Monthly Economic Update & Outlook

May 2022

Government of Pakistan
Finance Division
Economic Adviser's Wing

Contents

Executive Summary

- The war between Russia and Ukraine is putting pressure on global economy particularly in Europe and Central Asia, surging inflation, debt and a spike in poverty level. The economic impact has reverberated through multiple channels, including commodity and financial markets, trade and migration links which adversely impacting business confidence. Global commodity prices remained mixed in April 2022. Energy prices fell by 6.1 percent while non-energy commodities rose by 0.6 percent as compared to March 2022. On YoY basis, their prices increased by 90 percent and 28.4 percent respectively.
- **Real Sector:** During FY2022, the production of all important crops is encouraging (except wheat). The growth in the production of important crops: cotton, rice, sugarcane, and maize is estimated at 17.9 percent, 10.7 percent, 9.4 percent, and 19.0 percent, respectively. However, wheat production declined by 3.9 percent. During Jul-Mar FY2022, LSM posted a growth of 10.4 percent as compared to 4.2 percent same period last year.
- **Fiscal, Monetary & External:** The fiscal deficit during Jul-Mar FY2022 is recorded at 3.8 percent of GDP. The primary balance posted a deficit of Rs 447 billion. During 1st July to 06th May, FY2022 money supply (M2) witnessed a growth of 6.2 percent (Rs 1,511.3 billion) as compared to the growth of 7.5 percent (Rs 1,576.3 billion) last year. During Jul-Apr FY2022, the current account deficit is recorded at $ 13.8 billion.
- **Economic Outlook:** Although the economy of Pakistan has achieved GDP growth of 5.97 percent in FY2022, but the fiscal situation and external sector performance are making it difficult to sustain and impacting the growth outlook in coming year. The government is taking all possible measure to counter the downside risks associated with the economy.
  - International commodity prices are on rising trend and expected to increase further. The pass-through of the increase in global commodity prices is somewhat contained due to government measures. Even then it is expected that CPI inflation will remain in double digit in May 2022.
  - The MEI remains strong in March 2022 due to the unprecedented growth in LSM. However, continuing geo-political tensions, high commodity prices and contractionary monetary policy may slow down economic activities in coming months.
  - Exports of goods and services remained strong in April 2022 and it is expected that this positive trend will continue in May 2022 on the back of exports-oriented policies and growth recovery in Pakistan's main export partners. On MoM basis the growth in imports of goods is expected to be negative due to the ban on non-essential and luxury items. Moreover, remittances are expected to be around $ 2.5 billion. Taking these factors into account, the current account will stay well below $ 1.0 billion in coming months.
  - During the first ten months of the current fiscal year, FBR exceeded its revenue target by 5.2 percent. Despite massive tax relief on various essential items to the common man, FBR has been able to achieve a sizeable higher tax collection. FBR has taken various policy and administrative measures which paid off in terms of improved tax collection. It is expected that FBR would be able to achieve its target during FY2022.

1. International Performance and Outlook

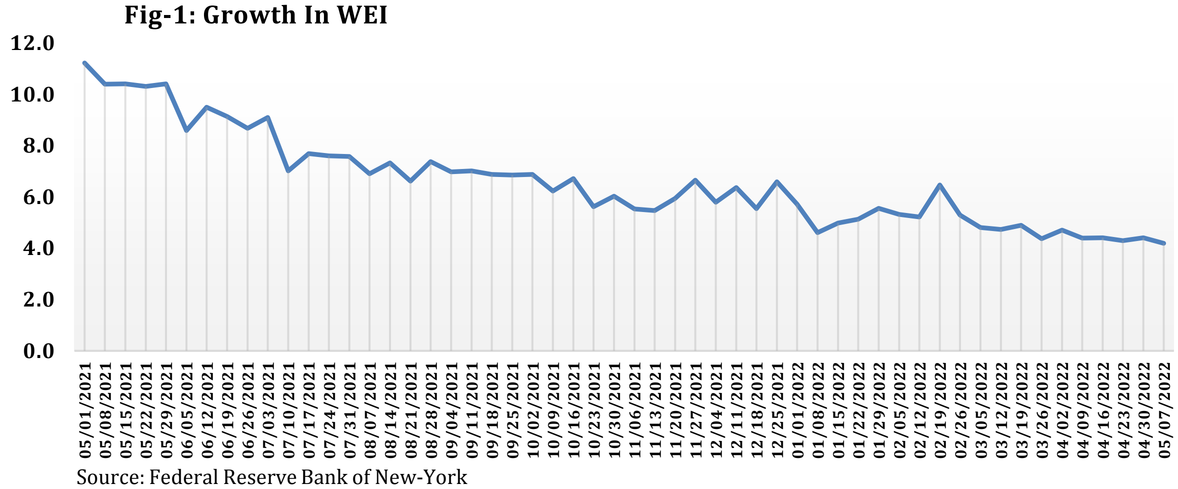
The economic fallout from Russia-Ukraine conflict has created economic damage that will contribute to a significant slowdown in global growth and add to inflation in 2022. Fuel and food prices have increased rapidly, disproportionately affecting vulnerable populations in low-income countries. Global growth is projected to slow down from an estimated 6.1 percent in 2021 to 3.6 percent in 2022 and 2023. Beyond 2023, global growth is projected to slow down to about 3.3 percent over the medium term. The war is putting pressure on commodity prices and have resulted in 2022 inflation projections of 5.7 percent in advanced economies and 8.7 percent in emerging market and developing economies, which are 1.8 and 2.8 percentage points higher than those projected in World Economic Outlook last January.

This crisis unfolds while the global economy was on a recovery path but had not yet fully recovered from the COVID-19 pandemic, with significant divergence between the economic recoveries of advanced economies, emerging markets and developing ones. In addition to the conflict, frequent and wide-ranging lockdowns in China, including in key manufacturing hubs have also slowed activity there and could cause new bottlenecks in global supply chains. Higher and persistent price pressures also led to a tightening of monetary policy in many countries. Overall risks to economic prospects have risen sharply and policy trade-offs have become ever more challenging.

The US economy contracted in the first quarter of 2022 showing a 1.4 percent annualized contraction following a 6.9 percent annualized jump in the fourth quarter of 2021. The slowdown in the first quarter has been observed on account of an increase in the trade deficit, low inventories, and lower government spending. US economic growth is moderating as the economy transitions from a breakneck-fast recovery in the second half of 2020 and 2021 to a slower expansion in 2022. The Labor department reported a net of 428,000 jobs compared to the 380,000 predicted jobs with 3.6 percent unemployment rate. Business surveys have consistently pointed to wage pressures as a reason behind inflation's surge to a 40-year high in early 2022. There are still upside risks to inflation from surging energy and food prices, knock-on effects of the Russia-Ukraine conflict, and China's lockdowns, which could cause renewed shortages of imported goods.

The Federal Open Market Committee (FOMC) increased its benchmark interest rate by half a percentage point in their May decision, in line with market expectations. The rate move is the largest since May-2000 to burgeoning inflation pressures. The domestic pressure on the US economy is also reflected through contained growth in WEI (Fig-1).

Fig-1: Growth In WEI

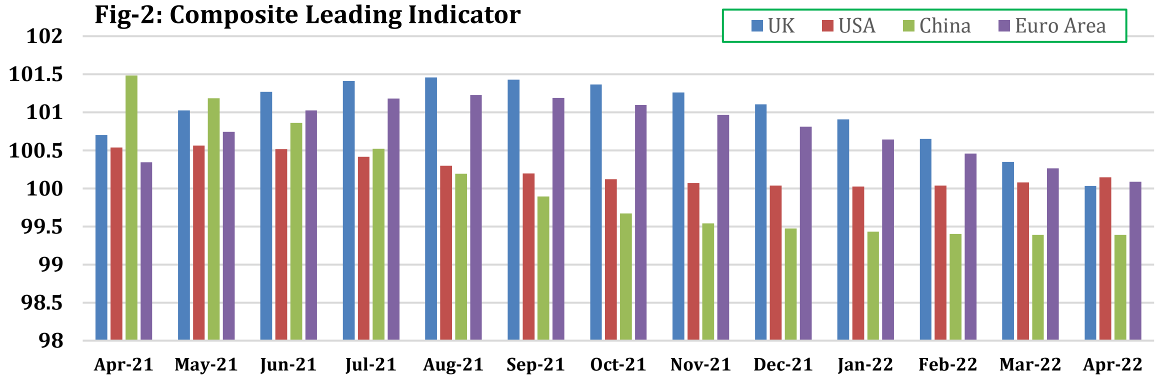


Source: Federal Reserve Bank of New-York

The J.P.Morgan Global Composite Output Index stood at 51.0 in April, down from 52.7 in March. The outlook became more subdued with business optimism plummeting to a 19-month low. Growth of service sector business activity eased to a three-month low as slower upturns in the business and financial services sectors more than offset an acceleration at consumer service providers. Global manufacturing production fell for the first time since June 2020 reflecting reduction across consumer, intermediate and investment goods industries.

National PMI data indicated that the slowdown in output growth was largely centered on China where economic activity contracted at the fastest pace since February 2020. Steep drops were registered in both Chinese manufacturing production and services sector activity, largely due to the reimposition of COVID related restrictions in several cities. In contrast, the Euro Area, India, Brazil and Australia all observed faster growth while the strong upturns in the US and the UK continued (albeit at slightly reduced rates of expansion). This is also evident from CLI which is available till April 2022 compiled by OECD. China has observed the lowest value of CLI for April-22 since April-21.

Fig-2: Composite Leading Indicator



Source: OECD

The month of April observed expansion of new business intakes for 22nd successive month, however, the rate of increase remained weakest since July 2020. New export orders fell for the second consecutive month in April 2022. Employment increased for the 20th consecutive month in April, staffing levels were raised in the US, the Euro Area, the UK, India, Brazil, and Australia. Job cuts were signaled in China and Kazakhstan.

Inflationary pressures continued to build in the global economy during April. Average output cost accelerated at a record high rate, as companies passed the higher input costs to their clients. For both price measures, rates of increase remained substantially faster (on average) in developed nations compared to their emerging market counterparts.

After several consecutive months of steep gains, commodity prices remained mixed in April. Energy commodities fell by 6.1 percent while non-energy commodities rose by 0.6 percent. Their indices are up by 36.4 percent and 18.4 percent respectively since the end-December 2021. While the indices increased by 90 percent and 28.4 percent respectively compared to April 2021.

2. Monthly Performance of Pakistan's Economy

According to the provisional estimates, GDP is recorded a growth of 5.97 percent in FY2022, on the back of 4.40 percent in agriculture, 7.19 percent in industry and 6.19 percent in services sector. The persistent growth of more than 5.50 percent for the consecutive two years has laid the foundation of higher and inclusive growth, provided the consequent macroeconomic imbalances are addressed prudently.

2.1 Real Sector

2.1-a Agriculture

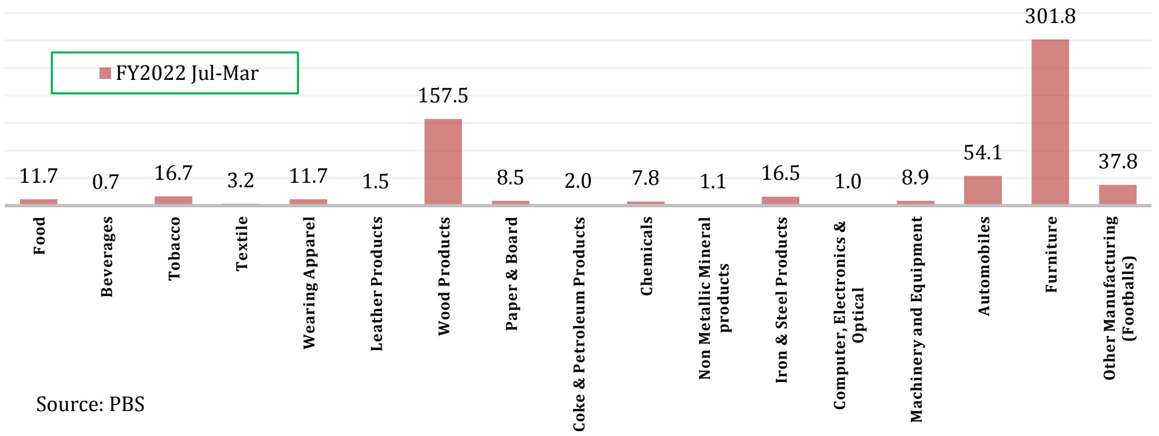
The agriculture sector recorded a growth of 4.4 percent during FY2022. The crops grew at 6.6 percent due to tremendous performance of 7.2 percent in important crops. The growth in the production of important crops: cotton, rice, sugarcane, and maize is estimated at 17.9 percent, 10.7 percent, 9.4 percent, and 19.0 percent, respectively. The cotton crop production increased to 8.3 million bales from 7.1 million bales; rice production increased from 8.4 to 9.3 million tonnes; sugarcane production increased from 81.0 million tonnes to 88.7 million tonnes; maize production increased from 8.9 million tonnes to 10.6 million tonnes. While wheat production declined by 3.9 percent from 27.5 million tonnes to 26.4 million tonnes. Other crops grew by 5.4 percent mainly because of an increase in the production of pulses (29.8 percent), vegetables & fodder (11.9 percent), oilseeds (24.7 percent), and fruits (1.3 percent). The Livestock sector is showing a growth of 3.3 percent. The growth in forestry and fishing is 3.13 percent and 0.35 percent, respectively.

During Jul-Apr FY2022, the agriculture credit disbursement declined by 1.4 percent to Rs 1058.7 billion compared to Rs 1073.5 billion last year. The fertilizers data shows that during April 2022, urea off-take was 459 thousand tonnes showing an increase of 48.4 percent while DAP off-take stood 95 thousand tonnes marked an increase of 106.3 percent over the same time frame of previous year.

2.1-b Manufacturing

LSM witnessed remarkable growth of 10.4 percent during Jul-Mar FY 2022, as compared to 4.2 percent growth in the corresponding period last year. The outstanding performance in sub-sectors of LSM is observed especially in Furniture, Wood Products, Sports, Automobile, Tobacco, and Wearing Apparel. High-weighted products also showed positive growth except for pharmaceuticals. On a YoY basis, LSM growth clocked at 26.6 percent in March 2022 against 22.5 percent in the same month last year. While it grew by 8.2 percent on MoM basis. During the period under review, 17 out of 22 subsectors of LSM have witnessed a rising trend.

Fig-3: Performance of sub-sectors of LSM (%)



Source: PBS

During Jul-Apr FY2022, Car production and sale increased by 53.1 percent and 50.9 percent, respectively, Trucks & Buses production and sale increased by 64.3 percent and 52.3 percent, and tractor production and sale increased by 13.9 percent and 11.5 percent, respectively.

In April 2022 total cement dispatches declined by 28.7 percent to 3.52 mn tonnes (4.94 mn tonnes in April 2021). Domestic consumption declined by 17.06 percent to 3.37 mn tonnes against 4.06 mn tonnes same month last year. During Jul-Apr FY2022, total cement dispatches in the country decreased by 8.2 percent to 44.3 mn tonnes (48.3 mn tonnes last year). In April 2022, oil sales clocked at 2.2 mn tonnes showing an increase of 32 percent against 1.7 mn tonnes last year. During Jul-Apr FY2022, total Oil sales increased by 17 percent to 18.5 mn tonnes (15.8 mn tonnes last year).

2.2 Inflation

CPI inflation is recorded at 13.4 percent in April 2022 as against 11.1 percent in the same month last year. On MoM basis, it increased by 1.6 percent in April 2022 as compared to an increase of 0.8 percent in March 2022 and an increase of 1.0 percent in April 2021.

During Jul-Apr FY2022, CPI was recorded at 11.04 percent, compared to 8.62 percent in the same period last year. Rising food prices were the primary driver followed by energy prices. The recent acceleration in inflation was due to supply chain disruptions, high transportation charges and surging global commodity prices.

The war between Russia and Ukraine has caused major disruptions to the supply of commodities. Both countries are major exporters of energy and agricultural products. The disruptions have exacerbated existing stress in commodity markets following an already sluggish recovery from the COVID-19 pandemic, which saw rebounding global demand and constrained supplies after 2020.

Pakistan has also been affected, as the country is a net importer of food items especially wheat, pulses and edible oil. The impact of global price movement is realized in domestic prices. However, the government made its best efforts to minimize the impact of the global increase in prices on domestic consumers.

2.3 Fiscal

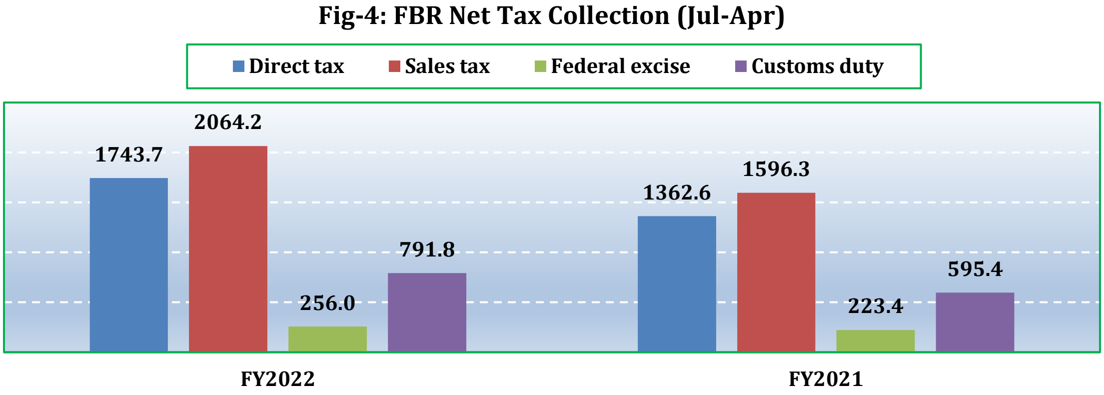
During Jul-Mar FY2022 the fiscal deficit is recorded at 3.8 percent of GDP (Rs 2,565.6 billion) as compared to 3.0 percent of GDP (Rs 1,652.0 billion) in the comparable period of last year. Similarly, the primary balance posted a deficit of Rs 447.2 billion against the surplus of Rs 451.8 billion during the period under review. [1]

Total revenues grew by 17.7 percent in July-March FY2022 against the growth of 6.5 percent recorded in the same period of last year. Higher growth in revenues has been achieved on the back of the significant rise in tax collection. Total tax collection (federal & provincial) increased by 28.1 percent whereas non-tax collection declined by 14.3 percent during the period under review. Total expenditure witnessed a sharp rise of 27.0 percent during Jul-Marc FY2022 against a 4.2 percent rise in the same period of last year. Higher growth in total expenditure during the period has been observed on account of 21.2 percent growth in current spending and 54.6 percent increase in development expenditures.

FBR Tax Collection

Net tax collection increased by 28.5 percent during Jul-Apr FY2022, reaching Rs 4,855.8 billion (provisional) compared to Rs 3,777.7 billion in the same period last year. During the first ten months of the current fiscal year, actual collection exceeded the target by Rs 237 billion. Similarly, the net collection in April 2022 was Rs 480.1 billion, up from Rs 384.0 billion in the same period last year, representing a 25 percent increase.

[1] Till date July-March fiscal data is the up to date available information



Source: FBR

Domestic tax collection grew by 27.7 percent while customs duty increased by 33 percent in Jul-Apr FY2022. Within the domestic tax collection, sales tax remained the major revenue head with 29.3 percent growth followed by direct tax at 28.0 percent and FED at 14.6 percent.

2.4 Monetary

In recent monetary policy decision held on 23rd May, 2022 the MPC decided to raise the policy rate by 150 basis points to 13.75 percent. The decision was based on account of elevated external sector pressure and the higher inflation outlook due to domestic and international factors.

In addition to policy rate increase, the interest rates on EFS and LTFF loans are also being raised. The MPC has informed that in future, these rates will be linked to the policy rate and will adjust automatically, while continuing to remain below the policy rate in order to incentivize exports.

During 1st July to 06th May, FY22 money supply (M2) witnessed a growth of 6.2 percent (Rs 1,511.3 billion) as compared to the growth of 7.5 percent (Rs 1,576.3 billion) last year. Net Foreign Assets (NFA) decreased by Rs 1,321.4 billion as compared to an increase of Rs 1,024.4 billion last year. NDA of the banking sector increased by Rs 2,832.7 billion against the expansion of Rs 552.0 billion last year.

Under the borrowing for budgetary support, the government has borrowed Rs 1,599.5 billion against the borrowing of Rs 577.0 billion last year. Private Sector has borrowed Rs 1,295.8 billion as compared to Rs 420.7 billion last year. On a Y-o-Y basis, it has shown a growth of 22.5 percent as of 06th May, FY2022.

On a positive note, credit demand increased both for fixed investment and working capital loans. Fixed investment loans witnessed a significant expansion of Rs 366.7 billion during July-April, FY2022 as compared to Rs 148.6 billion during the same period last year. Similarly, Working Capital loans observed an expansion of Rs 628.9 billion during July-April, FY2022 as compared to the expansion of Rs 77.4 billion during the same period last year.

2.5 External Sector

The Current Account posted a deficit of $ 13.8 billion for Jul-Apr FY2022 as against a deficit of $ 543 million last year. The Current account deficit widened due to the constantly growing import volume of energy and non-energy commodities, along with a rising trend in the global prices of oil, COVID-19 vaccines, food, and metals. Exports on fob grew by 27.8 percent during Jul-Apr FY2022 and reached $ 26.8 billion ($ 21.0 billion last year). Imports on fob grew by 39.0 percent during Jul-Apr FY2022 and reached $ 59.8 billion ($ 43.0 billion last year). Resultantly, the trade deficit (Jul-Apr FY2022) reached $ 32.9 billion as against $ 22.0 billion last year.

As per PBS, during Jul-Apr, FY 2022, exports increased by 25.6 percent to $ 26.2 billion ($ 20.9 billion last year). The exports grew by 30.6 percent in April 2022 to $ 2.9 billion against $ 2.2 billion last year. The major export commodities which have shown tremendous performance during the review period include Readymade garments (27.9 percent in value & 41.1 percent in quantity), Bed wear (19.0 percent in value & 13.4 percent in quantity), Cotton Yarn (22.1 percent in value and quantity declined by 13.1 percent), Cotton Cloth (7.1 percent in value & 26.8 percent in quantity), Knitwear (35.1 percent in value quantity declined by 2.6 percent), Chemical & pharma products (31.0 percent in value), leather manufactured (9.9 percent in value) and Basmati rice (22.1 percent in value & 24.3 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-Apr, FY2022 increased to $ 65.5 billion ($ 44.7 billion last year), thus posting a growth of 46.5 percent. The main commodities imported were Petroleum products ($8.5 billion), Medicinal products ($ 3.8 billion), Petroleum crude ($ 4.2 billion), Liquefied Natural gas ($ 3.7 billion), Palm Oil ($ 3.1 billion), Plastic materials ($ 2.6 billion) and Iron & Steel ($ 2.4 billion). In addition, other commodities include Textile machinery, Electrical machinery & apparatus, Power generating machinery, and raw cotton. Higher imports of these commodities also indicate growth in the related sectors.

2.5.1 Foreign Investment

In Jul-Apr, FDI reached $ 1,455.6 million ($ 1,480.0 million last year) decreased by 1.6 percent. FDI received from China was $ 355.8 million (24.4 percent of total FDI), United States $ 223.4 million (15.3 percent), Hong Kong $ 133.9 million (9.3percent), Switzerland $ 119.8 million (8.2 percent) U.A.E $ 118.2 million (8.1 percent) and Singapore $ 97.4 million (6.7 percent). Power sector attracted highest FDI of $ 528.4 million (36.3 percent of total FDI), Financial business $ 347.2 million (23.9 percent), Oil & Gas exploration $ 184.7 million (12.7 percent) & Information Technology $ 130.4 million (9.0 percent).

Foreign Private Portfolio Investment has registered a net outflow of $ 358.9 million during Jul-Apr FY2022. Foreign Public Portfolio Investment recorded a net inflow of $ 473.5 million. The total foreign portfolio investment recorded an inflow of $ 114.6 million during Jul-Apr FY2022 as against an inflow of $ 2,183.5 million last year. Total foreign investment during Jul-Apr FY2022 reached $ 1,570.2 million ($ 3,663.5 million last year).

2.5.2 Workers' Remittances

In Jul-Apr FY2022, workers' remittances reached $ 26.1 billion ($ 24.2 billion last year), increased by 7.6 percent. MoM, remittances increased by 11.2 percent in April 2022 to $ 3.1 billion compared to March ($ 2.8billionn). YoY, remittances increased by 11.9 percent to $ 3.1billion in April 2022 ($ 2.8 billion in April 2021). Workers' remittances crossed $ 3 billion first time ever. Share of remittances (Jul-Apr FY2022) from Saudi Arabia remained 25.0 percent ($ 6517.2 million), U.A.E 18.8 percent ($ 4898.0 million), U.K 14.1 percent ($ 3671.3 million), USA 9.8 percent ($ 2556.9 million), other GCC countries 11.6 percent ($ 3024.4 million), EU 10.7 percent ($ 2803.0 million), Malaysia 0.5 percent ($ 121.1million), and other countries 9.5 percent.

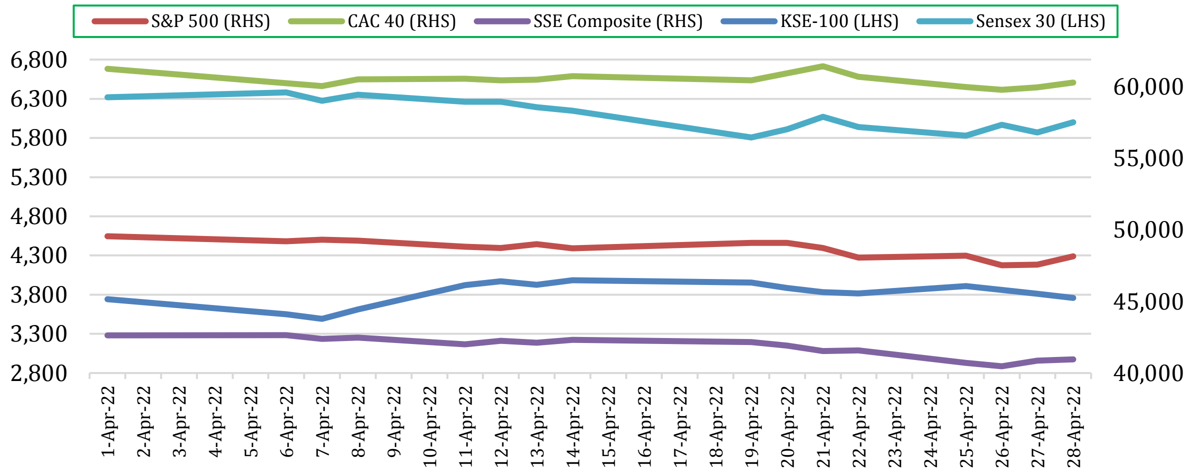
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves stood at $ 16.1 billion on May 19, 2022, with the SBP's reserves recorded at $ 10.0 billion, while commercial banks' reserves remained at $ 6.1 billion.

2.6 Performance of KSE Index

The KSE-100 index closed at 45,249 points as of 28th April 2022 while market capitalization settled at Rs 7,520 billion. The trend of major world indices is depicted in Fig-5:

Fig-5: Major World Indices



Source: PSX, Investing.com

2.7 Social Sector

- PPAF through its 24 Partner Organizations has disbursed 43,521 interest free loans amounting to Rs 1.7 billion during the month of April 2022. Since inception of interest free loan component, a total of 1,848,485 interest free loans amounting to Rs 66.56 billion have been disbursed to the borrowers.
- Bureau of Emigration and Overseas Employment has registered 63,352 emigrants during April, 2022 for overseas employment in different countries.
- Under Kamyab Jawan Youth Entrepreneurship Scheme (PMKJ-YES) the government has disbursed Rs 41,089 million till March 2022 to the youth for businesses.
- On May 11, 2022, the world Food program in consultation with Benazir Income Support Programme organized a two-day National Consultation Dialogue in Islamabad on School meals. The forum discussed importance of such meals in fulfilling the nutritional requirement of kids and emphasized the need for preparation and implementation of policies for provision of school meals to children in public and private schools.

Economic Outlook

The domestic and international scenarios are changing which carries implications for the economic activities. Meanwhile, inflationary and external sectors pressures are creating macroeconomic imbalances in the economy.

3.1 Inflation

Inflation in Pakistan is driven by both external and internal factors. International commodity prices, especially oil and food prices are the main external sources of inflation. In recent months international commodity prices accelerated. Since January 2022, the

MoM increase of international oil prices was on average nearly 10 percent per month. The international food price index registered average MoM increase by nearly 6 percent per month. These developments originated from post-COVID supply chain disruptions which were recently exacerbated by renewed Chinese lockdowns. The international commodity prices witnessed upward trend as a consequence of Russia Ukraine conflict. But in the current circumstances the USD strengthened against many countries, including the Pakistani Rupee. These cost push external inflation impulses not only increase domestic prices but also have longer term second round effects. It is commonly accepted that such second round effects are combated with restrictive fiscal and monetary policies.

Since January 2022, the average MoM increase in Pakistan's inflation was 1 percent per month. These MoM increases feed into the frequently used YoY inflation measure, which also depends on the base effect. These base effects are given, implying that the main lever to reduce the YoY inflation is to limit MoM increases in the CPI. In fact, bringing YoY inflation down below 10 percent in the very short run would require consecutive monthly reductions in the CPI index. For May 2022, the YoY inflation rate is expected to remain between 12.5 and 13.8 percent.

3.2 Agriculture

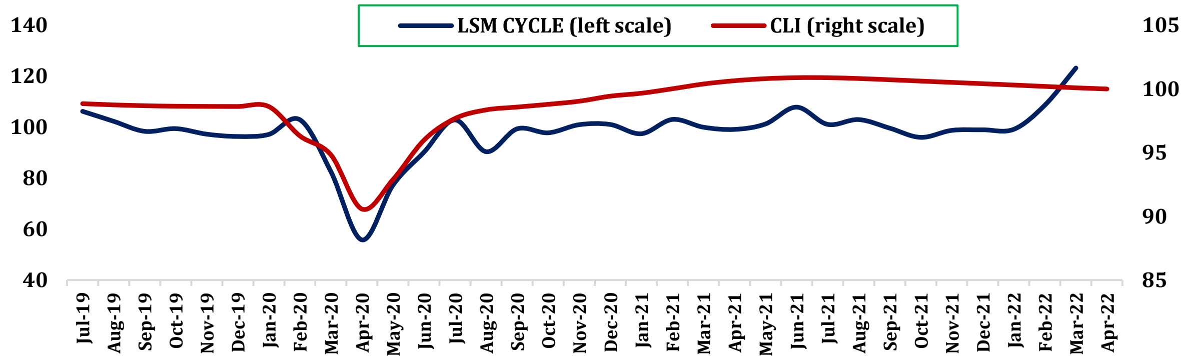
The sowing of Kharif 2022 crops in under progress in the country. Sufficient inputs are available to the farmers. Favorable weather and climatic condition are the pre-requisites for the better crops output.

3.3 Industrial Activities

Industrial activity, measured by the LSM index (rebased on prices of 2015-16) is the sector which is most exposed to external conditions. Its exposure to developments in international markets is illustrated in Fig-6 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. Nevertheless, the performance of the LSM in March was much stronger than expected. However, April may show a correction. Furthermore, historically, the month of April shows strong negative seasonal effects in LSM output, which may impact LSM performance in April 2022.

Fig-6: Relationship between CLI and LSMI Cycle

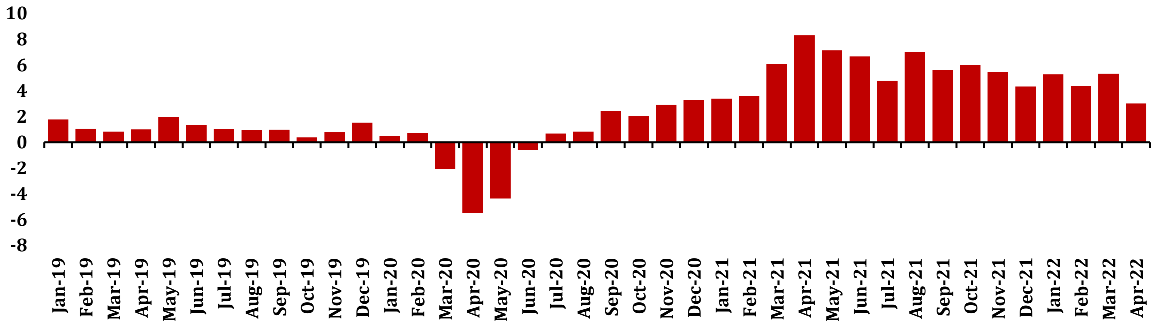


3.4 Overall economic activity

The Monthly Economic Indicator (MEI) is developed as a tool to distribute the past annual GDP numbers, as reported by the PBS, on a monthly/quarterly basis and to nowcast on that same frequency GDP growth for the FY in which the National Accounts are not yet available. It is based on combining monthly data of indicators that are proven to be correlated with GDP at constant prices. Fig-7 presents the MEI on monthly basis since January 2019. It should be noted that some of the data underlying the April MEI are still provisional and may be revised next month.

Due to the unexpected strong increase in LSM in March, the MEI for that month was revised upwards. But this could be compensated by a correction in April. The weighted average cyclical positions in Pakistan's main export areas are now back to neutral. But continuing geo-political tensions, high commodity prices and increases in interest rates may slow down economic growth prospects in those countries. Further, monetary tightening in Pakistan intended to curb import growth and inflation may impede economic growth.

Fig-7: Monthly Economic Indicator (MEI) Growth (percent)



Source: EA Wing's Calculations

3.5 External

According to BOP data, the share of exports of goods and services in total domestic activity demonstrates a positive trend. This is backed by positive economic growth in Pakistan's main export markets, which are still recovering from the COVID induced economic lockdowns. Additionally, the Real Effective Exchange Rate stabilized at historically lower levels since mid-2021. This implies that Pakistan's inflation differential has been largely compensated by nominal depreciation of the Rupee exchange rate.

Since mid-2021, the share of imports of goods and services in total domestic activity has stabilized at historically high levels. The upward shift in international commodity prices and international inflation in general, played a major role in this development.

For the coming months, it is expected that the import content of domestic growth would subside somewhat, backed by restrictions on unnecessary imports. Furthermore, a slower potential economic growth in the coming months may contain the import bill. On the revenue side, assuming a constant REER, the export content could stabilize at around current levels. These projections imply an improvement in the balance of trade in goods and services.

Though the remittances surged in April due to the Eid factor they may return to normal trend in the coming months. Taking into account all other secondary and primary income payments and receipts, the current account deficit is expected to stay well below the 1.0 billion USD mark in the coming months.

3.6 Fiscal

The fiscal deficit in the first nine months has increased to 3.8 percent of GDP against 3.0 percent recorded in the same period last year. An increase in deficit has been observed on account of the higher expenditures due to the rise in subsidies and grants. It is expected that the expenditure side would come under further pressure in the remaining months of the current fiscal year.

On the revenue side, tax collection currently showing a remarkable performance by posting a growth of 29 percent during the first ten months of the current fiscal year. The first ten months' data shows that the revenue collection has surpassed the target by Rs.237 billion. This is despite tax relief measures which have impacted revenue collection by approximately Rs 73 billion just in the month of April 2022.

FBR has taken various policy and administrative measures which paid off in terms of improved tax collection during the current fiscal year. It is expected that with the current growth momentum, FBR would be able to achieve its target during FY2022.

4. Way Forward

Pakistan is currently facing several severe challenges: accelerating inflation, high external deficits, exchange rate depreciation, declining foreign exchange reserves and mounting uncertainty. On the other hand, economic growth remains relatively high, but in the presence of macroeconomic imbalances may not be sustainable.

The primary contributors of increasing inflation are the surge in international commodity prices and the massive exchange rate depreciation. In fact, the depreciation of the rupee both against the USD and on a trade weighted basis against the currencies of Pakistan's main trading partners is primarily reflection of inflation differential between Pakistan and its main trading partners. Further relatively high domestic inflation is compensated by Rupee depreciation. However, currency depreciation itself feeds into higher domestic inflation. In this sense, Pakistan is caught into a vicious inflation/currency depreciation spiral. In the short run a predicament to stop this cycle is to pursue restrictive fiscal and monetary policies, coupled with policies and announcements that restore market agent's confidence.

In the longer run, Pakistan's main problems can be solved by designing a credible sustainable future economic trajectory that inspires consumers and investors' confidence. Economic decisions are based on expectations about the future economic path as well as on the degree of certainty/confidence of development prospects. An important component of such process is supply oriented policies. Pakistan's propensity to invest is much lower compared to high growing emerging market and developing countries. Accelerating the share of Gross Fixed Capital Formation in GDP would create additional production capacity to meet the increasing demand of consumers and producers. Such supply-oriented framework designed to reallocate the use of national income from consumption to investment expenditures, may be accompanied by suitable demand management policies.

Economic Indicators
(28-05-2022)

	2020-21 (Jul-Apr)	2021-22 (Jul-Apr)	percent Change
External Sector			
Remittances ($ billion)	**24.2**	**26.1**	**↑7.6**
Exports FOB ($ billion)	**21.0**	**26.9**	**↑27.8**
Imports FOB ($ billion)	**43.0**	**59.8**	**↑39.0**
Current Account Deficit ($ billion)	**0.5**	**13.8**	**↑**
FDI ($ million)	**1480.0**	**1455.6**	**↓1.6**
Portfolio Investment-Public ($ million)	**2463.1**	**473.5**	**↓**
Total Foreign Investment ($ million) (FDI & Portfolio Investment)	**3663.5**	**1570.2**	**↓57.1**
Forex Reserves ($ billion)	**23.020** **(SBP: 15.883)** **(Banks: 7.137)** (On 25th May 2021)	**16.108** **(SBP: 10.028)** **(Banks: 6.080)** (On 25th May 2022)	
Exchange rate (PKR/US$**)**	**154.38** (On 25th May 2021)	**201.92** (On 25th May 2022)	

Source: SBP

	2020-21 (Jul-Mar)	2021-22 (Jul-Mar)	percent Change
Fiscal			**(Rs Billion)**
FBR Revenue (Jul-Apr)	**3777.7**	**4855.8**	**↑28.5**
Non-Tax Revenue (Federal)	**1166**	**983**	**↓15.7**
PSDP (Authorization) (Jul-Apr)	**565.6**	**603.3**	**↑6.7**
Fiscal Deficit % of GDP	**1652** 3.0	**2566** 3.8	**↑**
Primary Balance % of GDP	**452** 0.8	**(447)** (0.7)	**↓**

Source: FBR & Budget Wing

	2020-21 (Jul-Apr)	2021-22 (Jul-Apr)	percent Change
Monetary Sector			
Agriculture Credit (provisional)	**1073.5**	**1058.7**	**↓1.4**
Credit to private sector (Flows)	**420.7** (1st Jul to 14th May)	**1345.2** (1st Jul to 13th May)	↑
Growth in M2 (percent)	**7.5** (1st Jul to 14th May)	**6.2** (1st Jul to 13th May)	
Policy Rate (percent)	**7.00** (19-Mar-2021)	**13.75** (23-May-2022)	

Source: SBP

	2020-21	2021-22	percent Change
Inflation			
CPI (National) (percent)	**11.1** (Apr)	**13.4** (Apr)	
	8.6 (Jul-Apr)	**11.0** (Jul-Apr)	
Real Sector			
Large Scale Manufacturing (LSM) (percent)	**22.5** (Mar)	**26.6** (Mar)	
	4.2 (Jul-Mar)	**10.4** (Jul-Mar)	
PSX Index*	**47801** (On 1st Jul 2021)	**42013** (On 25th May 2022)	**↓12.11**
Market Capitalization (Rs trillion)	**8.38** (On 1st Jul 2021)	**7.00** (On 25th May 2022)	**↓16.47**
Market Capitalization ($ billion)	**53.22** (On 1st Jul 2021)	**34.67** (On 25th May 2022)	**↓34.86**
Incorporation of Companies (Jul-Apr)	**21438**	**22277**	**↑3.91**

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP