Monthly Economic Update & Outlook

January 2022

Government of Pakistan
Finance Division
Economic Adviser's Wing

Contents

Executive Summary

- Though a V-shaped recovery was observed in several countries after the pandemic-induced deep economic depression but the pace of recovery has slowed. IMF has marginally decreased global growth by 0.5 percent to 4.4 percent for the year 2022. The emergence of Omicron variant, geopolitical tension, resurge in global commodity prices, renewed restrictions and supply chain disruptions are the major factors for slashing down the global growth by IMF. In December 2021, global energy prices fell 3.1 percent, adding to the 6.2 percent decline in November. Contrary, non-energy prices jumped 1.3 percent. Among key subgroups, agriculture commodities rose 0.8 percent, fertilizers 1.7 percent, metals & minerals 2.4 percent, while precious metals fell by 2.6 percent.
- **Real Sector:** For Rabi season 2021-22, wheat crop has been sown on an area of 22.8 million acres (97.7 of target). The overall better input utilization is expected to increase crops production in Rabi season 2021-22. During H1 of CFY, agriculture credit disbursement increased by 3.9 percent to Rs 641 billion compared to Rs 617 billion same period last year. LSM posted a growth of 3.3 percent during Jul-Nov FY2022.
- **Fiscal, Monetary & External:** The fiscal deficit in Jul-Nov FY2022 was recorded at 1.5 percent of GDP (Rs 951 billion). The primary balance posted a deficit of Rs 36 billion (0.1% of GDP). During 1st July – 31st December, FY22 money supply (M_2) witnessed growth of 4.5 percent (Rs. 1,104.1 billion) as compared to growth of 5.6 percent (Rs. 1,162.8 billion) last year. During Jul-Dec FY2022, the current account deficit was recorded at $ 9.1 billion (5.7% of GDP).
- **Economic Outlook:** Though economic recovery is underway, the economy is also confronting new COVID-19 wave, inflation and external sector pressure. The rising global inflation along with the significant increase in transportation cost and the subsequent supply chain disruption is expected to make international trade costly.
  - Although CPI inflation showed a marginal decline in December 2021 and in January 2022, the SPI also shows decline on weekly basis, but even if this would be reflected in the overall CPI index, YoY inflation in January 2022 may slightly accelerate due to the base effect. However, MoM inflation may decline. The government policy, administrative and relief measures will continue to counter the inflationary pressures in coming months.
  - The MEI remained strong in November. The momentum in the economic dynamism observed in recent months is expected to have continued to support economic activity in December 2021. Thus, the MEI is expected to remain strong on the back of strong performance of high frequency indicators.
  - Exports and imports of goods and services increased in December 2021. Both were supported by strong positive seasonal effects. However, these effects are stronger on imports. Usually in the months of January these effects disappear, which may soften the export proceeds, but also to a more important moderation in import payments. It is therefore expected that the trade deficit will settle at lower levels in January. Together with the expected improvement in the trade balance, the current account deficit may start declining in January.
  - The government's fiscal consolidation measures will continue for effective revenue mobilization and follow a prudent expenditure management strategy to reduce fiscal deficit while focusing on the important priority sectors to keep the growth momentum intact.

Pakistan's economy continues to show healthy value-added creation. Its cyclical position is largely balanced and the trend growth rate of potential output remains strong. Meanwhile, certain risks exist in the economy including the spread of Omicron variant, inflationary and external sector pressures due to rebounding of global commodity prices. However, appropriate policies i.e., massive vaccination drive, effective monitoring of markets and prudent measures to curtail non-essential imports are underway to offset the risks and challenges being faced by the economy.

1. International Performance and Outlook

During the last two years, the world economy has been confronted with the COVID-19 crises. After the pandemic-induced deep economic slump observed in many countries, a V-shaped recovery is being followed. At the current stage, the world economy is still in recovery mode, but the pace of recovery is slowing down. One of the main current issues is that the strong recovery went along with supply shortages, which together with the uptick in demand led to a surge in inflation. The trade-off between slower economic growth and rising inflation confronts central banks with a major challenge in the conduct of their monetary policies. Further, persistent labor market and supply-chain related challenges are not only resisting the global economic recovery but also increasing inflationary pressures. However, from the positive side, when economic growth may decelerate, it will remain above trend. In addition, adjustments in economic behavior of economic agents, together with focused fiscal policy measures in some countries, may open the prospects for future productivity gains.

After expanding by 5.9 per cent in 2021, the global output is projected to grow by 4.4 per cent in 2022 and 3.8 per cent in 2023, according to the IMF's the World Economic Outlook. Yet the momentum for world growth – especially in China, the United States and the European Union – slowed considerably as the effects of monetary and fiscal stimulus began to recede and continued major supply-chain disruptions. Rising inflationary pressures in many economies mostly driven by the exogenous pressures are posing additional risks to economic recovery.

The human and economic toll of the pandemic are projected to increase again, with the highly transmissible Omicron variant of COVID-19 unleashing new waves of infections. The growth outlook therefore remains susceptible to an upsurge in cases and potential restrictions on economic activities.

Rising inflationary pressures in most of the economies put additional risks to recovery. Global headline inflation rose to an estimated 5.2 per cent in 2021, more than 2 percentage points above its trend rate in the past 10 years. Any unexpected shifts in the monetary policy stances of the Federal Reserve in the United States could abruptly change investor's expectations and trigger large adjustments in portfolio allocations, while significantly reversing the capital flows from developing countries.

During December 2021, Bureau of Labor Statistics reported the US economy added 199,000 jobs in December, down from 249,000 in November, and the unemployment rate was 3.9 percent, down from 4.2 percent in November. A few more months of strong job additions still required for the recovery to reach the pre-pandemic peak. Wages continued to surge, rising 0.6 percent in December and 4.7 percent for the year, reflecting intense competition among employers for workers.

On Inflation front, it rises 7 percent in December 2021 over the past year, highest since 1982. The growth forecast in US economy has uncertainties, currently managing through another COVID-19 wave, exacerbated by the rapid transmission of the Omicron variant. Even with the experience of the past two years, there is no exact prediction about economic recovery in response to the pandemic. This reflects through volatility of growth in WEI, as shown in Fig-1.

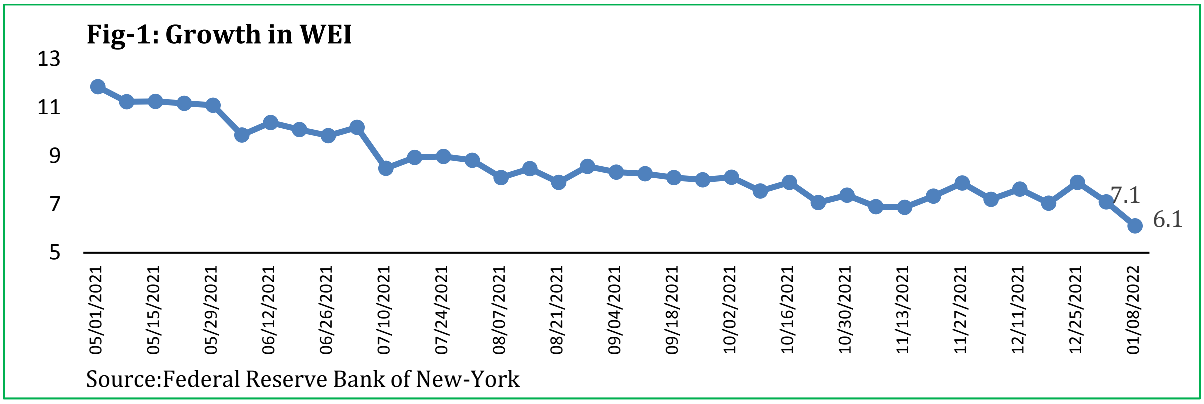


Fig-1: Growth in WEI

Source:Federal Reserve Bank of New-York

The Composite Leading Indicators (CLIs) complied by OECD, is available up to December 2021. The CLI index movement of Pakistan's main export markets has slowdown in December 2021 and observed lowest value in all major economies during the second half of 2021 due to uncertainty prevailed by Omicron variant (Fig-2).

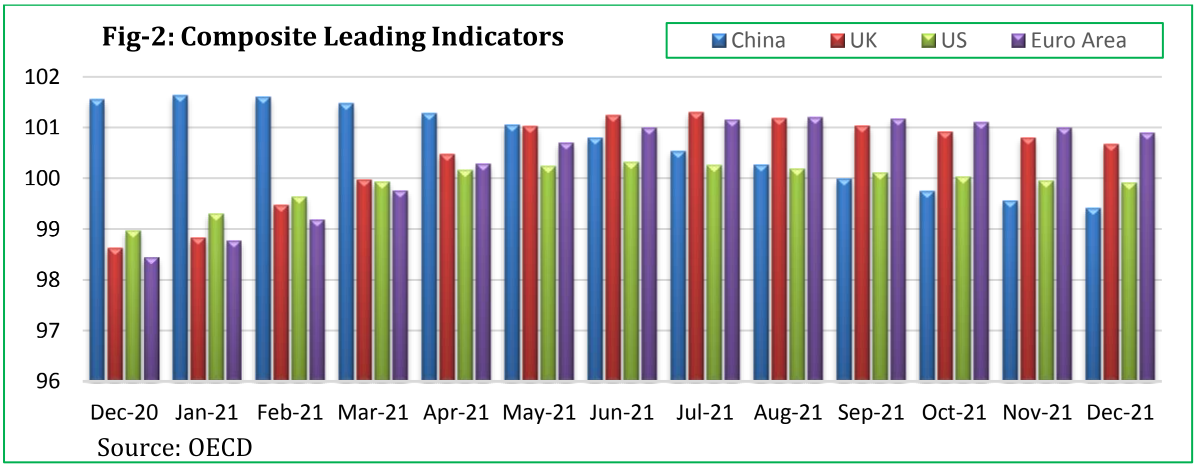


Fig-2: Composite Leading Indicators

Source: OECD

In the US, profit for S&P 500 companies rose 22 percent in the fourth quarter and nearly 50 percent in 2021. Accordingly, S&P 500 reached to all time high of 4,794 points as on 04th December 2021. This is also confirmed by the Chicago Board Options Exchange (CBOE) Volatility Index which is commonly used as a measure of investors' uncertainty, observed below 20 in recent weeks (Fig-3).

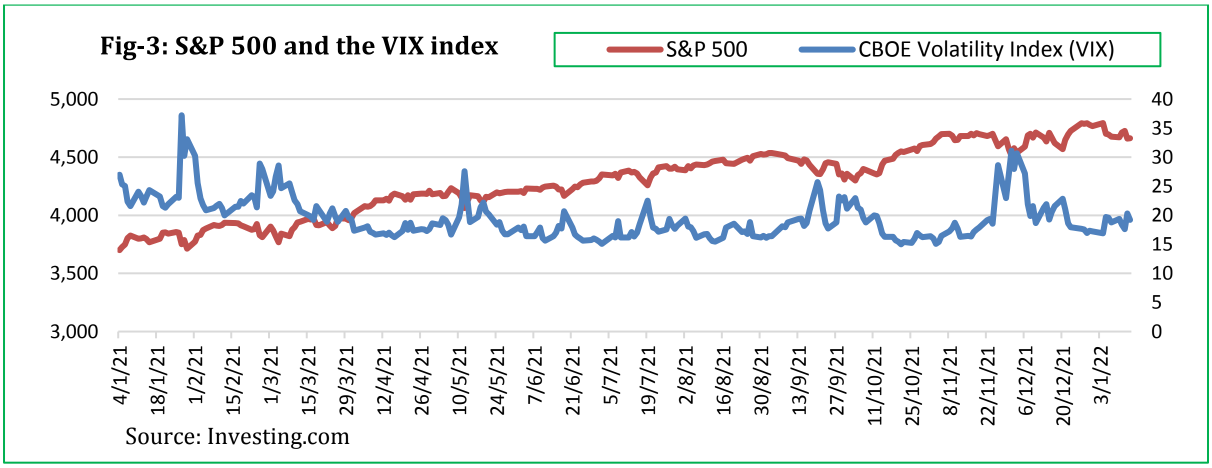


Fig-3: S&P 500 and the VIX index

Source: Investing.com

The global economy expanded for the last eighteen months, according to the JPMorgan Global PM (compiled by IHS Markit). However, the surge of new wave of COVID-19, services sector performance became globally affected.

Both manufacturing and service sectors expanded in December, although services business activity growth eased to a three-month low. A renewed rise in COVID-19 cases, fueled by the spread of the more infectious Omicron variant, led to increased restrictions (both imposed and voluntary). Even so, services output growth continued to surpass manufacturing for a ninth successive month.

Meanwhile, manufacturers reported that constraints on production eased, which had been a positive sign. Supplier delivery delays eased while price pressures cooled in December, though supply issues remained a significant drag on production globally. The risk remains that the more infectious Omicron variant spread can further aggravate growth and supply chain issues, making it a key unknown to monitor going into 2022. Moreover, the number of global factories reporting lower output due to material or staff shortages slipped further from the October peak – another key contributor to the ongoing demand-supply imbalance – declined from November's all-time high.

Despite the easing of price pressures, global input and output price inflation remained elevated by historical standards. While the easing of price pressures ought to be a positive sign, the latest developments surrounding the spread of the more infectious COVID-19 Omicron variant and the resultant increase in restrictions pose renewed threats to supply chain and prices. Risks of increased inclination for monetary policy tightening by central banks around the world and amid a situation of slowing service sector growth spell of increased downside risks for global growth in coming months.

For December 2021, global commodity prices showed that energy prices fell 3.1 percent, adding to the 6.2 percent decline in November. On the other hand, non-energy prices jumped 1.3 percent. Among key subgroups, agriculture commodities rose 0.8 percent, fertilizers 1.7 percent, metals & minerals 2.4 percent, while precious metals fell by 2.6 percent.

2. Monthly Performance of Pakistan's Economy

Recently, Pakistan Bureau of Statistics (PBS) has made rebasing exercise in which it has been found that growth in FY2021 increased to 5.57 percent. This growth momentum will also continue in FY 2022 on the basis of favorable movement in high frequency variables.

2.1 Real Sector

PBS in 104th Meeting of National Accounts Committee revised base year for GDP at constant basic prices on 2015-16. While the change of base of national accounts is a gigantic and challenging task, it also provides an opportunity to enhance the coverage of economic activities and improve the estimation methodologies along with sources of data. The PBS has implemented the recommendations of 2008 System of National Accounts (SNA) and enhanced the coverage of economic activities.

Box Item-I: Rebasing of National Accounts at base year prices of 2015-16

On Jan 20, 2022, PBS hold 104th Meeting of National Accounts Committee to Finalized GDP for 2019-20 and Revised GDP for2020-21 at constant basic prices of 2005-06. On the basis of available information, summarized National Accounts is as follows:

National Accounts – Summary Table (2005-06 Base)

Sector/ Industry	GVA (Rs. Bn.)				Growth Rates (%)			
	2019-20		2020-21		2019-20		2020-21	
	Revised	Final	Provisional	Revised	R	**F**	P	**R**
Agriculture	2,435	2,447	2,502	2,527	3.31	**3.83**	2.77	**3.29**
Industry	2,407	2401	2,493	2,616	-3.77	**-4.01**	3.57	**8.94**
Services	7,700	7,704	8,041	8,083	-0.55	**-0.50**	4.43	**4.92**
Total	12,542	12,552	13,036	13,226	-0.47	**-0.39**	3.94	**5.37**

Source: PBS

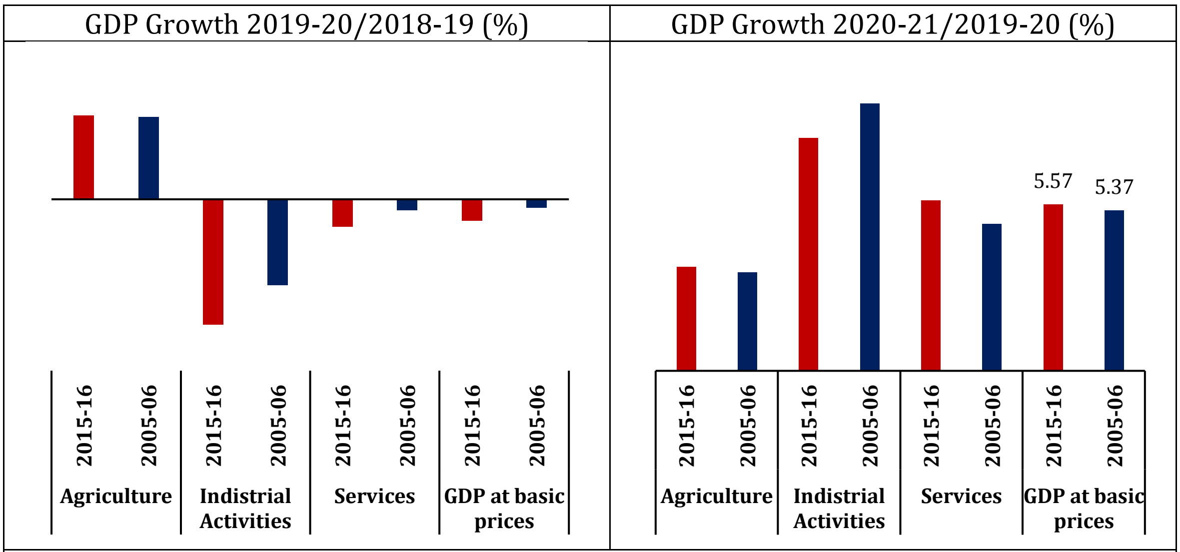
Change of base year 2015-16 for GDP at constant basic prices from 2005-06

The economy of Pakistan is broadly divided into agriculture, industrial activities and services. While the structure of dissemination of data relating to agriculture has remained the same in 2015-16 rebasing as was during the 2005-06 base.

Regarding, Industry, Manufacturing is the major component. In Manufacturing, Large-Scale Manufacturing has the highest share. Thus, in order to capture changes in market due to technological advancement, Census of Large-Scale Manufacturing Industries (CMI) is imperative. Earlier, QIMI were derived from the Census of Manufacturing Industries (CMI) 2005-06. Thus, from a total of 112 items, cumulative weight of 70.3% was being used for computation of QIM in 2005-06. For rebasing QIM, CMI 2015-16 has been used. QIMI is thus computed from 123 items having total weight of 78.4 %. Further, little more adjustment has been made in the industrial activities due to the inclusion of water supply industry (the private sector only) along with electricity and gas industries.

However, following the structure of Pakistan Standard Industrial Classification (PSIC) -2010, services industries witnessed significant changes in dissemination structure. There are now 10 subsectors in Services. Accommodation and Food Services Activities (Hotels & Restaurants), Education, Human Health and Social Work Activities, Information and Communication are new subsectors being added. However, Information and Communication is extracted from earlier Transport, Storage & Communication while Education, Human Health and Social Work Activities has been separated from Other Private Services. Housing Services (Ownership of Dwellings) is reclassified as Real Estate Activities (OD)

The summary results of GDP at basic prices 2015-16 rebasing along with comparison on 2005-06 is given below:



Source: PBS

The comparison series of other related variables on new base year 2015-16 is:

Base Year	Year	GDP (MP) (Rs Billion)	GDP (MP) ($ Billion)	Net Primary Income (Rs Billion)	Gross National Income (Rs Billion)	Exchange Rate (1$ = Rs)	Population (million)	Per Capita Income (US $)
2005-06	2019-20	43,326	274	3,243	46,569	158.03	208.31	1,415
	2020-21	50,043	313	4,515	54,558	160.02	211.93	1,609
2015-16	2019-20	47,522	301	2,731	50,252	158.03	218.24	1,457
	2020-21	55,488	347	3,858	59,346	160.02	222.59	1,666

2.1-a Agriculture

For Rabi season 2021-22, wheat crop has been sown on an area of 22.8 million acres (97.7 percent of target area of 23.3 million acres)[1]. The input situation is expected to remain

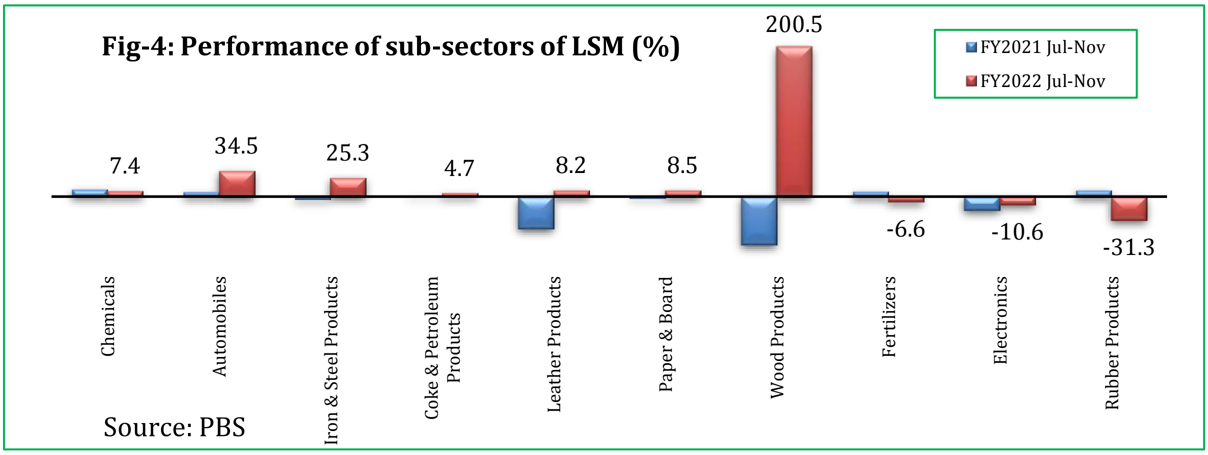
[1]As on 18-01-2022, Punjab has voluntarily enhanced its sowing target to 16.779 million acres from the assigned

smooth to achieve wheat production target of 28.9 million tonnes. The better input situation is expected to increase crops production in Rabi season 2021-22.

During July-December FY2022, the agriculture credit disbursement recorded an increase of 3.9 percent and reached Rs 640.8 billion (Rs 616.9 billion same period last year). The farm tractors sales increased by 21.2 percent to 26,479 and its production increased by 15.2 percent to 26,945 compared to corresponding period last year. The urea off-take during Rabi 2021-22 (Oct-Dec), was 1,687 thousand tonnes which decreased by 7.7 percent, while DAP offtake was 679 thousand tonnes which decreased by 14.3 percent over the same period of last season.

2.1-b Manufacturing

The overall LSM posted a growth of 3.3 percent during Jul-Nov FY2022 against the growth of 6.9 percent same period last year. During the period, 11 out of 15 subsectors of LSM have witnessed positive growth.



In the first half of FY 2022 Car production and sale increased by 72.8% and 71.2%, respectively, Trucks & Buses production and sale increased by 65.6% and 57.3 % and tractor production and sale increased by 15.2% and 21.2%, respectively.

In December FY2022 total cement dispatches declined by 4.2% to 4.6 Mt (4.8 Mt in December FY2021). Domestic consumption decreased by 2.4 % to 4.1 Mt against 4.2 Mt same month last year. During Jul-Dec FY2022, total cement dispatches in the country ticked down 4.1% to 27.5 Mt (28.6 Mt last year). While domestic dispatches increased by 2.0% to 24.1 MT in Jul-Dec FY2022 (23.6 MT last year). Total Oil sales increased by 14% to 11 mn tonnes during Jul-Dec FY2022 (9.6 mn tonnes last year).

2.2 Inflation

CPI inflation during Jul-Dec recorded at 9.8 percent against 8.6 percent during the same period last year. Month on Month (MoM) basis, CPI recorded a decline of 0.02 percent in December 2021 against an increase of 3.0 in November 2021. The overall spike in CPI is due to increase in the prices of imported items. As the country of net importer of essential items especially crude oil, wheat, sugar, pulses and edible oil which ultimately transmitted into the domestic prices. However, present government is taking policy, administrative and relief measures to control inflationary pressure in the country.

SPI which monitors the price movement of 51 essential items recorded a decline of 0.06 percent for the week ended on Jan 20, 2022, driven by a sharp drop in the prices of

target of 16.210 million. (Provincial Crop Reporting Services (CRS)).

essential food items. The prices of 24 items increased, while 07 items decreased and prices of 20 items remained stable.

Table-1	International Prices		
Months	**Sugar ($/MT)**	**Wheat ($/MT)**	**Crude Oil ($/Brl)**
Dec-20	310.0	251.2	49.9
Dec-21	420.0	327.8	74.3
% Change	35.5	30.5	48.9
Source: Pink sheet (World Bank)			

Domestic Prices in Pakistan				
Months	**Sugar Refined (Rs/Kg)**	**Wheat Flour (Rs/20Kg)**	**Petrol (Rs/Liter)**	**Hi-Speed Diesel (Rs/Liter)**
Dec-20	83.3	971.2	103.5	108.2
Dec-21	91.5	1174.7	143.7	140.6
% Change	9.9	20.9	38.9	29.9
Source: PBS				

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

2.3. Fiscal

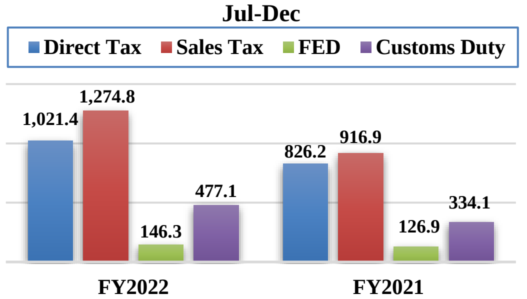
The fiscal deficit during Jul-Nov FY2022 stood at Rs 951 billion against Rs 822 billion in the same period of last year. In terms of GDP, the fiscal deficit has been contained at 1.5 percent, the same level as in the comparable period of last year. Whereas primary balance posted a deficit of Rs 36 billion (0.1 percent of GDP) during Jul-Nov FY2022 against the surplus of Rs 216 billion (0.4 percent of GDP) last year.

During the period under review, net federal revenues grew by 7.0 percent to Rs 1482 billion against Rs 1391 billion in the comparable period of last year. Major contribution in net revenue growth stemmed from 35 percent rise in tax collection, while on the other hand, non-tax collection reduced by 22 percent. The decline in non-tax collection has been realized owing to sharp decrease in collection from petroleum levy followed by decline in Natural gas development surcharge and mark up (PSEs & others). On the other hand, total expenditures increased by 21 percent due to sharp rise in subsidies and grants. While expenditures under PSDP grew significantly by 44 percent to Rs 252 billion during Jul-Nov FY2022 against Rs 175 billion in the same period of last year.

FBR Tax Collection

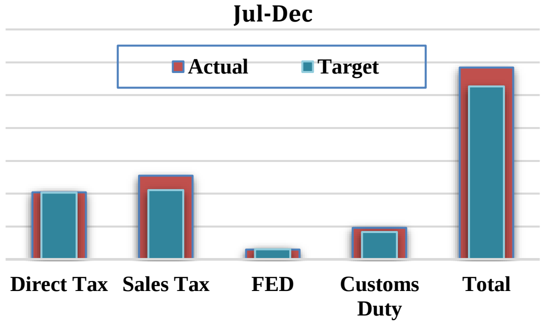
The net provisional tax collection by FBR increased by 32.5 percent to reach Rs 2919.7 billion during the first half of FY2022 against Rs 2204.1 billion in the same period of last year. The net collection has exceeded the target of Rs. 2,633 billion by Rs. 286.5 billion.

Fig-5A: FBR Tax Collection (Rs Billion) Jul-Dec



Source: FBR

Fig-5B: Target Vs Actual (Rs Billion) Jul-Dec



Source: FBR

Total domestic tax collection, increased by 30.6 percent to Rs 2442.6 billion during Jul-Dec FY2022 as compared with Rs 1870.0 billion in the same period last year. Within domestic tax collection, direct tax grew by 23.6 percent, sales tax 39.0 percent and FED 15.3 percent. While collection under customs duty grew by 42.8 percent during the first half of FY2022 over the same period of last year.

Box Item-II: FBR's Measures to Improve Business Climate & Tax Collection

In an effort to maximize the revenues to enable the Government to meet its developmental and other expenditures, FBR is extending maximum facilitation to taxpayers as factor of enhancing ease-of-doing-business in the country. FBR is also targeting documentation of the economic transactions through various measures to control illicit transactions and promote legal trade. FBR's major initiatives and achievements during first half of FY2022 for the realization of the above objectives are given below.

- Track and Trace Solution has been rolled out for Tobacco & Sugar Sectors and it's rolling out for Cement, Beverages and Fertilizer Sectors is in progress.
- Responding to the growing needs of digitization of economic transactions in Pakistan, FBR has launched POS Invoicing, which is a computerized system for recording sales data, managing inventory and maintaining customer data.
- To achieve trade facilitation in automated environment, reduce clearance times for legitimate trade, improved compliance through increased access to regulatory information and functions, the system of Pakistan Single Window (PSW) has been launched.
- FBR has introduced a new automated process in the Customs WeBOC system for scanning of containerized import consignments of industrial raw materials for their speedy clearance at ports.
- Removal of the requirement for I-form, e-form and other documents implemented since 31st December 2021.
- Virtual Assessment Module is a system based automated assessment of GDs on the basis of selectivity criteria. The module will significantly facilitate assessment process of GDs by reducing the clearance time.
- The Authorized Economic (AEO) Module has been developed and deployed. It will help reducing in port dwell time and customs clearance.
- Threshold for Electric/Digital Mode of Payment has been lowered from Rs.500,000 to Rs.200,000 to streamline payment process and reduce processing time.
- The Common Bonded Warehousing Module developed and deployed. It will help streamlining the matters relating to Common Bonded Warehouse.
- To facilitate taxpayers, centralized automated refund system has been introduced with no requirement for manual application and verification.
- Building further on its vision to facilitate taxpayers and ensure ease of doing business through automation, digitization, and minimization of human interaction with taxpayers, FBR has launched Single Sales Tax Portal. Effective from filing of sales tax return of December 2021 (to be filed in January 2022), taxpayers will be able to file a single monthly sales tax return instead of multiple returns on different portals; thereby, significantly reducing the time and cost of compliance.
- In order to provide faceless tax administration, reducing compliance cost and saving precious time of the taxpayers, the mechanism of e-hearing has been devised.
- The mechanism of online filing of appeals has been made available to taxpayers.
- To enhance tax compliance in the country, Tax directory of the Parliamentarians has been published by FBR.

Source: FBR

2.4. Monetary

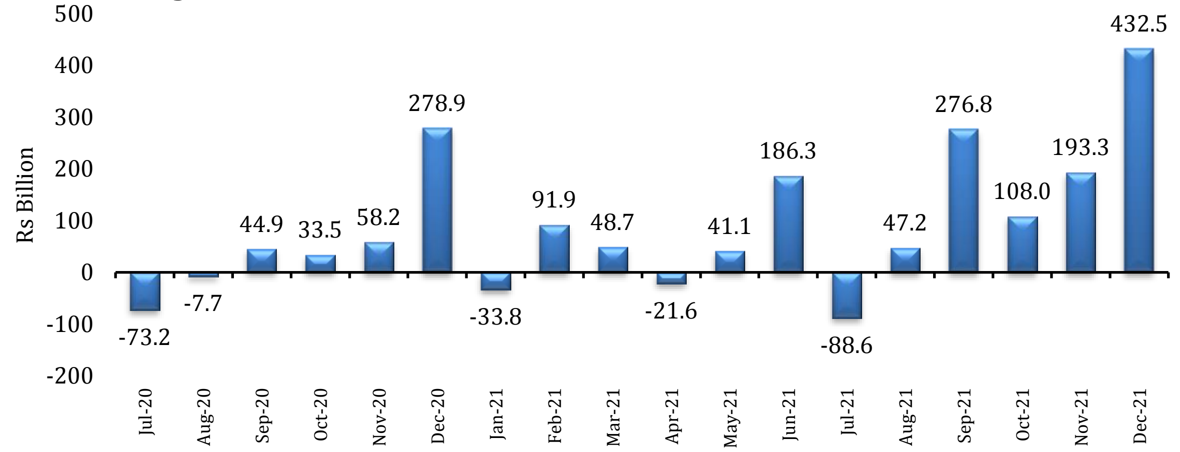
Keeping in view the overall macroeconomic environment, SBP has maintained the policy rate at 9.75 percent.

During 1st July – 31st December, FY22 money supply (M_2) witnessed growth of 4.5 percent (Rs. 1,104.1 billion) as compared growth of 5.6 percent (Rs. 1,162.8 billion) in last year. Within M2, Net Foreign Assets (NFA) witnessed contraction of Rs 211.4 billion as compared to an increase of Rs 579.8 billion in last year. Whereas NDA of the banking sector observed expansion of Rs. 1,315.5 billion as compared Rs. 583.1 billion last year.

Under the borrowing for budgetary support, government has borrowed Rs. 298.5 billion against the borrowing of Rs 437.2 billion last year. Government has retired Rs 27.6 billion to SBP against the retirement of Rs 585.9 billion in last year. Government has borrowed Rs 326.2 billion from Scheduled banks against the borrowing of Rs 1,023.1 billion last year. Under the head of net government borrowing, government has borrowed Rs 283.6 billion as compared to the borrowing of Rs 360.3 billion over the previous year, which is a good sign since more liquidity may remain available with banks for private sector lending.

Private Sector has borrowed Rs. 1,013.9 billion against the borrowing of Rs. 344.2 billion in last year. Within loans to businesses, fixed investment loans increased by Rs 200 billion against the borrowing of Rs 115.7 billion in last year. Similarly, working capital loans observed expansion of Rs 607.7 billion compared Rs 73.7 billion in last year. Under construction financing, loans amount released Rs 52.4 billion during H1, FY2022 compared Rs 30.1 billion during corresponding period last year. The expansion of private sector borrowing over the year also indicates pro-growth healthy economic activity.

Fig-6: Credit to Private Sector



Source: SBP

2.5 External Sector

The Current Account posted a deficit of $ 9.1 billion (5.7 percent of GDP) for Jul-Dec FY2022 due to constantly growing import volume of energy and non-energy commodities. Moreover, rising trend in the global commodities prices especially oil, COVID-19 vaccines, food and metals, built pressure on import bill. Exports on fob grew by 29.0 percent during Jul-Dec FY2022 and reached $ 15.2 billion, while Imports on fob grew by 56.9 percent and reached $ 36.4 billion.

As per PBS, during Jul-Dec, FY 2022, exports increased by 24.9 percent to $ 15.1 billion. The exports grew by 16.9 percent in December 2021 to $ 2.8 billion. The major export commodities which have shown tremendous performance during the review period include Readymade garments (22.9 percent in value), Bed wear (19.0 percent in value & 20.2 percent in quantity), Cotton Yarn (52.3 percent in value & 4.0 percent in quantity), Cotton Cloth (21.3 percent in value & 12.0 percent in quantity), Knitwear (35.2 percent in value despite decline of 0.7 percent in quantity), Chemical & pharma products (23.0 percent in value), leather manufactured (9.4 percent in value) and Basmati rice (33.1 percent in value & 47.4 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-Dec, FY2022 increased to $ 40.6 billion, 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.

Keeping in view of rising imports, government is taking several measures to curtail imports:

- Imported motor cars, SUVs and other motor vehicles
  - of cylinder capacity exceeding 1800cc to 3001 cc FED has been increased from 25% to 30 % ad val.
  - of cylinder capacity exceeding 3001 cc FED has been increased from 30% to 40 % ad val.
- Imported double cabin (4x4) pick-up vehicles FED has been increased from 25% to 30% ad val.
- Rate of sales tax on imported EV in CBU condition has been enhanced from 5% to 12.5 %.
- The sale tax @ 17 percent ad valorem has been introduced for imported mobile devices valuing more than US$ 200.
- Eighth Schedule has now been streamlined and a number of reduced rates and concessionary regimes have been withdrawn brining these goods under standard regime.
- SBP has revised the prudential regulations for Consumer Financing prohibiting financing for imported vehicles:
  - The total monthly amortization payments of consumer financing facilities should not exceed 40% of the net disposal income of the prospective borrower.
  - The maximum tenure of the auto finance facility is reduced from seven (7) years to five (5) years.
  - The minimum down payment is increased from 15 percent to 30 percent of the value of vehicle.
  - Overall auto loans/financing limits availed by one person from all banks/DFIs, in aggregate, shall not exceed Rs3, 000,000/- at any point in time.
- SBP Imposes 100% Cash Margin Requirement on Import of additional 114 Items.

These measures will discourage imports of these items and thus support the balance-of-payments.

2.5.1 Foreign Investment

In Jul-Dec, FDI reached $ 1056.6 million ($ 879.7 million last year) increased by 20.1 percent. FDI received from China $ 306.7 million (29.0 percent of total FDI), United States $ 149.3 million (14.1 percent), Netherlands $124.5 million (11.8 percent), Hong Kong $ 110.9 million (10.5 percent) and U.E.A $ 66.4million (6.3 percent). Power sector attracted highest FDI of $ 363.7 million (34.4 percent of total FDI), Financial business $ 205.7 million (19.5 percent), Communication $ 146.5 million (13.9 percent) & Oil & Gas exploration $ 146.1 million (13.8 percent).

Foreign Private Portfolio Investment has registered a net outflow of $ 307.2 million during Jul-Dec FY2022. Foreign Public Portfolio Investment recorded a net outflow of $ 98.3 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 $ 405.5 million during Jul-Dec FY2022 as against outflow of 438.2 million last year. The total foreign investment registered an inflow of $ 651.1 million during the period under review.

2.5.2 Worker's Remittances

In Jul-Dec FY2022, workers' remittances reached $ 15.8 billion ($ 14.2 billion last year), increased by 11.3 percent. Workers' remittances continued their unprecedented streak of above $ 2.0 billion for the 19th consecutive month in December 2021. Share of remittances (Jul-Dec FY2022) from Saudi Arabia remained 25.5 percent ($ 4034.0 million), U.A.E 19.0 percent ($ 3008.4 million), U.K 13.6 percent ($ 2146.9 million), USA 9.4 percent ($ 1493.7 million), other GCC countries 11.4 percent ($ 1806.6 million), EU 11.1 percent ($ 1750.1 million), Malaysia 0.5 percent ($ 72.3million), and other countries 9.5 percent.

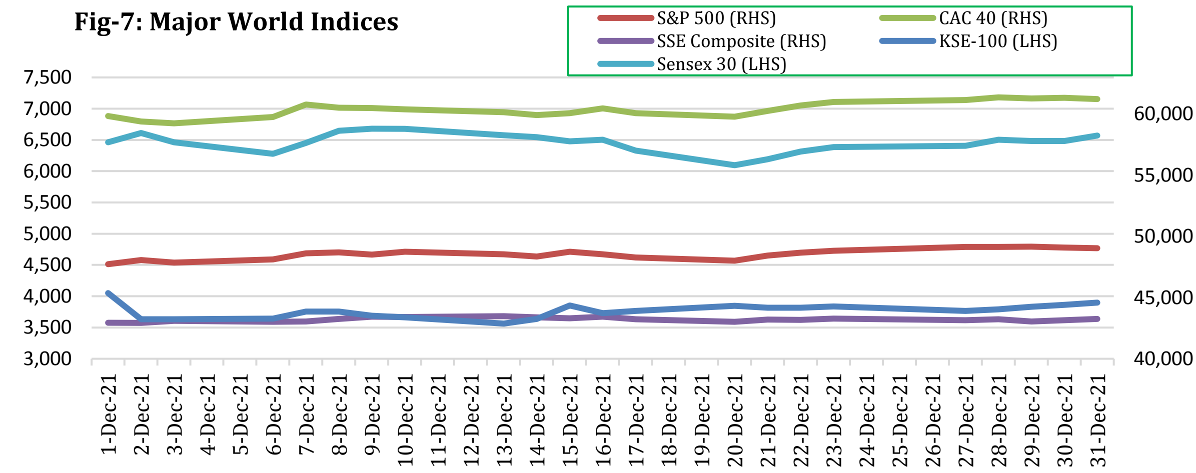
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to $23.1 billion on January 19, 2022 with the SBP's reserves now stood at $16.8 billion, commercial banks' reserves remained at $6.3 billion. Further, recent auction of Ijara Sukuk amounting $ 1 billion will help reserves to be at a more adequate level.

2.6 Performance of KSE Index

The KSE-100 index hovered around 44,000 in December 2021 and closed at 44,596 points on 31st December, while market capitalization settled at Rs 7,685 billion. The trend of major world indices is depicted in Fig-7:

Fig-7: Major World Indices



Source: PSX, Investing.com

2.7 Social Sector

- Ehsaas under-graduate scholarships scheme has received 122,744 applications including 50,048 girls and 652 transgender for the award of 50,000 new scholarships to the deserving students. As per policy, 50 per cent of the scholarships will go to the girls.
- Under National Poverty Graduation Program, 76,507 livelihood productive assets worth Rs 4.60 billion have been transferred to the ultra-poor households till 31st December, 2021 while during the month of December, 660 livelihood assets of Rs 39.6 million were distributed.
- PPAF through its 24 Partner Organizations has disbursed 42,699 interest free loans amounting to Rs 1.45 billion during the month of December 2021. Since July, 2019 till 31st December, 2021, a total of 1.69 million interest free loans amounting to Rs 60.18 billion have been disbursed to the borrowers.

- Bureau of Emigration and Overseas Employment has registered 64,886 emigrants during December, 2021 for overseas employment in different countries.
- 168 medical professionals (doctors/nurses/technicians) have proceeded to Kuwait for employment during the month of December, 2021.
- Bureau of Emigration & Overseas Employment ensured payment of an amount of more than Rs. 59 million as death/disability compensation during the month of December, 2021.
- Under Kamyab Jawan Youth Entrepreneurship Scheme (PMKJ-YES) the government has disbursed Rs 27,430 million till November 2021 to the youth for various businesses.
- The fifth wave of Covid-19 with a new Omicron variant is on the rise in Pakistan with a positivity rate of 10.2% as on 26 January, 2022.
- In order to contain spread of virus, NCOC re-imposed restrictions on public gatherings, weddings, schools, restaurants and public transportation. It is also decided to carry out mass testing in educational institutions before going for their closure.
- As on January 26, 2022, the numbers of confirmed cases are recorded at 1,386,348 along with recoveries 1,271,087 and total deaths 29,137.
- Till January 26, 2022, total numbers of vaccine doses administered are reported at 173.5 million while 80.4 million are fully and 104.0 million are partially vaccinated.

3. Economic Outlook

Though economic recovery is underway, the economy is also confronting new COVID-19 wave, inflation and external sector pressures. The acceleration of worldwide inflation, as well as a significant increase in freight charges making international trade more costly.

3.1 Inflation

Pakistan's inflation rate is still under pressure like other countries due to rise in international commodity prices as wells as economic agents' expectations. The government is making all efforts to improve the functioning of markets particularly in the food markets.

CPI index in December showed a monthly decline of 0.02 percent. Further, in January 2022, the Sensitive Price index shows a marginal decline, as a result of Government efforts to dampen the pass-through of high international prices to domestic retail markets. But even if this would be reflected in the overall CPI index, YoY inflation in January 2022 may slightly increase while a decline is expected on MoM basis.

3.2 Agriculture

The inputs availability will remain satisfactory for Rabi 2021-22 crops. The mechanization and credit disbursement to agriculture show an increasing trend in FY2022, thus it is expected that in the absence of any adverse climate shock, the agriculture sector will perform better.

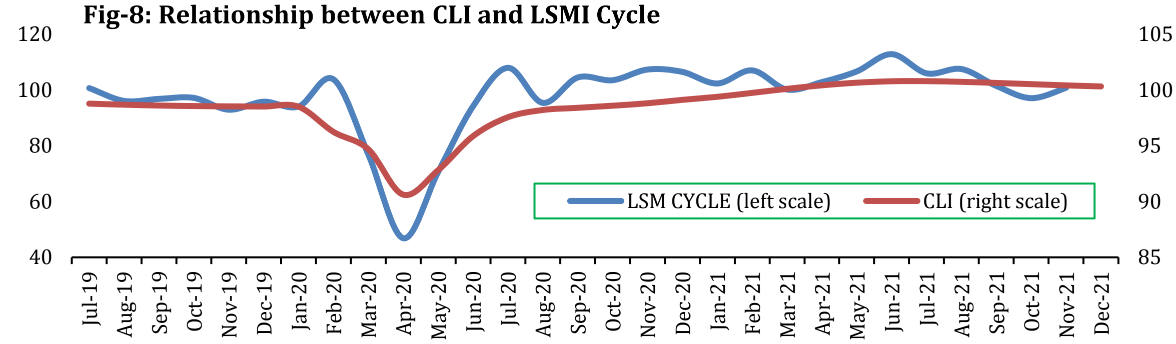
3.3 Industrial activity

Industrial activity, measured by the LSM index is the sector which is most exposed to external conditions. Its exposure to developments in international markets is illustrated in Fig-8 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 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.

Recently, Pakistan's main export markets experience stable cyclical positions. The same can be said about the recent cyclical movements of large-scale manufacturing industries in Pakistan. Both these foreign and domestic cyclical indicators currently remain slightly above the 100 benchmarks, indicating positive to neutral output gaps. These cyclical stances however, do not keep these economies from showing positive and healthy growth in their potential outputs.

The LSM for November 2021 remained better than expected. In December 2021, the expectation is that LSM will show strong growth as compared to its level attained in November.

Fig-8: Relationship between CLI and LSMI Cycle



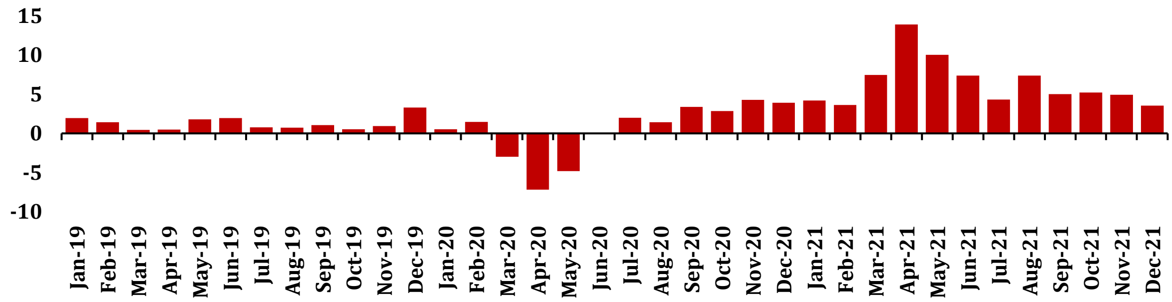
Source: PBS, OECD and EAW calculations

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-9 presents the MEI on monthly basis since January 2019. It should be noted that some of the data underlying the December MEI is still provisional and may be revised next month.

The MEI remains strong, 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, strong growth in imports. The momentum in the economic dynamism observed in recent months is expected to have continued to support economic activity in December. The average MEI for the first 6 months of the current FY indicates that average economic growth during this period may remain around 5 percent.

Fig-9: Monthly Economic Indicator (MEI) Growth (percent)



Source: EAW's Calculation

3.5. External

According to BOP data, exports and imports of goods and services increased in December 2021. Both exports and imports were supported by strong positive seasonal effects that usually affect these transactions in the month of December. Although the seasonal effects are stronger on imports, the increase in exports was somewhat more robust than the rise in imports, which explains the, albeit modest, decline in the trade balance of goods and services. Usually in the months of January these seasonal effects typically disappear, which may soften the export proceeds, but also to a more important moderation in import payments. It is therefore expected that the trade deficit will settle at lower levels in January and in the following months.

Although the trade balance improved somewhat, the current account balance slightly deteriorated. This was mainly due to an unusual increase in primary income payments to non-residents. It is expected that in January these payments would return to normal levels. Together with the expected improvement in the trade balance due to prudent government measures, the current account deficit may decline in January and onward.

3.6. Fiscal

During the first five months of the current fiscal year, the government has increased its expenditures under grants and subsidies. In particular, under grants, government spending is focused on social protection (BISP & poverty alleviation) and COVID 19 (vaccine procurement). While subsidies to the power sector have also witnessed a sharp rise during the period under review. Thus, an increase in both grants and subsidies has been attributed to a significant rise in current expenditures. With the start of the 5th COVID wave driven by the Omicron variant, the expenditure side may come under further pressure. However, the government will continue to follow a prudent expenditure management strategy while giving importance to the priority sectors so that the growth momentum may not be disrupted.

On the revenue side, during the first half of current fiscal year, FBR exceeded its revenue target by 10.9 percent. In absolute terms, revenue amounting to Rs 2,919.7 billion was collected against the target of Rs 2633.2 billion, which is Rs 286.5 billion more than the six-monthly target. Collection during the first half of the current fiscal year is also higher by Rs. 715.6 billion in absolute and by 32.5 percent in percentage terms. Moreover, FBR has been able to achieve more than 50 percent of its annual target during the first half of the financial year for the first time. The normal trend is that around 45 percent of the annual target is achieved during the first half of the financial year. The momentum in revenue collection generated by FBR during the first half of the current financial year indicates that the FBR will not only be able to meet its annual revenue collection targets but will surpass it by a fair margin. In this regard, FBR measures for maximum facilitation to taxpayers in documentation of economic transaction would play a major role in meeting the revenue collection target.

4. Way Forward

Pakistan's economy continues to show healthy value-added creation. Its cyclical position is largely balanced and the trend growth rate of potential output remains strong. Although this path is expected to continue, also a number of risk factors remain present at the horizon.

A first risk factor concerns the surge of the omicron variant of the COVID-19 disease. Experience in other countries shows that this variant is far more infectious than previous variants. On the other hand, its capacity to cause severe illness also looks to be impaired significantly. It is hoped that the SARS-CoV-2 virus that caused the COVID-19 pandemic may gradually converge to other known milder respiratory diseases that can be managed without causing too much damage to peoples' personal health and to their economic welfare.

A second risk remains the stress on the external balance. Although current account deficit remained high, the baseline scenario remains that the excess of imports over exports will gradually ease in the coming months. This expected tendency is enforced by government measures designed to stimulate exports and moderate import demand. The monetary policy decisions are also supportive in this respect.

Thirdly, inflation is high and YoY inflation is expected to remain in double digits in the coming month. In this regard it should be noted that YoY increase in the CPI index is to a large extent a backward-looking indicator. It is not only determined by current price movements, but also by what happened 12 months ago, when international commodity prices were at the lower areas of their current price cycles, whereas now they are at the upper levels of these cycles. Forward looking, what matters most is monitoring future MoM price movements. Containing these price dynamics is the most relevant issue because they will determine further developments in the consumer's cost of living. Government measures, accompanied by the support of monetary policy, are directed to protect consumer's purchasing power in the future. If these future MoM price movements can be stabilized, the YoY inflation will automatically fall back to levels that are suited for supporting Pakistan's economic development. In that sense the current surge of the YoY inflation rate is a temporary phenomenon.

Economic Indicators
(26-01-2022)

	2020-21 (Jul-Dec)	2021-22 (Jul-Dec)	percent Change
External Sector			
Remittances ($ billion)	**14.2**	**15.8**	**↑11.3**
Exports FOB ($ billion)	**11.8**	**15.2**	**↑29.0**
Imports FOB ($ billion)	**23.2**	**36.4**	**↑56.9**
Current Account Deficit ($ billion)	**-1.2**	**9.1**	↑
Current Account Deficit (percent of GDP)	**-0.9**	**5.7**	↑
FDI ($ million)	**879.7**	**1056.6**	**↑20.7**
Portfolio Investment-Public ($ million)	**-193.8**	**-98.3**	↑
Total Foreign Investment ($ million) (FDI & Portfolio Investment)	**441.5**	**651.1**	↑
Forex Reserves ($ billion)	**20.108** **(SBP: 13.000)** **(Banks: 7.108)** (On 22nd Jan 2021)	**22.352** **(SBP: 16.060)** **(Banks: 6.292)** (On 24th Jan 2022)	
Exchange rate (PKR/US$)	**160.75** (On 22nd Jan 2021)	**176.49** (On 24th Jan 2022)	

Source: SBP

	2020-21 (Jul-Nov)	2021-22 (Jul-Nov)	percent Change
Fiscal			**(Rs Billion)**
FBR Revenue (Jul-Dec)	**2204**	**2920**	**↑32.5**
Non-Tax Revenue (Federal)	**666**	**519**	**↓22.0**
PSDP (Authorization)	**299.7**	**434.6**	**↑45**
Fiscal Deficit	**822**	**951**	↑
Primary Balance	**216**	**-36**	↓

Source: FBR & Budget Wing

	2020-21 (Jul-Dec)	2021-22 (Jul-Dec)	percent Change
Monetary Sector			
Agriculture Credit (provisional)	**617**	**641**	↑**3.9**
Credit to private sector (Flows)	**215.5** (1st Jul to 08th Jan)	**772.8** (1st Jul to 07th Jan)	↑
Growth in M2 (percent)	**4.1** (1st Jul to 08th Jan)	**2.3** (1st Jul to 07th Jan)	
Policy Rate (percent)	**7.00** (22-Jan-2021)	**9.75** (24-Jan-2022)	

Source: SBP

	2020-21	2021-22	percent Change
Inflation			
CPI (National) (percent)	**8.0** (Dec)	**12.3** (Dec)	
	8.6 (Jul-Dec)	**9.8** (Jul-Dec)	
Real Sector			
Large Scale Manufacturing (LSM) (percent)	**14.0** (Nov)	**0.3** (Nov)	
	6.9 (Jul-Nov)	**3.3** (Jul-Nov)	
Miscellaneous			
PSX Index*	**47801** (On 1st Jul 2021)	**44924** (On 24th Jan 2022)	↓**6.02**
Market Capitalization (Rs trillion)	**8.38** (On 1st Jul 2021)	**7.71** (On 24th Jan 2022)	↓**8.00**
Market Capitalization ($ billion)	**53.22** (On 1st Jul 2021)	**43.68** (On 24th Jan 2022)	↓**17.93**
Incorporation of Companies (Jul-Dec)	**12208**	**12778**	↑**4.67**

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP