnes increased by 0.8 percent compared to 8.9 million tonnes of last year. The cotton production witnessed an increase of 19.8 percent to 8.5 million bales against last year's production level of 7.1 million bales.

On agriculture inputs side situation remained favorable. According to Pakistan Automotive and Manufacturing Association (PAMA), farm tractors production and its sales increased by 11.3 percent (12,533) and 12.1 percent (12,025), respectively in Jul-Sep FY2022. During Jul-Sep, FY2022, the agriculture credit disbursement increased by 14.7 percent to Rs 291.9 billion compared to Rs 254.6 billion during same period last year. The urea off-take during August 2021 was 649 thousand tonnes showing an increase of 13.1 percent over August 2020. Whereas, DAP offtake was 187 thousand tonnes, which decreased by 36.8 percent over same time frame last year.

2.1-b Manufacturing

The performance of LSM witnessed a broad-based YoY growth of 12.74 percent in August 2021 on the back of improved business confidence and consumer demand. On MoM basis, LSM accelerated by 2.09 percent as compared to -5.08 percent in July 2021. The overall growth of LSM during Jul-Aug FY 2022 clocked at 7.26 percent reaching well above the pre-pandemic level. During the period, 12 out of 15 subsectors of LSM have witnessed a positive growth. Automobile shows a massive growth of 55.33 percent, Iron & Steel Products by 14.34 percent, Pharmaceuticals by 18.67 percent, Leather Products by 20.21 percent, Wood Products by 15.81 percent and Chemicals grew by 6.36 percent.

Fig-4: LSM Index



Source: Pakistan Bureau of Statistics

Latest trends in high frequency indicators also indicates economic recovery as Car production and sale increased by 87.7 and 80.5 percent respectively, during Jul-Sep FY2022, while tractor production and sale increased by 11.3 and 12.1 percent respectively.

Domestic cement dispatches increased by 3.92 percent to 11.279 million tonnes during Jul-Sep FY2022 (10.853 MT last year). Total Oil sales increased by 21.0 percent to 5.8 million tonnes during Jul-Sep FY2022 (4.8 million tonnes last year). On YOY basis, total Oil Sales increased by 26 percent to 1.9 million tons in September 2021 (1.5 million tons last year).

2.2 Inflation

CPI inflation is recorded at 8.98 percent in September 2021 as against 9.04 percent in the same month last year. During Jul-Sep FY2022, CPI inflation recorded 8.58 percent (8.84% last year).

The Urban CPI inflation recorded at 9.1 percent on YoY basis in September 2021 as compared to 8.3 percent in the previous month and 7.7 percent in September 2020. The Rural CPI inflation, recorded at 8.8 percent on YoY basis in September 2021 as compared to 8.4 percent in the previous month and 11.1 percent in September 2020.

The oil prices [Global Benchmark Brent] in the international market had risen around $85/barrel which were the highest since October 2018. More importantly, entire energy chain prices have witnessed a strong surge in the past couple of months due to higher demand for energy inputs and supply bottlenecks. The government had absorbed the pressure of increasing international rates and provided "maximum relief" to consumers by keeping the petroleum levy and sales tax to a minimum level. Government will provide targeted subsidies (wheat, sugar and pulses) to 40 percent of the population for which the government has compiled a database through which the targeted population will be identified.

International Prices

Months	Sugar ($/MT)	Palm Oil ($/MT)	Soyabean Oil ($/MT)	Wheat ($/MT)	Crude Oil ($/Brl)
Sep-20	280.0	796.0	906.0	219.7	41.1
Sep-21	430.0	1181.0	1399.0	263.6	74.6
% Change	53.6	48.4	54.4	20.0	81.5
Source: Pink sheet (World Bank)					

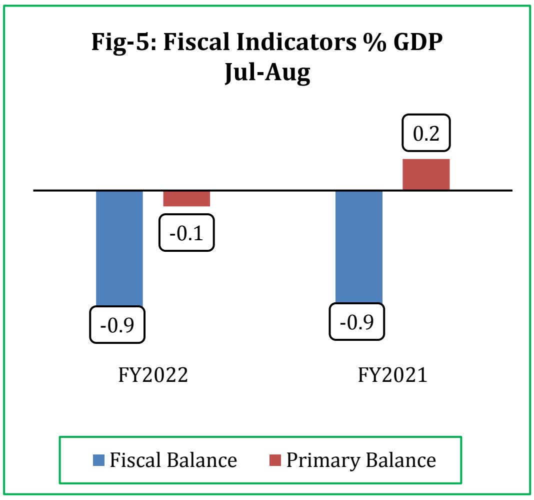
Domestic Prices in Pakistan

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
Sep-20	94.79	1257.90	244.13	1009.55	104.92	107.49
Sep-21	107.59	1726.75	343.46	1203.94	122.23	119.05
% Change	13.5	37.3	40.7	19.3	16.5	10.8
Source: PBS						

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

2.3. Fiscal

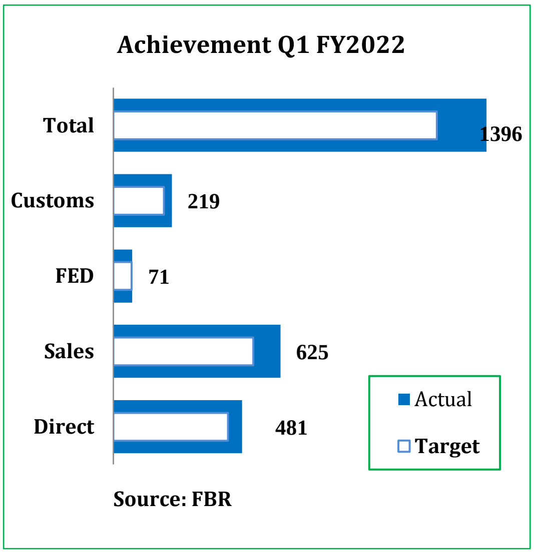
The fiscal deficit in Jul-Aug FY2022 was recorded at 0.9 percent of GDP, the same as in the comparable period of last year. In absolute terms, it stood at Rs 462 billion in Jul-Aug FY2022 against Rs 415 billion recorded last year. During the first two months of FY2022, the primary balance showed a deficit of Rs 37 billion, compared to a surplus of Rs 69 billion in the comparable period last year.



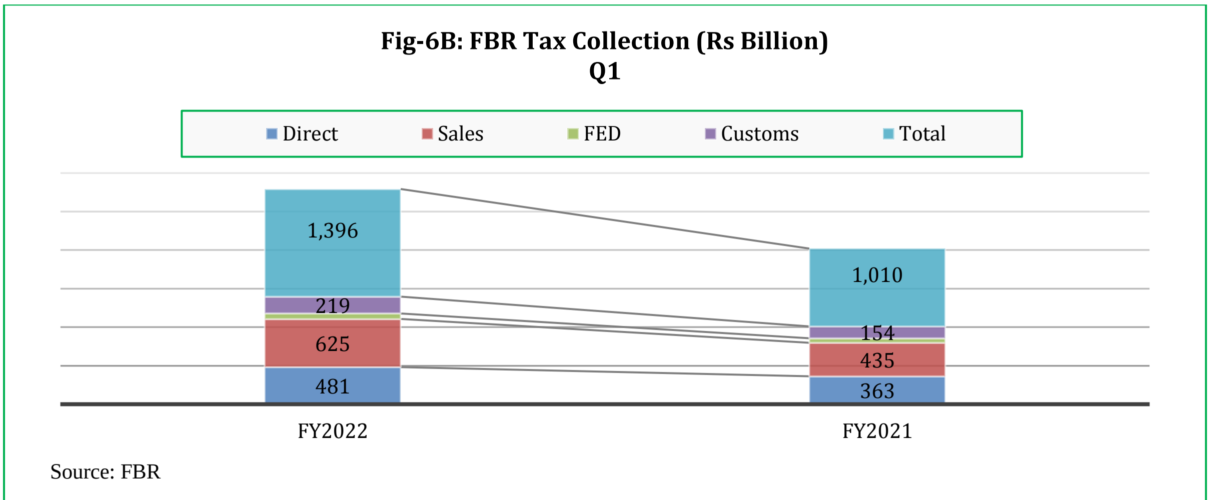
Net revenue receipts increased by 7.1 percent to Rs 470 billion in Jul-Aug FY2022, compared to Rs 439 billion last year. The sharp rise in FBR tax collection during the period under review contributed significantly to the increase in revenue receipts. PSDP spending jumped by 18.9 percent to Rs 63 billion in Jul-Aug FY2022, compared to Rs 53 billion in the same period of last year.

FBR Tax Collection

FBR provisional net tax collection grew by 38.2 percent to Rs 1396.4 billion in Q1 FY2022 against Rs 1010.2 billion in the same period of last year. The net collection exceeded its quarterly target by 15.3 percent. In absolute terms, FBR collected Rs.186 billion higher revenues than the target fixed for Q1 FY2022. All the four taxes showed excellent performance and exceeded their monthly and quarterly targets.



Domestic tax collection grew by 37.6 percent to reach Rs 1,178 billion in Q1 of FY2022 against Rs 856 billion in the corresponding period of last year. Within domestic taxes, direct tax increased by 32.7 percent, sales tax by 43.8 percent and FED by 21.4 percent. While customs duty grew by 41.9 percent. FBR has also adopted a policy of expeditious processing of refunds and during Q1 FY2022, refund amounting to Rs. 61.7 billion has been paid which is 26 percent higher than the refund paid during same period of last year.



Box-I: FBR's Initiatives to Promote Economic Activity
Through Maximum Taxpayer's Facilitation

I. **Pakistan Single Window (PSW)**
   - Platform to integrate 74 departments on one platform and eliminate need for documents verification from different platforms.
   - Allows standardized information and documents using single-entry point to fulfil all import, export and transit related regulatory requirements.
   - Reduction in time, cost and complexity of import/export operations for ease in doing business.

II. **E-Commerce Facilitation**
   - E-Commerce module in WeBOC introduced to allow import/export of e-commerce goods through registered couriers without visiting ports or Customs offices.
   - Importer/exporter can avail online self-payment or payment through registered couriers through SBP prescribed mechanism.

III. **Export Facilitation Scheme (EFS), 2021**
   - New WeBOC modules launched for Export Facilitation Scheme (EFS), 2021
   - Authorization Application along with Export Oriented Unit (EOU) and Manufacturing Bond (MB) schemes.
   - The Scheme allows direct/indirect exporters and SMEs to utilize imported goods/raw material from Custom Export Warehouse without going through import procedures.
   - Extension of authorization and utilization period from two years to five years under this scheme.

IV. **Transit Trade Facilitation**
   - Amendment made in Customs Rules to reduce dwell time of transit cargo through application of RMS and automated assessment.

V. **In agriculture sector,** sales tax exempted for locally produced storage silos.

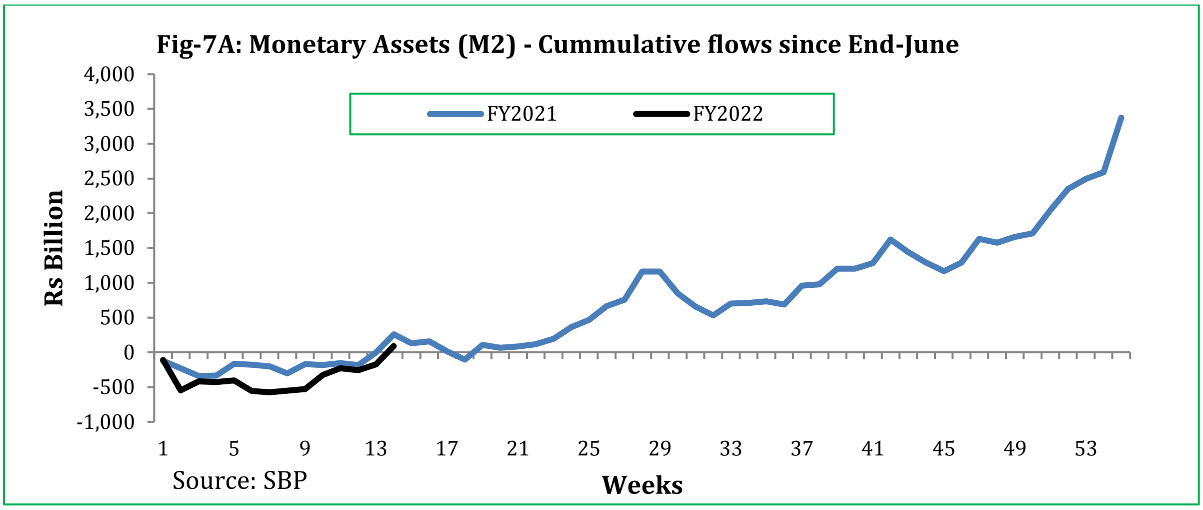
VI. **System of automated refunds introduced**: Sales Tax (FASTER+), Income Tax (CITRO).

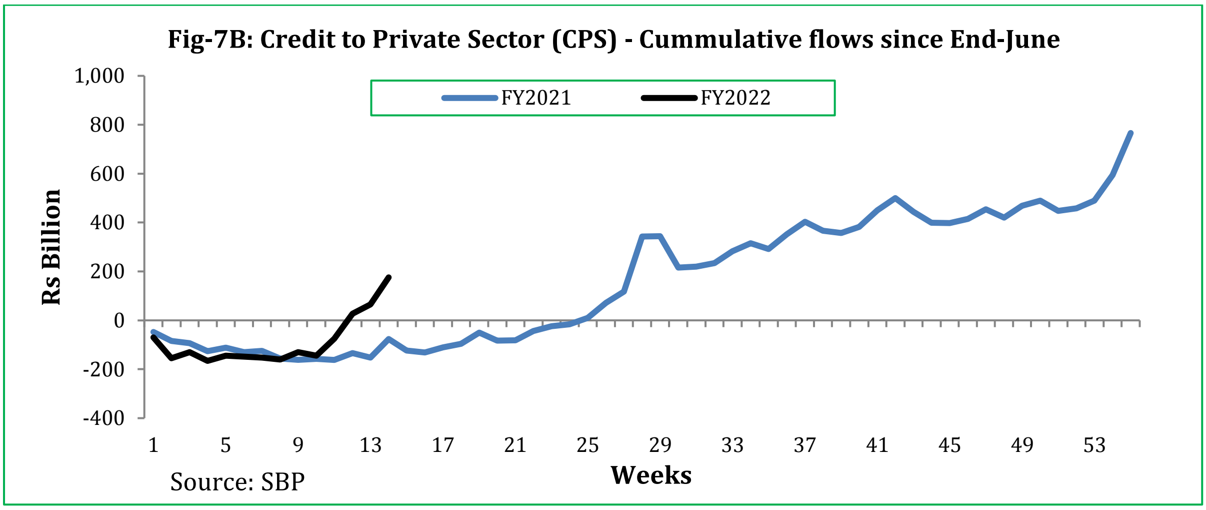
Source: FBR

2.4. Monetary

During the period 1st July-01st October FY2022, Broad Money (M2) witnessed expansion of Rs 89.7 billion (growth of 0.4 percent) against expansion of Rs 130.1 billion (growth of 0.62 percent) during comparable period last year. M2 expansion mainly contributed by Net Domestic Assets (NDA) which was partially offset by negative Net Foreign Assets (NFA) point contribution. NDA turns positive on account of increase in private sector credit (PSC), which increased by Rs 175.8 billion as compared to the retirement of Rs 123.1 billion last year. Within PSC, working capital loans increased by Rs 63.3 billion as compared to retirement of Rs 165.6 billion last year, mainly due to increase in credit demand from manufacturing specially textile sector. On the other hand, fixed investment loans increased by Rs 89.2 billion, on account of demand driven by information and communication sector. On positive note, loans for construction sector observed expansion of Rs 163.1 billion during Q1-FY 2022 as compared to Rs 23.3 billion during comparable period last year.

Government has retired Rs 9.7 billion under budgetary support against the borrowing of Rs 254.5 billion last year. Within budgetary support, government has retired Rs 296.5 billion to SBP against retirement of Rs 272.0 billion last year. Government has borrowed Rs 286.8 billion from scheduled banks as compared to Rs 526.5 billion during same period last year.





2.5 External Sector

The current account posted a deficit of $ 3.4 billion (4.1 percent of GDP) for Jul-Sep FY2022 as against a surplus of $ 865 million (1.2 percent of GDP) last year. Current account deficit widened due to constantly growing import volume of energy and non-energy commodities, along with a rising trend in the global commodity prices, COVID-19 vaccines, food, and metals. Exports on fob grew by 35.2 percent during Jul-Sep FY2022 and reached $ 7.2 billion ($ 5.4 billion last year).

As per PBS, during Jul-Sep, FY 2022, exports increased by 27.9 percent to $ 6.9 billion ($ 5.5 billion last year). The exports grew by 27.7 percent to $ 2.4 billion as against $ 1.9 billion last year, on the back of rising demand from global market along with exports promotion policies of the government. The major exported commodities which have grown well during the review period include: Knitwear (32.9 percent), Readymade garments (22.8 percent), Bed wear (23.3 percent), Cotton Yarn (69.3 percent), Cotton Cloth (21.9 percent), Chemical & pharma products (61.9 percent), leather manufactured (5.9 percent), Fruits (22.8 percent) and Basmati rice (26.9 percent). The increase in overall exports is contributed by the growth in exports of value-added sectors. The total imports in Jul-Sep, FY2022 increased to $ 18.7 billion ($ 11.3 billion last year), posting 66.1 percent growth. Main imported commodities 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.

2.5.1 Foreign Investment

In Jul-Sep FY2022, total foreign investment registered an inflow of $ 1,318.6 million while

FDI recorded at $ 439.1 million ($ 457.6 million last year). On MoM in September 2021 FDI stood at $236 million ($113.2 million in August 2021) increased by 108.5 percent. FDI received from: United States $ 100.9 million (23.0 percent of total FDI), China $ 76.9 million (17.5 percent), Netherlands $ 60.2 million (13.7 percent), and U.A.E $ 49.7 million (11.3 percent). Power sector attracted highest FDI of $ 131.1 million (29.8 percent of total FDI), Communication $ 88.4 million (20.1 percent), financial business $ 100.5 million (22.9 percent) & Oil & Gas exploration $ 63.6 million (14.5 percent).

Foreign Private Portfolio Investment has registered a net outflow of $ 100.3 million during Jul-Sep FY2022. Foreign Public Portfolio Investment recorded a net inflow of $ 979.8 million. In April 2021, Pakistan established a Global Medium-Term Note (MTN) program which will allow Pakistan to tap the market at short notice. Through this program, Pakistan successfully raised $ 2.5 billion in April and $ 1.0 billion in July 2021 through a multi-tranche transaction of 5-, 10- and 30-years Eurobonds. The total foreign portfolio investment recorded an inflow of $879.5 million during Jul-Sep FY2022 as against an outflow of $ 145.9 million last year.

2.5.2 Worker's Remittances

In Jul-Sep FY2022, workers' remittances reached $ 8.0 billion ($ 7.1 billion last year), increased by 12.5 percent. Workers' remittances continued their unprecedented streak of above $ 2.0 billion for the 16th consecutive month in September 2021. YoY, remittances grew by 16.9 percent to $ 2.7 billion in September 2021 ($ 2.3 billion in September 2020). Share of remittances (Jul-Sep FY2022) from Saudi Arabia remained 25.2 percent ($ 2,025.9 million), U.A.E 19.2 percent ($ 1,544.9 million), U.K 13.9percent ($ 1,115.9 million), USA 10.4percent ($ 836.1 million), other GCC countries 11.0percent ($ 880.7 million), EU 11.1percent ($ 889.1 million), Malaysia 0.4percent ($ 33.4 million), and other countries 8.8percent.

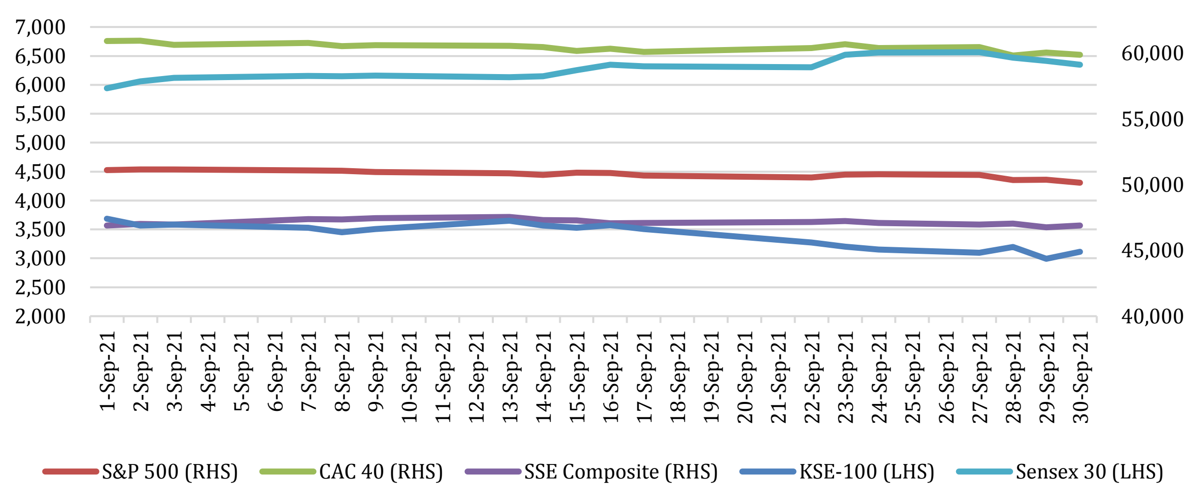
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to $24.3 billion as on October 15, 2021, with the SBP's reserves now stood at $17.5 billion, while commercial banks' reserves remained at $6.8 billion.

2.6 Performance of KSE Index

The KSE-100 index closed at 44,900 on 30th September, 2021. Market capitalization closed at Rs 7,804 billion. The trend of major world indices is depicted in Fig-8:

Fig-8: Major World Indices



2.7 Social Sector

- On the occasion of World Poverty Day October 17, 2021, the government has launched the National Data Exchange Platform (NDEP) for the Ehsaas' National Socioeconomic Registry 2021 to facilitate data-sharing among different organizations leading to transparency in poverty alleviation programs.
- The new system will enable different organizations and agencies to share data related to poverty and beneficiaries of Ehsaas program to underpin the rollout of the forthcoming Ehsaas targeted commodity subsidies program in collaboration with USC and National Bank of Pakistan.
- The government announced "50 percent Plus Benefits" policy for women in the framework of Ehsaas to empower them. Any policy and program under this framework must accrue at least half of the benefits to women and girls.
- The recently announced Ehsaas Education Stipend program has been structured along the lines of Ehsaas' Stipend policy that incentivizes higher stipend amounts for girls as compared to boys. Under the Ehsaas Education Stipends, boys enrolled at the primary level will receive quarterly stipends of Rs 1,500 and girls Rs 2,000. Similarly, secondary school-going boys will receive Rs 2,500 and girls Rs 3,000 and at the higher secondary level, boys will get Rs 3,500 and girls Rs 4,000 per quarter.
- Ehsaas Undergraduate Scholarship portal has been re-opened to award 50,000 merit cum need based scholarships to receive fresh applications from the students for the academic year 2021-22. The scholarship portal will remain open online till November 30, 2021.
- Newly admitted students of fall 2021 session under 4-5-year undergraduate degree programs in any of the HEC- recognized 135 public sector universities are eligible to apply, if their family income is less than Rs 45,000 per month. The scholarship includes a 100 percent tuition fee and a monthly stipend of Rs 4,000.
- Work has been started to digitally monitor the government-run shelter homes to ensure quality food and lodging facilities that no lapse whatsoever takes place in services for the poor deserving people.
- Under National Poverty Graduation Program, 72,160 livelihood productive assets worth Rs 4,329.6 million have been transferred to the ultra-poor households till 30th September 2021 while during the month of September, 4,224 livelihood assets of Rs 253.4 million were distributed.
- PPAF through its 24 Partner Organizations has disbursed 67,432 interest free loans amounting to Rs 2.45 billion during the month of September 2021. Since July, 2019 till 30th September, 2021, a total of 1,556,808 interest free loans amounting to Rs 55.58 billion have been disbursed to the borrowers.
- During the month of September 2021, Bureau of Emigration and Overseas Employment has registered 14,980 emigrants for overseas employment in different countries.
- Bureau of Emigration and Overseas Employment ensured payment of more than Rs 71 million as death/disability compensation during the month of September 2021.
- Under Kamyab Jawan Youth Entrepreneurship Scheme (PMKJ-YES) the government has disbursed Rs 19,276 million till August 2021 to the youth for various businesses.
- According to TIMES Higher Education ranking, 5 more Pakistani universities have been included to international ranking. Pakistan has now 36 universities in the global list and overall indicators have improved significantly on 03 levels: Research Citations, International Outlook, and Industry K-Linkages Metrics.

- As of October 25, 2021 the numbers of confirmed COVID-19 cases are recorded at 1,269,234 along with recoveries 1,216,908 and total deaths 28,386.
- Till October 25, 2021 the total numbers of doses administered are reported at 100,741,762 while 38,596,890 are fully and 68, 666,464 are partially vaccinated.

3. Economic Outlook

Though revival of economic activities started within the country, however, unprecedented increase in international commodity prices is putting pressure on domestic prices as well as on the Pakistani rupee. The government's pro-growth initiative along with efficient monitoring of prices is expected to provide relief to general public.

3.1 Inflation

Pakistan's inflation rate is mainly driven by monetary and supply side factors i.e., domestic and international commodity prices, USD exchange rate, seasonal factors and economic agents' expectations concerning the future developments of these indicators. Government's structural polices to improve the functioning of market structure particularly the food markets play an important role. Since May 2021, YoY inflation has observed downward trend till September 2021. However, the recent surge in international oil prices, exchange rate depreciation and adjustments in administered prices. The effect of these impulses may intensify the magnitude of prices and transportation cost. Traditionally the month of October shows positive seasonality. On the other hand, the government is committed to ensure the smooth supply of essential commodities in domestic food markets to protect livelihood of the people. If there would be no additional impulses in October, then YoY inflation may decelerate.

All in all, the central forecast for October and beyond shows resumption of the downward trend in YoY inflation, but within a broad uncertainty range. YoY inflation rate in October is expected to settle below the level observed in September, but the probability range is wide.

3.2 Agriculture

The preliminary production estimates of major Kharif Crops 2021 are encouraging as reviewed in the 17th meeting of Federal Committee on Agriculture (FCA) held on October 7th, 2021. The inputs availability will remain satisfactory as more certified seeds for wheat and other crops will be ensured for upcoming Rabi 2021-22 season, thus it is expected that in the absence of any adverse climate shock, agriculture sector will surpass its target of 3.5 percent.

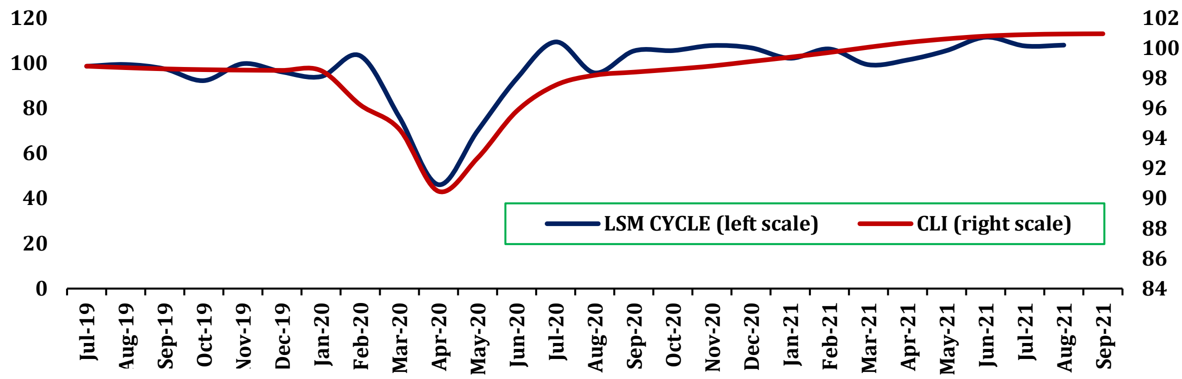
3.3 Industrial activity

Industrial activity (measured by the LSM index), is the sector which is most exposed to external conditions. Its exposure to developments is illustrated in Fig-9 which compares the cyclical component of LSM with the weighted average Composite Leading Indicators in Pakistan's main export markets (CLI). The CLI of some individual countries are constructed by the OECD to reflect the deviation of current GDP from its potential level. The cyclical component of Pakistan's LSM output is obtained by extracting the stochastic trend from the seasonally adjusted LSM series. LSM index is published with a time lag of two months, whereas CLI is published with a one-month lag. The LSM cycle is following the cyclical recovery 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.

Both the CLI and LSM's cyclical components stay well above the 100 level, indicating that

Pakistan, as is the case in its main trading partners, are currently experiencing upward cyclical movements and positive output gaps. The LSM index for August came in close to expectations. For September, it is expected that LSM will roughly stabilize around the level observed in August.

Fig-9: Relationship between CLI and LSMI Cycle



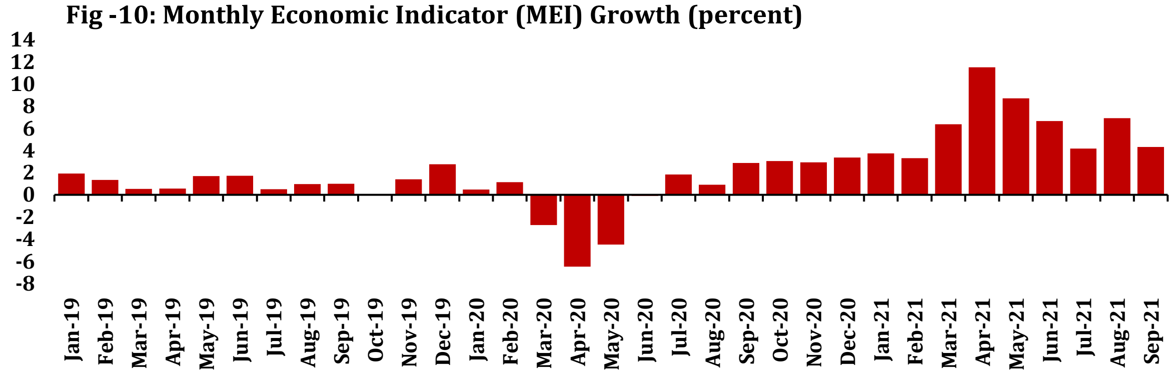
Source: PBS and OECD

3.4 Overall economic activity

The Monthly Economic Indicator (MEI) is based on combining monthly data of indicators that are proven to be correlated with GDP at constant prices. Fig-10 presents the MEI on monthly basis since January 2019. It should be noted that some of the data underlying the September MEI is still provisional and may be revised next month.

Since March 2021, the MEI is on a higher level as compared to the previous months. This is based on observed favorable movements in macroeconomic high frequency indicators such as strong growth in LSM (which is known to exert strong multiplier effects in services sectors), growth in imports and recovery in Pakistan's main trading partners. In September, the same factors are expected to continue as witnessed by the continuing strong growth of imports. In coming months, these forces may be reinforced if expected deceleration of Y-o-Y inflation would come through during the remaining of the current FY. Therefore, the MEI is expected to remain strong, reflecting low base effects and the continuation of the dynamism in domestic value-added creation, supported by Government's pro-growth and inflation-containing policies. Also, the Government policies to bringing COVID-19 infections under control accompanied with the further relaxation of restrictions may contribute significantly.

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



Source: EAW's Calculation

3.5. External

According to BOP data, imports of goods and services in September were marginally lower than their levels observed in August. The persistent rise in international oil prices, exchange rate pressure and the rise in domestic economic activities are contributing in rising import demand. Given these recent dynamics, it can be expected that in the following months, imports may remain at current high levels. Therefore, the recent government steps in terms of monetary policy and the measures taken to discourage unnecessary imports will be helpful in containing the strong expansion recorded in recent months.

As expected, exports of goods and services crossed the $ 3 billion mark, helped by the ongoing strong recovery in Pakistan's main export markets, the momentum in domestic economic dynamism and specific Government policies to stimulate exports. These dynamics are expected to keep exports above the $ 3 billion mark in the months ahead.

As a result of these events, the trade deficit of goods and services retreated from the level observed in August and is expected to first stabilize and then decline in the months ahead.

As remittances and the other components of secondary income, as well as primary income balance stabilized in September, the decline in the trade deficit was reflected in contained current account deficit. If remittances stay roughly at current levels in the coming months, then taking into account the other income inflows having relatively minor share, the current account deficit would bedriven by the trade deficit which will be stabilized and improved thereafter, but these developments will be monitored closely.

3.6. Fiscal

By the end of first two months of FY2022, the fiscal deficit restricted to almost same level as it was in the comparable period of last year. The government is following a careful expenditure management strategy to ensure that critical areas are not ignored and that sufficient resources are available for growth-oriented and social security-related programs. These measures will pave the way for better fiscal prospects and sustained economic recovery.

On revenue side, FBR is focused on sustaining successful streak of surpassing tax collection target during first quarter of FY2022. A number of initiatives have been taken in this regard. FBR is implementing digitalization and automation of various processes involved in revenue collection. The launching of Point of Sale (POS) and Track & Trace system are examples of such initiatives. Furthermore, FBR has taken number of measures to promote economic activities through maximum taxpayer facilitation. All this augurs well for sustaining the momentum of tax collection achieved during Q1 FY2022. FBR is on course for achieving the revenue target set for FY2022.

4. Way Forward

The economic recovery accelerated since March 2021 is expected to continue. Increased production also stimulates exports, while supply side induced increase in domestic production may partially substitute for imported products. On the other hand, the need for necessary intermediate inputs in the production process also increases. The increased incomes generated by economic growth also raises the demand for domestic and foreign products. Measures are being implemented to curb unnecessary imports which do not contribute to the expansion of domestic production.

Nevertheless, the economic expansion may go along with a current account deficit. It is normally recognized that emerging and developing countries run current account deficits, financed by financial inflows from developed nations. It is strongly realized that as long as the deficits are manageable, their contribution remains productive for achieving the higher and sustainable growth trajectory, necessary for the convergence of per capita income with developed countries.

Economic Indicators

(25-10-2021)

	2020-21 (Jul-Sep)	2021-22 (Jul-Sep)	percent Change
External Sector			
Remittances ($ billion)	7.1	8.0	↑12.5
Exports FOB($ billion)	5.4	7.2	↑35.2
Imports FOB ($ billion)	10.6	17.5	↑64.3
Current Account Deficit($ billion)	-0.9	3.4	↑
Current Account Deficit(percent of GDP)	-1.2	4.1	↑
FDI ($ million)	457.6	439.1	↓4.0
Portfolio Investment-Public ($ million)	-37.4	979.8	↑
Total Foreign Investment ($ million) (FDI &Portfolio Investment)	311.6	1,318.6	↑
Forex Reserves ($ billion)	**19.327 (SBP: 12.111) (Banks: 7.216)** (On 21st Oct 2020)	**24.007 (SBP: 17.183) (Banks: 6.824)** (On 21st Oct 2021)	
Exchange rate (PKR/US$)	**162.13** (On 21st Oct 2020)	**173.96** (On 21st Oct 2021)	

Source: SBP

	2020-21 (Jul-Aug)	2021-22 (Jul-Aug)	percent Change
Fiscal			**(Rs Billion)**
FBR Revenue (Jul-Sep)	1010	1396	↑38.2
Non-Tax Revenue (Federal)	156	75	↓51.9
PSDP (Authorization)	112.0 (1st Jul to 4th Sep)	392.7 (1st Jul to 03rdSep)	↑250
Fiscal Deficit	415	462	↑
Primary Deficit	-69	37	↑

Source: FBR & Budget Wing

	2020-21 (Jul-Sep)	2021-22 (Jul-Sep)	percent Change
Monetary Sector			
Agriculture Credit (provisional)	**254.6**	**291.9**	**↑14.7**
Credit to private sector (Flows)	**-123.1** (1st Jul to 2nd Oct)	**175.8** (1st Jul to 1st Oct)	**↑**
Growth in M2 (percent)	**0.6** (1st Jul to 2nd Oct)	**0.4** (1st Jul to 1st Oct)	
Policy Rate (percent)	**7.00** (21-Sep-2020)	**7.25** (20-Sep-2021)	

Source: SBP

	2020-21	2021-22	percent Change
Inflation			
CPI (National) (percent)	**9.0** (Sep)	**9.0** (Sep)	
	8.8 (Jul-Sep)	**8.6** (Jul-Sep)	
Real Sector			
Large Scale Manufacturing (LSM) (percent)	**0.1** (Aug)	**12.7** (Aug)	**↑**
	2.9 (Jul-Aug)	**7.3** (Jul-Aug)	
Miscellaneous			
PSX Index*	**47801** (On 1st Jul 2021)	**45821** (On 21st Oct 2021)	**↓4.14**
Market Capitalization (Rs trillion)	**8.38** (On 1st Jul 2021)	**7.86** (On 21st Oct 2021)	**↓6.20**
Market Capitalization ($ billion)	**53.22** (On 1st Jul 2021)	**45.39** (On 21st Oct 2021)	**↓14.71**
Incorporation of Companies(Jul-Sep)	**6,151**	**6,210**	**↑0.96**

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP