



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

---

Government of Pakistan  
Finance Division  
Economic Adviser's Wing

---



# Contents

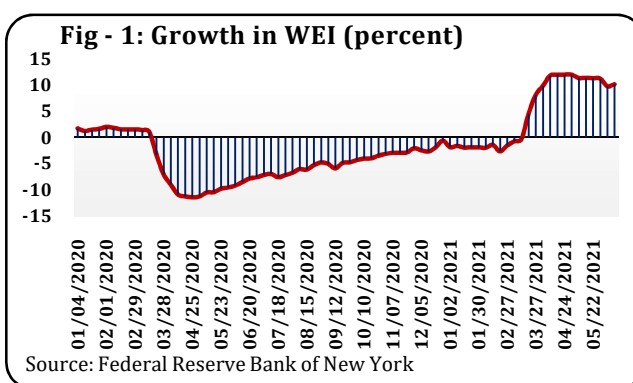
International Performance and Outlook.....	1
Monthly Performance of Pakistan's Economy.....	2
Economic Outlook.....	10
Way Forward.....	12
Economic Indicators.....	13

The global economy is expected to have accelerated recovery on account of fiscal/monetary stimulus and earlier-than-expected services sector re-opening in the US and Europe. However, still the recovery is considered uneven reflecting sharp rebounds in some major economies amid highly disparate vaccine access on one side along with many poor countries facing subdued prospects on other side. In Pakistan, government is taking all possible measures for inclusive and sustainable growth evident from the Federal Budget – 2021-22 presented in the parliament.

## 1. International Performance and Outlook

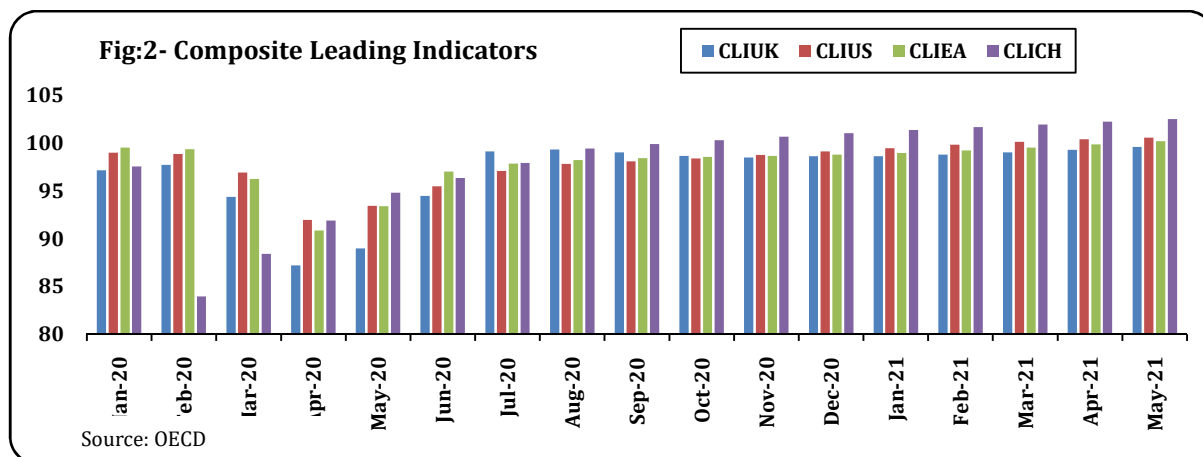
The global economy is expected to expand 5.6 percent in 2021, the fastest post-recession pace in 80 years, largely on strong rebounds from a few major economies. However, many emerging markets and developing economies continue to struggle with the COVID-19 pandemic and its aftermath as per Global Economic Prospects in June 2021 by the World Bank. In United States, there is robust job growth in May 2021, however inflation rate for May remained at 5 percent, slightly above expectations.

The Weekly Economic Index (WEI) of the federal Reserve Bank of New York is scaled to align with the four-quarter GDP growth rate in the US (Fig - 1).<sup>1</sup> Since end of March of the current year, this index surged strongly upwards, indicating a strong V-shaped recovery of the US economy.



This is also confirmed by the US Composite leading Indicator (CLI) compiled by the OECD, available up to

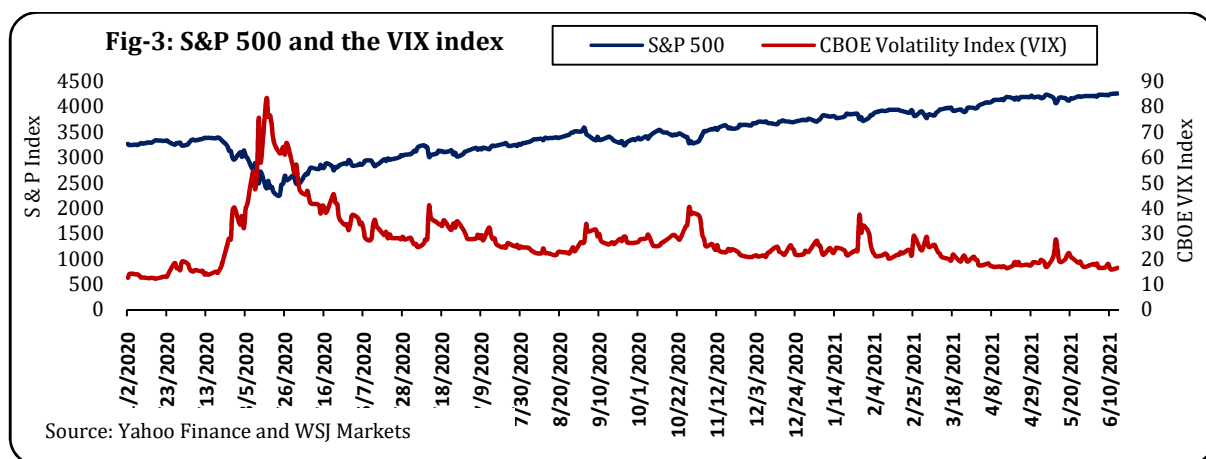
May 2021 (Fig - 2), which continued to improve. Continued progress was also observed in the CLI of the Euro Area-countries, China and the UK. In these countries, the speed of vaccinations is increasing exponentially, whereas the death toll has reduced substantially. As a consequence, restrictions on human interactions were lifted gradually, contributing to revival of economic activity.



The publications of robust job growth, but below expectations, and also the most recent inflation number were considered by the markets to be supportive for the FED to keep monetary policy unchanged. Hence expectations and fears of significant increase in long term interest rates faded. The VIX index, which is commonly used as a measure of investors' uncertainty, resumed its downward trend, whereas the S&P500 index

<sup>1</sup>WEI is an index of 10 daily and weekly indicators of real economic activity.

reached new all-times high in June due to the economic recovery and announcement of pro-business budget taken positively by investors. (Fig - 3).



The month of May, 2021 observed a further solid acceleration in the pace of expansion of global economic activity, as output and new orders rose at the quickest rates since April 2006. Growth of business activity was led by survey-record increases in the US and the UK. The euro area was also a bright spot, with the highest rate of expansion over three years. The J.P. Morgan Global Composite Output Index – which is produced by J.P. Morgan and IHS Markit – rose to 58.4 in May, a 181-month high. The Asia region underperformed relative to its US and European counterparts. Growth in China eased, while Japan and India witnessed contraction. The global services sector outperformed manufacturing for the second successive month in May. Services sector business activity escalated swiftly in over 15 years (since April 2006), while growth of manufacturing production eased slightly from April's decade-high level.

The latest IHS Markit revealed universal growth of both output and new orders across all sectors monitored for the second successive month in May. Moreover, all sectors except Tourism & Recreation recorded higher employment, repeating the same pattern observed in April. The latest data also revealed surging inflationary pressures due to higher input cost and record output price inflation.

Global commodity prices resumed their upward surge in May, 2021 rising across the board. Energy commodities rose 7.1 percent while non-energy commodities jumped 6.8 percent. Agriculture commodities rose 5.7 percent, fertilizers 4.4 percent, metals and minerals 9.1 percent and precious metals 5.4 percent. According to the World Bank's semi-annual Commodity Markets Outlook, commodity prices continued their recovery during initial months of 2021 and are expected to remain close to current levels throughout the year. However, the outlook is heavily dependent on progress in containing the COVID-19 pandemic as well as policy support measures in advanced economies and production decisions in major commodity producers.

In Pakistan, the government is taking all possible measures to bring price stability hence the pace of inflation has been slowed down. Thus no new tax has been imposed and no adjustment in utility prices has been made in new budget 2021-22.

## 2. Monthly Performance of Pakistan's Economy

The recent economic recovery (real GDP growth 3.94 percent in FY 2021) and government measures for inclusive and sustainable growth has built investor confidence. It is expected that economy will keep its trajectory of higher growth without any macroeconomic imbalances.

## 2.1. Real Sector

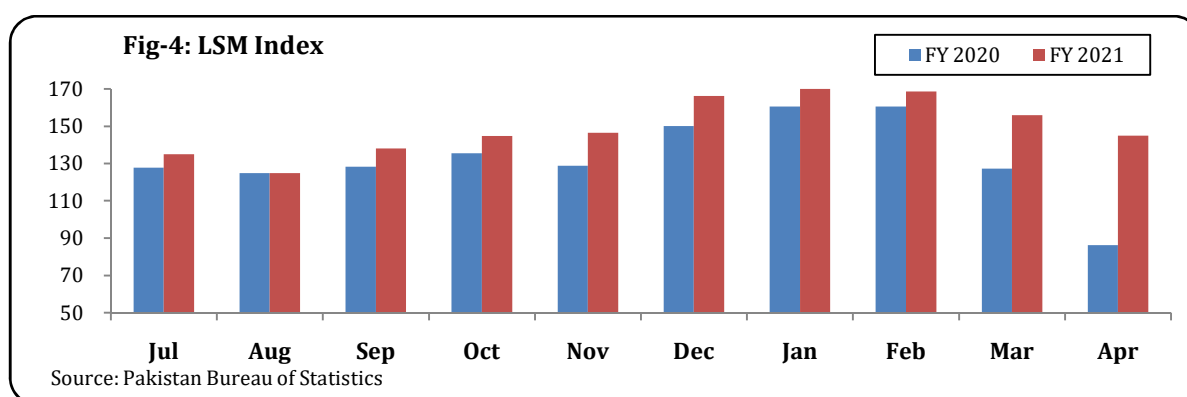
### 2.1-a Agriculture

The agriculture growth performance targeted at 3.5 percent FY 2022 that is mainly contingent upon revival of cotton production, consistent availability of water, certified seeds, fertilizers, pesticides and agriculture credit facilities. Several projects and programmes are thus envisaged to improve food and agriculture sector such as “Prime Minister’s Agriculture Emergency Programme” the establishment of Food Security Information System (FSIS) and “Agriculture Transformation Plan”. Further, in order to achieve this target, Federal Government has approved subsidy disbursement for Kharif crops 2021 through provinces using their existing mechanisms on sharing basis (75:25) regarding fertilizers for cotton and rice (DAP @Rs. 1500/acre) to cover 70 percent of targeted cultivated areas and 100 percent share of Federal Government for Cotton seed (@Rs. 1200/acre) to cover 66 percent of targeted cultivated area and white fly (@Rs. 1200/acre) to cover 70 percent of targeted cultivated areas. Federal share (@75%) for subsidy on fertilizers would be Rs 10.216 billion and for subsidy on cotton seed and whitefly would be Rs 8.942 billion.

The agriculture inputs remained available at sufficient level. According to Pakistan Automotive and Manufacturing Association (PAMA), farm tractors production significantly increased to 45,432 during July-May FY2021, showing an increase of 59.03 percent while its sales also witnessed an increase of 66.6 percent compared to corresponding period last year. During July-May FY2021 agriculture credit disbursement reached to Rs 1,192 billion showing an increase of 10.3 percent against disbursement of Rs 1080 billion during same period last year. The latest data for fertilizers reveals that during May 2021, urea off-take was 501 thousand tonnes; which recorded an increase of 109.3 percent compared to same timeframe last year, while DAP off-take was 173 thousand tonnes witnessing an increase of 184.7 percent over May 2020. This smooth availability of inputs will contribute towards improving agricultural productivity.

### 2.1-b Manufacturing

LSM production has surpassed its pre-COVID level during Jul-Apr FY 2021 and clocked its fifteen-year high growth rate of 12.8 percent as compared to 8.7 percent slump last year. In April FY 2021, LSM witnessed 68 percent growth on YoY basis (-41 percent in Apr FY 2020).



During July-April FY 2021, 10 out of 15 subsectors of LSM have witnessed positive growth. Textile, having the highest weight, grew by 13.2 percent thus lifting up the whole LSM. Other major sectors like Food Beverages & Tobacco (11.5 percent), Coke & Petroleum Products (17.5 percent), Iron & steel Products (12.2 percent), Automobile (37.9 percent) and Non-metallic Mineral Products (24.6 percent) have also performed

well. The picking up of these major sectors bodes well due to inbuilt externalities.

Car production and sale increased by 49.7 and 56.6 percent respectively during Jul-May FY 2021 while tractor production and sale increased by 59.0 and 66.6 percent respectively. During July-May FY 2021, total cement dispatches increased by 21 percent to 52.222 million tonnes (43.189 million tonnes last year).

### Recent Measures for Industry

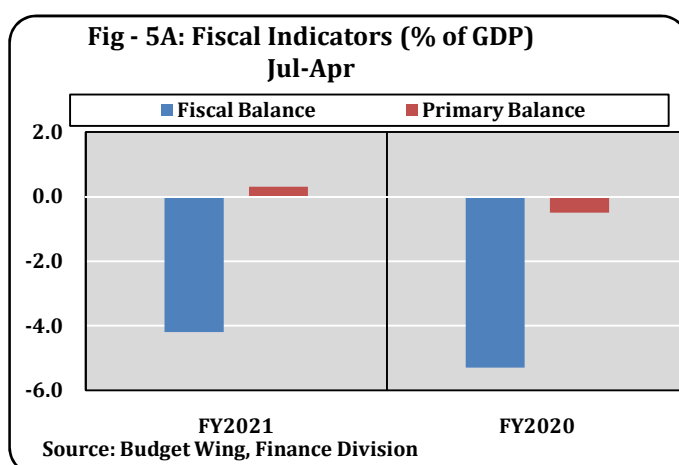
Government has approved an Industrial Support Package for additional electricity consumption of DISCOs and K-Electric. The export-oriented industry has been granted special priority by fixing power price at US\$ 0.07/unit for July-August FY 2021 and US\$ 0.09/unit for Sep-Jun FY2021. Gas tariff has been fixed at US\$ 0.065/mmbtu for the whole FY2021. Subsidy under Naya Pakistan Housing Scheme has been increased to Rs 36 billion. Government has extended tax amnesty till June 2021 and fixed tax regime till December 2021. Banks have also been directed by SBP to increase their construction sector loans to 5 percent of their total portfolio by December 2021. Major relief has been given to Automobile industry in Budget 2021-22 by reducing sales tax on 850cc cars from 17 percent to 12.5 percent along with exemption from value-added tax (VAT). The minimum annual threshold level of turnover for sales tax imposition on cottage industry is proposed to be increased from Rs 3 million to Rs 10 million. Moreover, Rs 900 billion has been allocated to Federal PSDP 2021-22 which is 38.5 percent higher as compared to previous year (Rs 650 billion last year). These measures will boost the industry in general and construction activities in specific by creating jobs and spillover effects to other sectors.

## 2.2. Inflation

The CPI inflation decelerated to 10.9 percent in May 2021 compared to 11.1 percent in the previous month due to a fall in fuel, electricity and food prices. During July-May FY 2021, consumer inflation was recorded at 8.8 percent compared to 10.9 percent in the corresponding period a year earlier. The supply related measures taken by the government along with strict monitoring and checks by administration kept the prices in check all over the country. The weekly SPI which captures the price movement of 51 essential items recorded an increase of 0.28 percent for the week ended on 17 June, 2021, after three weeks of consecutive decline.

## 2.3. Fiscal

Significant growth in tax revenues and prudent expenditure management resulted in better fiscal performance during the first ten months of current fiscal year. The fiscal deficit during July-April, FY2021 has been reduced to 4.2 percent of GDP (Rs 2020 billion) from 5.3 percent of GDP (Rs.2222 billion) in the corresponding period of last year. The primary balance continue to remain in surplus and recorded at Rs 159 billion (0.3 percent of GDP) against the deficit of Rs 205 billion (0.5 percent of GDP) last year.



Net federal revenue receipts grew by 10.5 percent to Rs 2769 billion during July-April, FY2021 against Rs 2505 billion in the comparable period of last year. On the other hand

total expenditure increased by 2.3 percent to reach Rs 5196 billion against Rs 5078 billion in the same period of last year (Fig – 5A).

### **Box – 1: The Budget Strategy FY2022**

Pakistan has successfully completed the stabilization phase and now the Budget 2021-22 is focused on achieving inclusive and sustainable growth. The Budget 2021-22 is a growth-oriented budget based on a strategy to stimulate economic growth, with a clear roadmap of strategic priorities, revenue and expenditure plans.

The growth target for FY2022 is set at 4.8 percent while in the medium term, it is expected to accelerate further to achieve the target between 6-7 percent. To attain this higher inclusive and sustainable economic growth, the government has set its priorities in the current budget by enhancing the development budget from Rs 630 billion (revised) to Rs 900 billion with an aim to boost economic growth, reducing unemployment, and poverty. In view of this, the development priorities in FY2022 are ensuring Food, water and Energy security, improving critical road infrastructure, advancing on implementation of China-Pakistan Economic Corridor (CPEC), Establishment and operationalizing of Special Economic Zones (SEZs), Sustainable Development Goals (SDGs), Combating climate change, Technology driven knowledge economy and removing regional disparities.

#### **Salient Features of Budget 2021-22**

- ❖ For FY2020, the fiscal deficit is expected to be at 6.3 percent of GDP
- ❖ Primary deficit is estimated at 0.7 percent of GDP
- ❖ FBR tax collection is budgeted at Rs 5,829 billion
- ❖ Collections under the federal non-tax revenues are expected to be at Rs 2080 billion in FY2022
- ❖ Provincial share in federal taxes would be at 3,412 billion
- ❖ Federal expenditures are budgeted at Rs 8,487 billion
- ❖ The current expenditure is budgeted at Rs 7,523 billion
- ❖ Within current, interest payments are estimated at Rs 3,060 billion, pension Rs 480 billion, Defence Rs 1,370 billion, Grants and Transfers to provinces & others Rs 1,168 billion, Subsidies Rs 682 billion and running of Civil government Rs 479 billion etc.
- ❖ Federal development spending increased to Rs 900 billion.

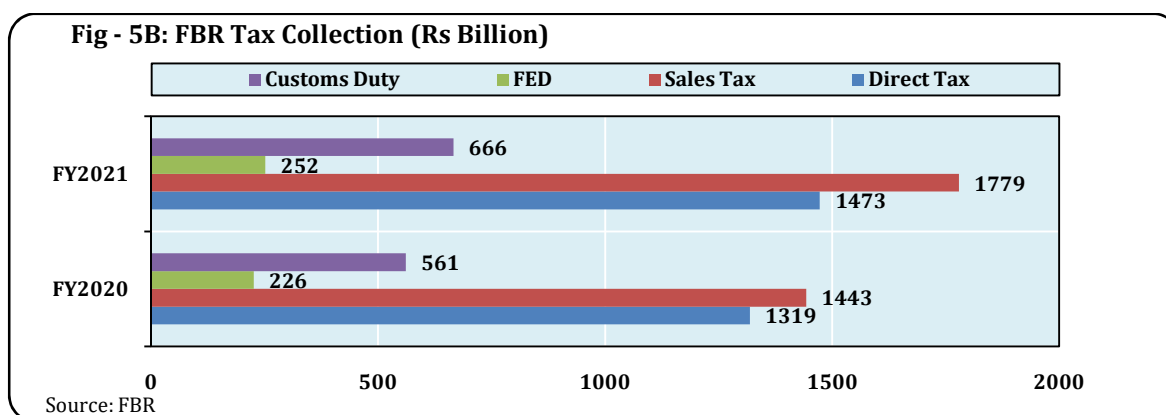
#### **Main Objectives of Budget 2021-22**

- ❖ Striking a balance between fiscal deficits due to COVID-19 and boosting growth of the economy
- ❖ Keeping primary balance at a sustainable level
- ❖ Protection of social spending under the Ehsaas Program
- ❖ Resource mobilization with required changes in tax structure
- ❖ Successful continuation of the IMF program
- ❖ Carrying forward of Stimulus Package
- ❖ Keeping development budget at an adequate level to stimulate sustainable economic growth
- ❖ Funding of crucial Housing initiatives including Naya Pakistan Housing project to boost the construction sector
- ❖ Funding for special areas i.e erstwhile FATA, Azad Jammu & Kashmir and Gilgit Baltistan to ensure their development
- ❖ Continuation of special initiatives led by the Prime Minister like Kamyab-Jawan, Sehat Card, Billion tree Tsunami, etc.
- ❖ Austerity and control of non-productive expenditure
- ❖ Rationalization of subsidy regime to provide targeted subsidy to the deserving segments of the society.

#### **FBR Tax Collection**

FBR tax collection has persistently increased throughout the year and posted historical high growth in first eleven months of current fiscal year. The net provisional tax collection grew by 17.5 percent to Rs 4,170 billion as compared to Rs 3,549 billion in the comparable period of last year. The net collection has exceeded the target of Rs 3,994 billion by Rs 176 billion. During the period under review, the domestic tax collection grew by 17.3 percent while revenues from customs duty increased by 18.7 percent.

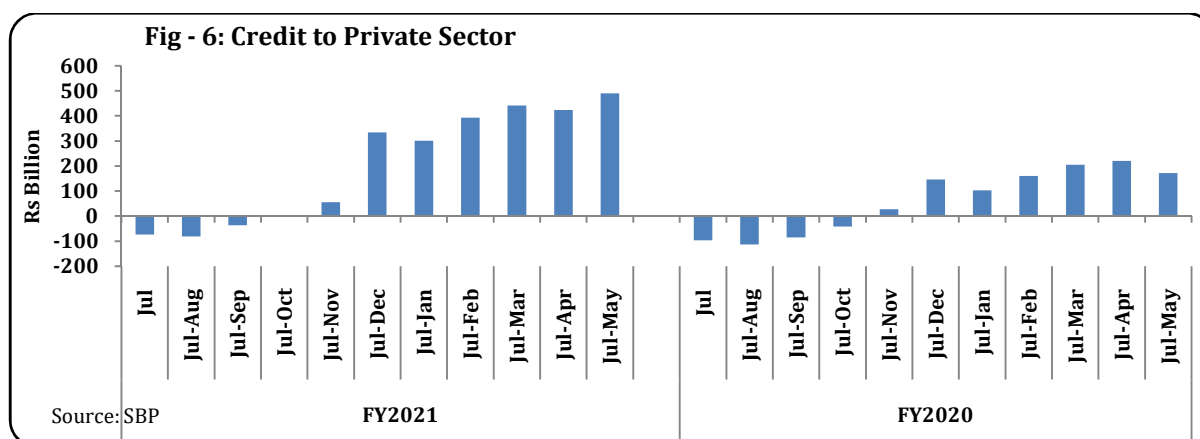
For the month of May, the net collection registered a growth of 69 percent and stood at Rs 387 billion against the collection of Rs 229 billion in the comparable period of last year. (Fig -5B).



## 2.4. Monetary

In last Monetary Policy decision, SBP has kept policy rate unchanged at 7.0 percent on 28<sup>th</sup> May, 2021 on account of expected lower inflation and broad-based rebound.

During the period 1<sup>st</sup> July – 11<sup>th</sup> June, FY2021 Money Supply (M2) observed expansion of Rs 2,351.9 billion (growth of 11.3 percent) against Rs 2,253.2 billion (growth of 12.7 percent last year). Within Money supply, Net Foreign Assets (NFA) of the banking system increased by Rs 1,031.6 billion as compared to Rs 641.9 billion in last year. On the other hand, Net Domestic Assets (NDA) recorded at Rs 1,320.2 billion (Rs 1,611.3 billion last year). NDA has been contained during the period under review on account of low government sector borrowing which outweighed the impact of higher private sector credit. Accordingly, credit to private sector increased significantly by Rs 457.9 billion against Rs 195.2 billion last year, led by fixed investment loans. During July-May, FY2021, credit for fixed investment increased by Rs 158.9 billion against the borrowing of Rs 16.4 billion last year, which is very significant rise reflecting more business confidence and overall further improvement in medium to long term growth outlook.



## 2.5. External Sector

On account of 29.4 percent growth in Workers' Remittances and 10.3 percent growth in Exports, the Current Account posted a surplus of \$ 153 million (0.1 percent of GDP) for July-May FY2021. It is worth mentioning that exports on fob were recorded \$ 2.1 billion in May 2021 (\$ 1.2 billion last year) thus posting a growth of 69.0 percent YoY basis.

As per PBS, during July-May, FY2021, exports increased by 14.1 percent to \$ 22.6 billion



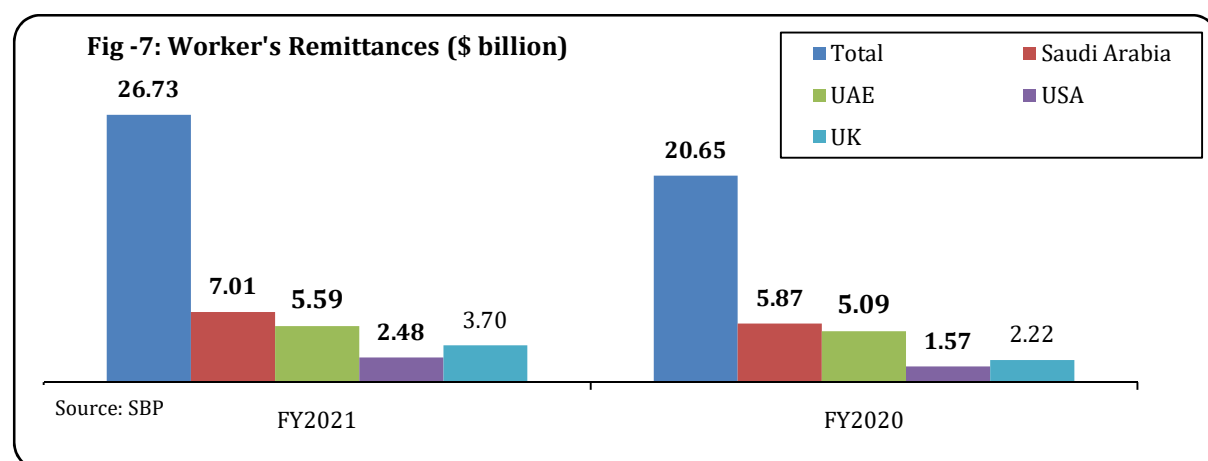
(\$ 19.8 billion last year). The major exported commodities which have shown significant growth during the review period were: Knitwear posting growth of 32.7 percent, Readymade garments; 14.4 percent, Bed wear; 24.6 percent, Towel; 28.5 percent, Carpet, rugs & mats; 32.5 percent, Leather manufactured; 14.9 percent, while Fish and fish preparations posted 2.6 percent growth. The increase in overall exports is contributed by the growth in exports of value-added sectors. The total imports in July-May FY2021 increased to \$ 50.0 billion (\$ 40.8 billion last year), thus posted 22.5 percent growth. Main commodities imported were Petroleum products, Palm Oil, Petroleum crude, Iron & Steel, Liquefied Natural Gas, Plastic Materials, Mobile phone, Electrical machinery & apparatus, Power generating machinery and Raw cotton. Higher imports of these commodities indicate improvement of related sectors as well.

### 2.5.1 Foreign Investment

In July-May FY2021, FDI recorded at \$ 1,751.7 million (\$ 2,422.7 million last year) while total foreign portfolio investment registered an inflow of \$ 2,172.9 million during July-May FY2021. FDI received from China\$ 728.2 million (41.6 percent of total FDI), Hong Kong \$138.1 million (7.9 percent) and UK\$ 130.5 million (7.4 percent). Power sector attracted highest FDI of \$ 856.1 million (48.9 percent of total FDI), financial business FDI \$226.7 million (12.9 percent) Oil & Gas exploration\$ 206.2 million (12.1 percent) and Electrical Machinery \$ 111.6 million (6.4 percent). The FDI had been hit hard globally by the pandemic. To make more conducive business environment the present government has provided relief to manufacturing and taken many measures for ease of doing business which are duly acknowledged by the World Bank.

### 2.5.2 Worker's Remittances

In July-May FY2021, remittances rose to \$ 26.7 billion (\$ 20.6 billion last year), with a growth of 29.4 percent. Remittances recorded \$2.5 billion in May 2021, (\$ 1.8 billion in May 2020) showing an increase of 33.5 percent on a YoY basis. Workers' remittances remained above \$ 2.0 billion for twelve consecutive months. The historical high inflows of workers' remittances during FY2021 have been driven by proactive policy measures by the Government and SBP to incentivize the use of formal channels, restricted cross border travel in the wake of COVID-19 and orderly foreign exchange market conditions. The major inflows of remittance were from Saudi Arabia, UAE, USA and UK. (Fig- 7).

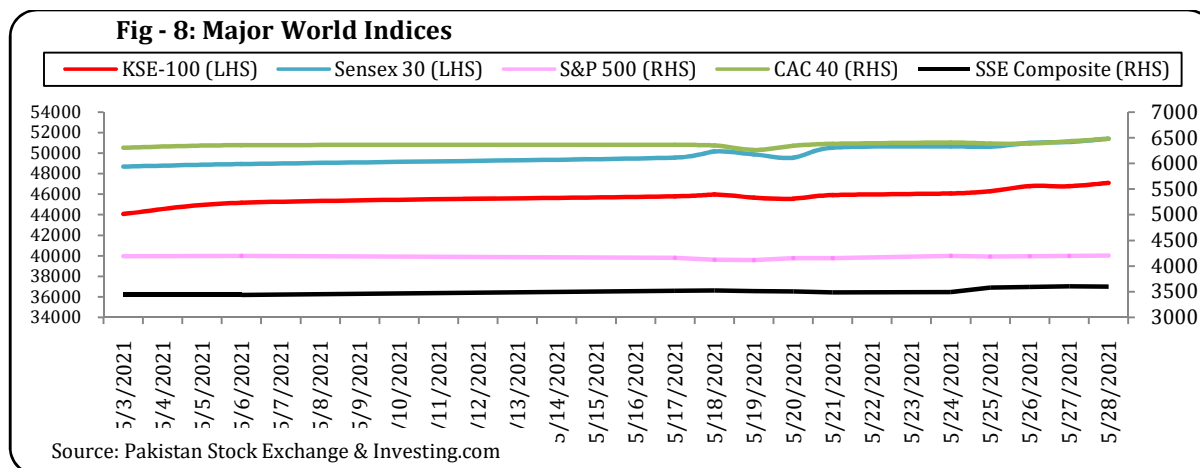


### 2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to \$23.6 billion on Jun, 11 2021. After July 5, 2017, the State Bank of Pakistan's reserves now stood at \$16.4 billion while commercial banks' reserves remained \$ 7.2 billion.

## 2.6. Performance of KSE Index

There has been remarkable growth in Pakistan stock exchange in May 2021. The KSE-100 index gained 3,820 points in the month and closed at 47,896 points on 31-05-2021. Similarly, market capitalization of the PSX increased by Rs 570 billion and closed at Rs 8,267 billion on 31-05-2021. On 27<sup>th</sup> May 2021, PSX witnessed an all-time high daily trading volume with 2.21 billion shares traded in a single session. Trend in major world indices is given in Fig-8.



## 2.7. Social Sector

- The ECC of the Cabinet on 26<sup>th</sup> May, 2021 has approved Rs 48 billion for the second phase of Ehsaas programme to provide one-time cash assistance of Rs12,000 per beneficiary to four million additional beneficiaries badly affected due to smart and micro lockdowns during the COVID-19.
- Prime Minister inaugurated one-window Ehsaas centre on 9<sup>th</sup> June, 2021 at Islamabad that aimed to provide access to all the facilities and services of Ehsaas Programme under one roof and these centres will also be established in every district of the country.
- During FY2021, 69,130 Ehsaas undergraduate scholarships of Rs 6.53 billion are being awarded which includes 51 percent scholarships for girls and 4 percent for minorities. The need-cum-merit based Ehsaas scholarship covers 100% tuition fee and a living stipend.
- For FY 2022, budgetary allocation for Ehsaas program has been increased from Rs 208 billion to Rs 260 billion.
- Under National Poverty Graduation Program, 59,986 livelihood productive assets have been transferred to the ultra-poor households till 31<sup>st</sup> May, 2021 while during the month of May, 4048 livelihood assets were distributed out of which over 94 percent assets have been transferred to the woman.
- PPAF through its 24 Partner Organizations has disbursed 46,218 interest free loans amounting to Rs 1.93 billion during the month of May, 2021. Since July, 2019 till 31<sup>st</sup> May, 2021, a total of 1,358,066 loans interest free loans amounting to Rs 47.78 billion have been disbursed to the borrowers.

### Box - 2: Poverty Update

- Planning Commission poverty estimation is based on Cost of Basic Need approach (CBN) estimated at Rs 3757.85 per adult equivalent per month. According to this methodology, 21.9% of the population is below poverty line in FY2019 as compared to 24.3% in FY2016 as

per Household Integrated Economic Survey (HIES) FY2019 statistics released by PBS.

- Poverty in both rural and urban areas has also been declined as poverty headcount of 11.0% in Urban and 28.2% in rural areas is estimated.

<b>National and Regional Poverty Headcount</b>				
<b>Year</b>	<b>Poverty Line</b>	<b>National</b>	<b>Urban</b>	<b>Rural</b>
2005-06	1277.74	50.4	36.6	57.4
2007-08	1543.51	44.1	32.7	49.7
2010-11	2333.35	36.8	26.2	42.1
2011-12	2600.15	36.3	22.8	43.1
2013-14	3030.32	29.5	18.2	35.6
2015-16	3250.28	24.3	12.5	30.7
2018-19	3757.85	21.9	11.0	28.2

- Gini co-efficient is used to measure the incidence of income inequality. It is observed that the value of Gini Co-efficient also decreased from 0.326 in FY2016 to 0.303 in FY2019 which shows that the disparity between rich and poor has declined.
- In the rural areas, the Gini coefficient has declined from 0.266 in FY2016 to 0.248 in FY2019 whereas in urban areas, inequality also decreased from 0.356 in FY2016 to 0.328 during FY2019, showing the disparity has declined in both urban and rural areas.

<b>Gini adjusted by Hhweighths</b>			
<b>Years</b>	<b>Pakistan</b>	<b>Urban</b>	<b>Rural</b>
2005-06	0.330	0.376	0.265
2007-08	0.314↓	0.354↓	0.264↓
2010-11	0.296↓	0.334↓	0.253↓
2011-12	0.307↑	0.351↑	0.250↓
2013-14	0.299↓	0.323↓	0.259↑
2015-16	0.326↑	0.356↑	0.266↑
2018-19	0.303↓	0.328↓	0.248↓

Source: Ministry of Planning, Development & Special Initiatives

- Under Kamyab-Jawan Youth Entrepreneurship Scheme, Rs 8,556 million has been disbursed till April, 2021 to the youth for various businesses.
- During the month of May, 2021 Bureau of Emigration and Overseas Employment has registered 7040 emigrants for overseas employment in different countries.
- Till 25<sup>th</sup> June 2021, 952,907 confirmed covid-19 cases with 897,834 recoveries and 22,152 deaths recorded in the country.
- Punjab has recorded the most 345,546 cases, Sindh 334,453, Khyber Pakhtunkhwa 137,484 and Balochistan 26,893.
- Based on reported cases the mortality rate is approximately 2.3 percent.
- Government is committed to vaccinate its 100 million populations by June 2022. For this purpose, government has allocated an amount of \$1.1 billion for the procurement of COVID-19 Vaccine.
- An MoU on Cooperation within the Framework of the Stipendium Hungaricum Programme 2020-22 has signed between Pakistan and Hungary, under which the Hungarian Government will provide 200 scholarships annually to Pakistani students to study in Hungary.
- Single National Curriculum for Grades 6-8 has been approved for implementation across Pakistan.
- National Vocational & Technical Training Commission establishes a School of Hospitality and Culinary Arts, in partnership with a leading institute of Finland.
- IBCC continues to digitize its systems, and more progress has now been made in

making services fees payable online. Already, all services can now be accessed online by students.

### 3. Economic Outlook

The rebound in economic activity is expected to continue in coming months on account of reopening of economic activities and acceleration in vaccination process.

#### 3.1. Inflation

Pakistan’s inflation is mainly dependant on fiscal and monetary policies, international commodity prices, the USD exchange rate, seasonal factors and economic agents’ expectations concerning the future developments.

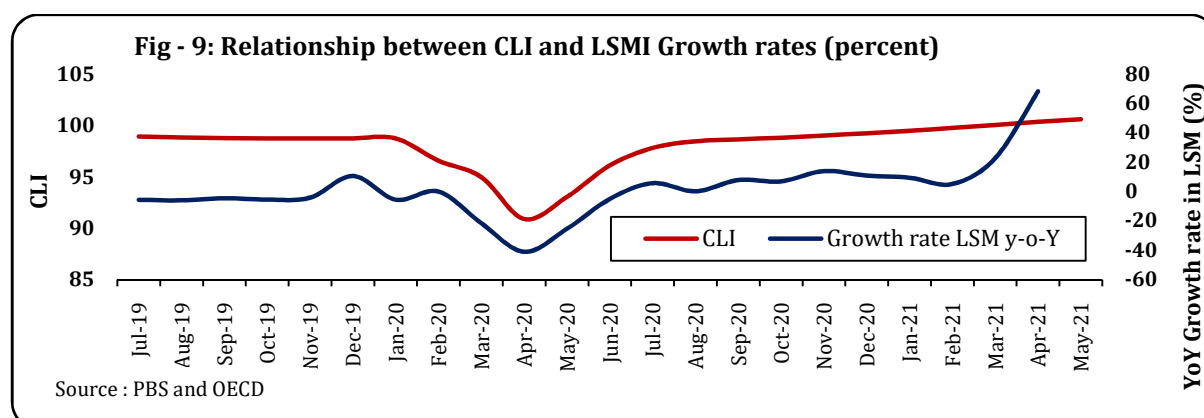
The expected inflation for June can be decomposed into two effects: a base effect and new MoM price impulses. If in June 2021 no new MoM price impulses would occur, the YoY inflation rate would settle around 9.8 percent. It is expected that a deceleration will occur as compared to May 2021. In June, new price impulses may come mainly from recent increase in international food and oil prices, following the observed strong recovery of the world economy. But due to Government interventions, the pass-through into domestic price is expected to be limited. Thus, on YoY basis, it is expected that inflation in June 2021 to settle within probability margins of (8.8 – 10.2 percent).

#### 3.2. Agriculture

The inputs availability for Kharif crops is satisfactory and it is expected that the agriculture sector will continue to perform well on account of continuing support of the government to the sector.

#### 3.3. Industrial activity

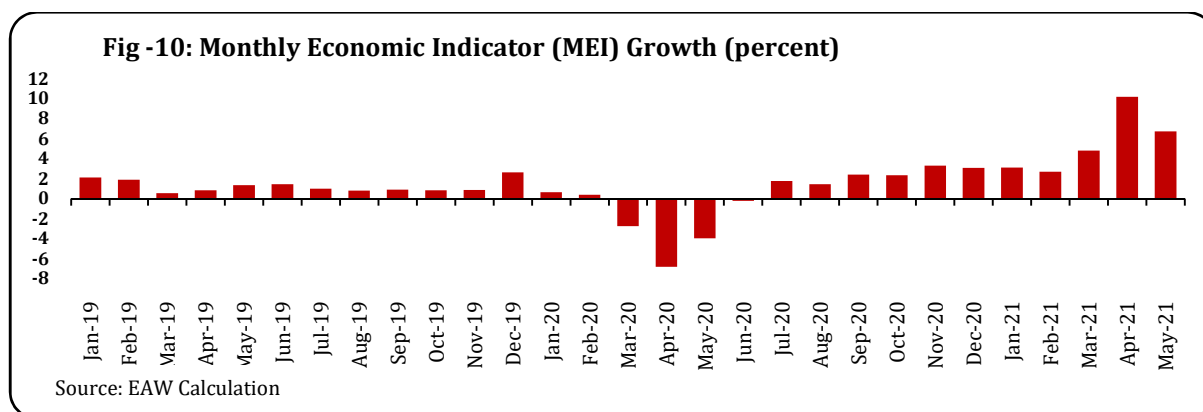
Industrial activity, measured by the LSM index is the sector which is most exposed to external conditions. Its exposure to developments in international markets, is illustrated in Fig- 9 which compares the year-on-year growth rate of LSM with the weighted average Composite Leading Indicators in Pakistan’s main export markets (CLI). LSM index is published with a time lag of two months, whereas CLI is published with a one-month lag. Compared to the progress in this foreign CLI index, April’s Y-o-Y increase in LSM (with 68.1 percent) was exceptionally strong, also taking into account that seasonal factors usually significantly depress LSM activity in this month. This formidable industrial expansion essentially reflects two factors. The first one is the low base effect due to the slump in LSM one year ago when the first wave of the COVID-19 pandemic hit the world economy as well as domestic activity gravely. Secondly, the strong vigour of the recovery in Pakistan’s economy helped by prudent fiscal and monetary policies.



### 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 May MEI is still provisional and may be revised next month.

The April MEI shows very strong growth, mainly on the back of the strong expansion in industrial activity. This tendency is expected to have continued in May. On the basis of expected performance of LSM in remaining months of FY2021, acceleration of the MEI is expected to continue. Thus, the annual GDP growth may exceed the provisional figure released by PBS in May 2021.



### 3.5. External

Economic growth is accelerating in the last quarter of the current FY. This is expected to continue the recently observed positive trend in imports of goods and services. These imports may exceed the level of previous month. Fortunately, the growth momentum is also reflected in an expected strengthening of the export performance. Exports of goods and services are expected to exceed \$ 3 billion in June 2021. With Imports expected to be about double the level of exports, the trade balance may settle at around \$ 3 billion.

The trade deficit together with the structural deficit in the Primary Income Balance (on average 0.4 billion USD per month over the last 10 months) is largely financed by the inflow of Remittances (on average 2.43 billion USD per month in the last 11 months) and other Secondary Income receipts from abroad (on average 0.35 billion USD over the last 10 month). Taking all these into account, the current account balance is expected to show a deficit of around \$ 0.5 billion by the end of the current fiscal year.

In the regime of market-based exchange rate, a depreciation of 1.4 percent occurred in week, presently exchange rate is 157.05. The market adjustment of exchange rate thus has not put any pressure on foreign reserves and it is expected that in near future foreign reserve will maintain its adequacy level.

### 3.6. Fiscal

The fiscal consolidation efforts continue to remain on track throughout the year. The successful implementation of these measures has improved the fiscal discipline. The fiscal deficit is 1.1 percentage points lower than the last year and recorded at 4.2 percent of GDP during July-April FY2021. With continuity in fiscal consolidation efforts, it is expected that the fiscal deficit for the entire fiscal year will remain within the target. For FY2022, the fiscal deficit is budgeted to be at 6.3 percent of GDP. On revenue side, FBR tax collection have increased around 18 percent and surpassed the target set for

eleven months of current fiscal year. It is expected that FBR would be able to improve the tax collection significantly above the level achieved last year.

#### **4. Way Forward**

Pakistan economy has shown significant signs of economic recovery with fast resumption of economic dynamism. In recent budget 2021-22, government has taken growth-oriented initiatives and will continue to follow the positive reform momentum which will help to boost the competitiveness of Pakistan's economy and lay a strong foundation for a more robust, inclusive and sustainable recovery.

---

## Economic Indicators

(25-06-2021)

	2019-20 (Jul-May)	2020-21 (Jul-May)	percent Change
<b>External Sector</b>			
Remittances (\$ billion)	20.7	26.7	↑29.4
Exports FOB(\$ billion)	21.0	23.1	↑10.3
Imports FOB (\$ billion)	40.1	47.3	↑17.9
Current Account Balance (\$ billion)	-4.3	0.2	↑
Current Account Balance (percent of GDP)	-1.8	0.1	↑
FDI (\$ million)	2,422.7	1,751.7	↓27.7
Portfolio Investment-Public (\$ million)	-289.3	2,457.9	↑
Total Foreign Investment (\$ million) (FDI & Portfolio Investment)	1,894.9	3,924.6	↑107
Forex Reserves (\$ billion)	16.517 (SBP: 9.756) (Banks: 6.761) (On 23 <sup>rd</sup> June 2020)	22.964 (SBP: 15.794) (Banks: 7.170) (On 23 <sup>rd</sup> June 2021)	
Exchange rate (PKR/US\$)	166.66 (On 23 <sup>rd</sup> June 2020)	158.53 (On 23 <sup>rd</sup> June 2021)	

Source: SBP

	2019-20 (Jul-Apr)	2020-21 (Jul-Apr)	percent Change
<b>Fiscal</b>			
			(Rs Billion)
FBR Revenue (Jul-May)	3,549	4,170	↑17.5
Non-Tax Revenue (Federal)	1,300	1,216	↓6.5
PSDP (Authorization)	582.1 (1 <sup>st</sup> Jul to 21 <sup>st</sup> May)	565.7 (1 <sup>st</sup> Jul to 21 <sup>st</sup> May)	↓2.8
Fiscal Deficit	2,222	2,020	↓
Primary Balance	-205	159	↑

Source: FBR&Budget Wing

	2019-20 (Jul-May)	2020-21 (Jul-May)	percent Change
<b>Monetary Sector</b>			
<b>Agriculture Credit (provisional)</b>	<b>1,080.0</b>	<b>1,191.6</b>	<b>↑10.3</b>
<b>Credit to private sector (Flows)</b>	<b>195.2</b> (1 <sup>st</sup> Jul to 12 <sup>th</sup> June)	<b>457.9</b> (1 <sup>st</sup> Jul to 11 <sup>th</sup> June)	<b>↑134</b>
<b>Growth in M2 (percent)</b>	<b>12.7</b> (1 <sup>st</sup> Jul to 12 <sup>th</sup> June)	<b>11.3</b> (1 <sup>st</sup> Jul to 11 <sup>th</sup> June)	
<b>Policy Rate (percent)</b>	<b>8.0</b> (15-May-2020)	<b>7.0</b> (28-May-2021)	
Source: SBP			

	2019-20	2020-21	percent Change
<b>Inflation</b>			
<b>CPI (National) (percent)</b>	<b>8.2</b> (May)	<b>10.9</b> (May)	
	<b>10.9</b> (Jul-May)	<b>8.8</b> (Jul-May)	
<b>Real Sector</b>			
<b>Large Scale Manufacturing (LSM) (percent)</b>	<b>-41.1</b> (Apr)	<b>68.1</b> (Apr)	<b>↑</b>
	<b>-8.7</b> (Jul-Apr)	<b>12.8</b> (Jul-Apr)	<b>↑</b>
<b>Miscellaneous</b>			
<b>PSX Index*</b>	<b>34889</b> (On 1 <sup>st</sup> Jul 2020)	<b>47901</b> (On 23 <sup>rd</sup> June 2021)	<b>↑ 37.30</b>
<b>Market Capitalization (Rs trillion)</b>	<b>6.61</b> (On 1 <sup>st</sup> Jul 2020)	<b>8.35</b> (On 23 <sup>rd</sup> June 2021)	<b>↑ 26.32</b>
<b>Market Capitalization (\$ billion)</b>	<b>39.33</b> (On 1 <sup>st</sup> Jul 2020)	<b>52.69</b> (On 23 <sup>rd</sup> June 2021)	<b>↑33.97</b>
<b>Incorporation of Companies</b>	<b>15,416</b> (Jul-May)	<b>23,031</b> (Jul-May)	<b>↑49.40</b>
*: Formerly Karachi Stock Exchange (KSE) <span style="float: right;">Source: PBS, PSX &amp; SECP</span>			