



Monthly Economic Update & Outlook March 2021

Government of Pakistan
Finance Division
Economic Adviser's Wing



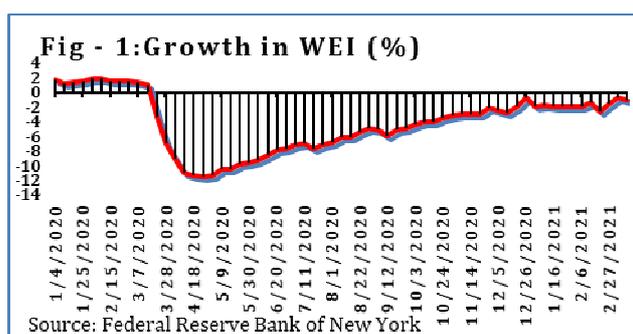
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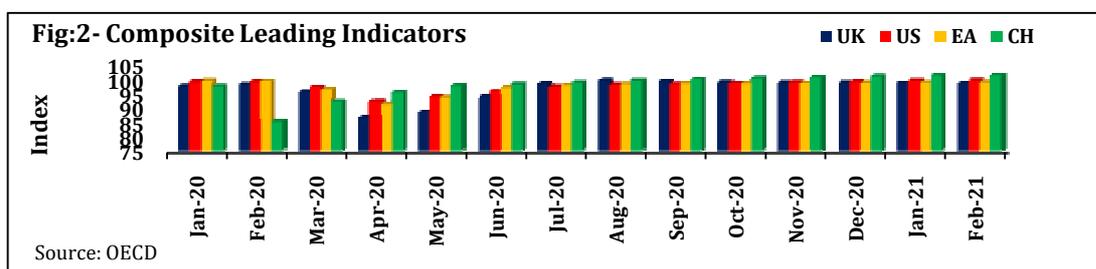
1. International Performance and Outlook

The world is facing a third wave of COVID 19. Though the worldwide vaccination is underway, there is need to speed up the vaccine rollout as the virus still affecting the economies and the livelihood of people around the world. Among the top 10 countries which reported the highest number of daily new COVID-19 cases in Mar 2021, as many as six were from Europe. UK variant of the virus caused the third wave of the virus in most cities of Pakistan. Thus putting downside risks to economic recovery due to increase in number of daily cases. To contain the adverse impact, the second phase of the COVID vaccination campaign began with senior citizens over 65 years receiving their first dose of the Sinopharm vaccine.

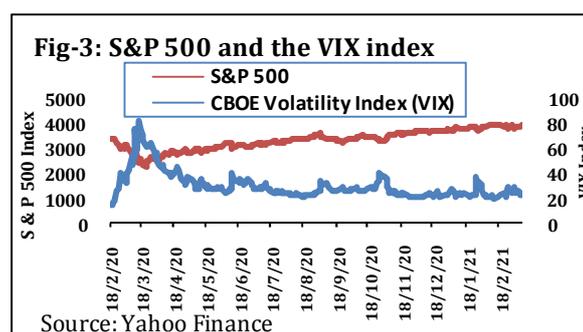
The Weekly Economic Index (WEI) of the Federal Reserve Bank of New York observed a slighter upward trend during the initial week of Mar 2021 compared to February. US economic recovery stalled based on WEI negative average of 1.8 percent during the first two months of 2021 showing dampen economic recovery, (Fig - 1).



The monthly Composite Leading Indicators (CLI), compiled by OECD are available till Feb 2021. In Fig - 2, it has been shown that the CLI of Pakistan's major export markets remained cyclical but is stabilizing in recent months, however, China is in a better position compared to the same period last year.



In US, the outlook for economy has brightened quickly as vaccine rollout has picked up steam and the Biden administration pushed for and enacted a larger stimulus plan than many had expected. The S&P 500 reached a record high of 3939.34 points on March 12th and CBOE Volatility Index (VIX) was down to 21.91. (Fig - 3)



Global economic growth accelerated in Feb 2021 according to the worldwide Purchasing Managers' Indices (PMIs) surveys conducted by Information Handling Services (IHS) Markit. PMIs are forward-looking indicators meant to signal the direction and health of the global economic activity. A reading above 50 indicates growing activity. Global PMI remained at 53.2 in Feb 2021 up from 52.3 in Jan 2021. The upturn was led by manufacturing activities as further efforts to contain the COVID-19 pandemic continued to limit service sector growth, notably for consumer services. Whereas growth had slowed in three months from January, primarily reflecting the re-introduction of measures to control further

outbreaks of the virus in many countries; however, February saw restrictions ease on average.

Signs of inflationary pressure are building, a key global gauge of companies' input cost inflation rose to its highest for over 12 years in February, feeding through to the largest increase in average selling prices for goods and services for over a decade. Global commodity prices continued to surge in February, with energy commodities jumping 14.3 percent and non-energy commodities rising 2.5 percent. In January, these groups rose to 10.1 and 4.6 percent, respectively. Among the major subgroups, agriculture increased (1.1 percent), metals and minerals (3.6 percent) and fertilizers (20.6 percent).

2. Monthly Performance of Pakistan's Economy

The key economic indicators are showing better performance.

2.1 Real Sector

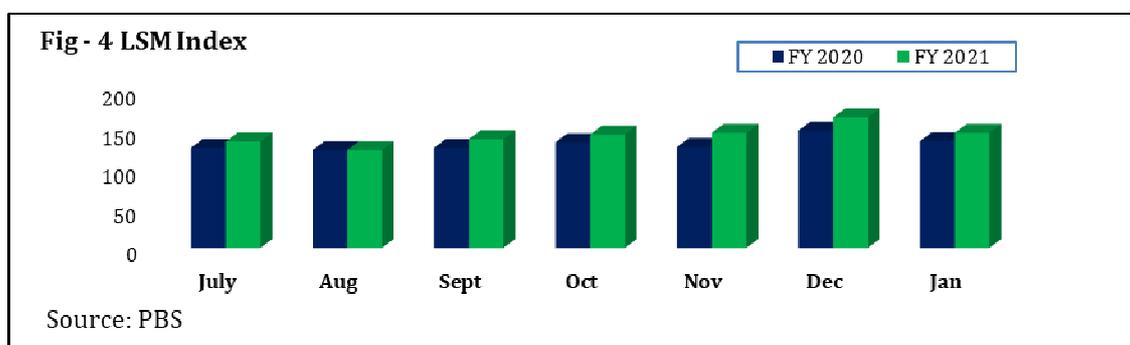
2.1-a Agriculture

According to SUPARCO, the wheat crop is at different growth stages from maturity to vegetative growth phase based on the cropping season gradient from South to North. By the end of February, fewer rains and higher temperature have caused some stress to wheat crop especially in rainfed areas. Weather conditions during March will be crucial for the achievement of final crop production. In irrigated areas, crop condition was by and large satisfactory. The projection of wheat crop production is better as compared to last year crop.

On the input side, the situation remained favorable. According to Pakistan Automotive and Manufacturing Association (PAMA), during FY2021 (Jul-Feb) farm tractors production rose to 31,199 from 20,408 showing an increase of 52.9 percent while its sales also witnessed an increase of 52.6 percent compared to the same period last year. According to IRSA, the irrigation water supply during Feb 2021 was 4.64 MAF, higher by 1.1 percent, against the last year's supply of 4.58 MAF. The latest data for fertilizers reveals that during Rabi season 2020-21 (Oct-Jan), urea off-take was 2,475 thousand tonnes which increased by 17.4 percent while DAP off-take was 873 thousand tonnes which decreased by 4.3 percent over the same time frame of last Rabi 2019-20.

2.1-b Manufacturing

LSM has surpassed its pre-COVID level of production in Jan FY 2021, witnessing 9.1 percent growth on YoY basis (-5.7 percent in Jan FY 2020) while on MoM basis, LSM increased by 5.4 percent in Jan FY 2021 (13.5 percent in Dec FY 2021). During Jul-Jan FY 2021, LSM grew by 7.9 percent (-3.2 percent last year).

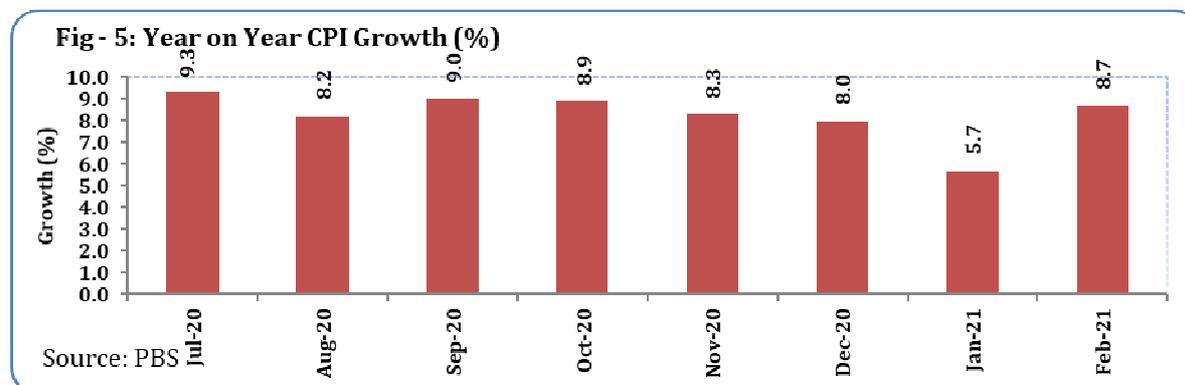


In Jan FY 2021, on MoM basis, 9 out of 15 subsectors have posted positive growth. Textile, Food Beverages & Tobacco, Non-Metallic Mineral Products, Automobile & Engineering Products grew by 0.25, 21.2, 3.50, 7.01 and 6.5 percent, respectively. Car production and sale increased by 8.3 and 19.6 percent respectively during Jul-Feb FY

2021 while Jeeps' production and sale increased by 118.0 and 133.8 percent respectively.

2.2 Inflation

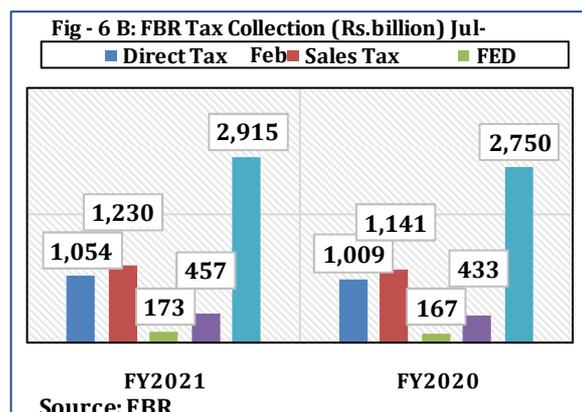
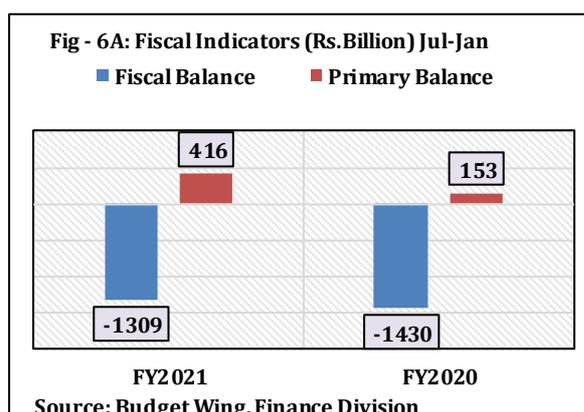
Consumer Price Index (CPI) has recorded an increase of 8.7 percent on YoY basis in Feb 2021 as compared to 12.4 percent in Feb 2020.



National CPI has averaged 8.3 percent during the Jul-Feb period (Urban 7.2 percent and Rural 9.9 percent) as against 11.7 percent (Urban 11.3 percent and Rural 12.3 percent) during the same period last year. International commodity prices are recently on a rising trend, especially oil prices and food prices, however, the government has not transferred burden of increase in petrol price on general public.

2.3. Fiscal

First, seven months of FY2021 have witnessed considerable improvement in fiscal indicators. Substantial increase in net federal revenue receipts and effective management of expenditures helped in containing the fiscal deficit at 2.9 percent of GDP during Jul-Jan, FY2021 (-3.2 percent last year). The primary balance continues to remain in surplus and increased by 0.9 percent of GDP to reach Rs 416 billion in Jul-Jan, FY2021 (Rs 153 billion, 0.3 percent of GDP last year, (Fig - 6A).



During Jul-Jan, FY2021, net federal revenues grew by 12.3 percent to Rs 2023 billion (Rs 1801 billion last year). On the expenditure side, total expenditures increased by 0.2 percent to Rs 3665 billion during Jul-Jan, FY2021 (Rs 3658 billion last year). Within the total, current expenditures grew by 3.2 percent to Rs 3401 billion in Jul-Jan, FY2021 (Rs 3297 billion last year).

FBR Tax Collection

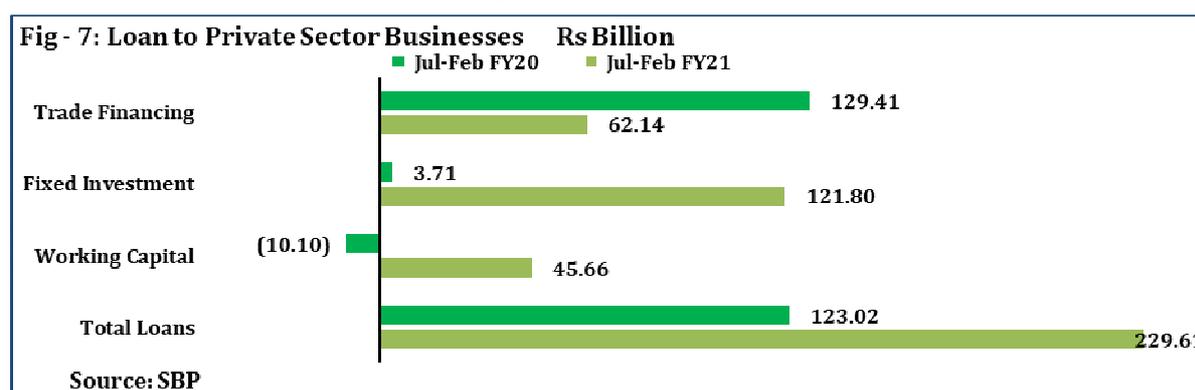
FBR tax collection continues to improve. During Jul-Feb, FY2021, provisional tax collection witnessed a 6.0 percent growth to stand at Rs 2915 billion (Rs 2750 billion

last year). The provisional net collection surpassed the target by Rs 17 billion during the period under review. For the month of February, the net collection increased by 5.9 percent to Rs 343 billion (Rs 324 billion last year). Within the total, domestic tax collection stood at Rs 2458 billion in Jul-Feb, FY2021 (Rs 2317 billion last year), thus showing an increase of 6.1 percent, (Fig – 6B).

2.4. Monetary

During 1st July – 5th March, FY2021 Money Supply (M2) observed an expansion of Rs 962.4 billion (Rs 946.9 billion last year). Within Money Supply, Net Foreign Assets (NFA) of the banking system increased by Rs 597.3 billion (Rs 1,152.6 billion last year). Whereas, Net Domestic Assets (NDA) witnessed the expansion of Rs 365.1 billion (a contraction of Rs 205.7 billion last year). Private sector credit increased by Rs 365.9 billion against Rs 244.9 billion last year.

Within loans to private sector business, significant demand for fixed investment during the period Jul-Feb, FY2021 primarily due to accommodative policy environment, the impact of SBP refinance schemes and relief packages, improved business confidence and substantial growth in LSM. Under fixed investment loans, the manufacturing of food products and textile have increased their borrowing compared to last year. Working capital loans also witnessed positive momentum, shows a continuation of economic recovery and fall in inventories, (Fig – 7).



2.5 External Sector

The Current Account posted a surplus of \$ 0.9 billion (0.5 percent of GDP) for Jul-Feb FY2021.

As per PBS, exports during Jul-Feb FY 2021 increased by 4.4 percent to \$ 16.3 billion (\$ 15.6 billion last year). The textile sector exports increased by 6.7 percent over the last year. Value added exports increased by 11.4 percent. The decrease in quantities of value-added exports was compensated by higher unit price. The total imports in Jul-Feb FY2021 increased to \$ 33.9 billion (\$ 31.5 billion last year), thus grew by 7.7 percent. The import of Petroleum group decreased by 21.7 percent while import of petroleum crude decreased by 24.3 percent in value and increased by 13.8 percent in quantity. Import of petroleum product increased by 27.7 percent (quantity) and decreased by 20.7 percent (value). The food group import jumped by 50.3 percent during Jul-Feb FY2021 and it reached to \$ 5.3 billion (\$3.6 billion last year) due to import of wheat and sugar allowed by the government to bridge the shortages in local markets.

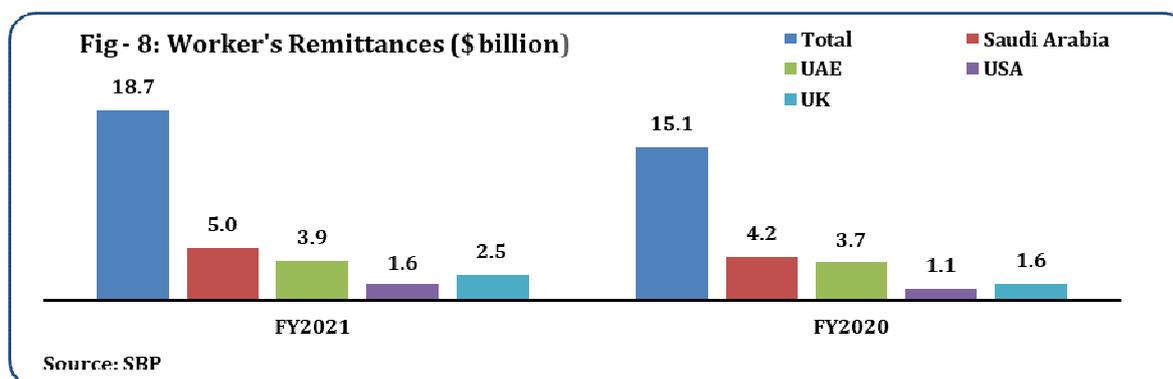
2.5.1 Foreign Investment

In Jul-Feb FY2021, FDI recorded at \$ 1,300.4 million (\$ 1,854.5 million last year) while total foreign portfolio investment registered an outflow of \$ 388.5 million during Jul-Feb FY2021. Countries with major inflows in FDI are from China (\$ 800 million), Neither

land (\$179 million) and Hong Kong (\$ 122 million).

2.5.2 Worker's Remittances

In Jul-Feb FY2021, remittances rose to \$ 18.7 billion (\$ 15.1 billion last year), with a growth of 24.1 percent. On YoY basis, remittances recorded \$2.3 billion in Feb 2021 showing an increase of 24.2 percent (\$ 1.8 billion in Feb 2020). Workers' remittances remained above \$ 2.0 billion for **nine** consecutive months in Feb 2021. The major destinations of remittance are Saudi Arabia, U.A.E, USA and U.K, which are given below in the graph (Fig - 8).

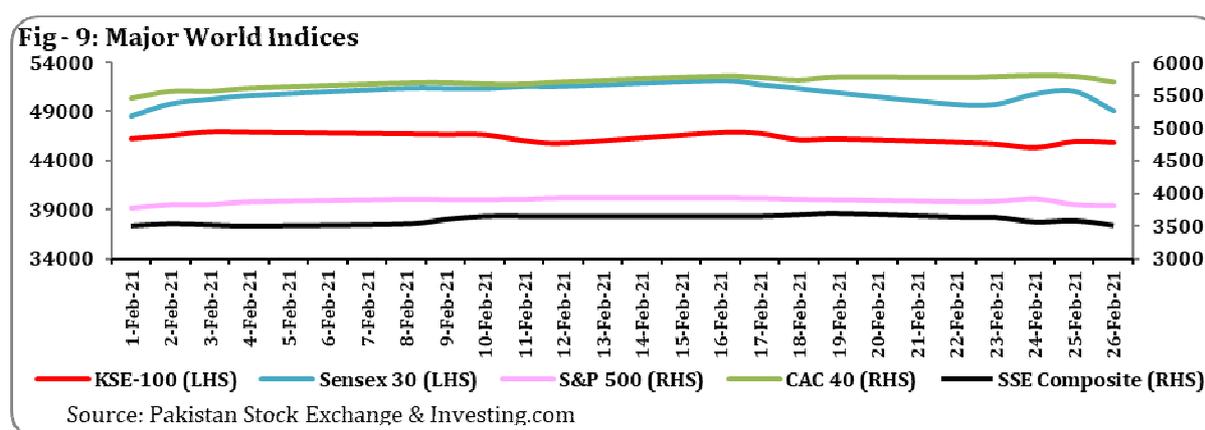


2.5.4 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to \$20.1 billion by the end of Feb 2021. The breakup of reserves accumulation shows that the State Bank of Pakistan's reserves stood at \$12.9 billion (\$ 12.7 billion last year) and \$7.2 billion (\$ 6.1 billion last year) in commercial banks' reserves.

2.6 Performance of KSE Index

KSE-100 index hovered around 46,000 and closed at 45,865 points on 26th Feb 2021 – shedding 520 points in Feb 2021. Market capitalization lost Rs191 billion in the month and settled at Rs 8,207 billion on 26th Feb 2021. The trend of major world indices is depicted in Fig - 9.



Box Item: National Vaccination Plan for COVID-19

With the emergence of Pandemic, global efforts were made to develop a safe and efficacious vaccine. However, due to the risk of uncertainty, reassurances to the vaccine manufacturers were provided to produce best possible vaccine to combat the disease. In this regard COVAX FACILITY was constituted, co-led by Coalition for Epidemic Preparedness Innovations (CEPI), Gavi and WHO. This facility is supporting the research, development, manufacturing and

negotiation of fair pricing for a wide range of COVID-19 vaccine candidates. COVAX will ensure all participating countries, regardless of income levels, will have equal access to these vaccines once they are developed and available. The aim is to have 2 billion doses of vaccine available by the end of 2021.

As of Feb 2021, 66 vaccine candidates are in clinical research, including 17 in Phase I trials, 23 in Phase I-II trials, 6 in Phase II trials, and 20 in Phase III trials. In Phase III trials, COVID-19 vaccines demonstrate efficacy as high as 95% in preventing COVID-19 infections.

Top Manufacturers of COVID-19 Vaccine				
Name	AstraZeneca	Pfizer	Sinopharm	Moderna
Origin	UK	USA	China	USA
Clinical Trials	Phase III (62-90%)	Phase III (95%)	Phase III (78%)	Phase III (94.5%)
Storage	2-8°C	-70°C	2-8°C	-20°C
Production Capacity	3 billion in 2021	1 billion in 2021	1 billion in 2021	1 billion in 2021
Production Time	Q2 2021	Q1 2021	Q1 2021	Q2 2021
Dose	2 doses (28 days)	2 doses (21 days)	2 doses (21 days)	2 doses (28 days)
Source: M/o National Health Services, Regulation & Coordination				

The third wave of COVID-19 spell in Pakistan has raised the daily cases to around 3500 with 2.2 percent death rate. In response, the government has started 'smart lockdown' strategy to ensure the public to observe SOPs strictly.

The ongoing pandemic has a significant impact on Pakistan's health delivery system including immunization services. However, the concerted efforts under the NCOC leadership minimized the damage and set example for better coordination and implementation. The planning for formulating a detailed plan of action for introducing the vaccine in Pakistan was initiated by the NCOC.

ECC has recently approved a proposal submitted by the M/o NHS&R for the provision of technical supplementary grant of US\$ 150 million for the purchase of COVID-19 vaccine.

As a pre-requisite for introducing Covid-19 vaccine in Pakistan, NCOC constituted Expert committee on vaccines and immunization, which will guide the M/o NHR&C on the target population that would be prioritized for vaccination (in phases) and vaccine characteristic to be preferred for use in Pakistan. Besides this committee, a National Vaccine Task Force (VTF) has been also formed with a wider participation of all local stakeholders and vaccine experts to take timely decision and oversee the preparation process of vaccine deployment.

The country vaccinated its frontline workforce as priority in the first phase. Frontline Healthcare Workers (FLHCWs) include Medical Staff of (public and private) hospitals, laboratories and vaccinators involved in COVID-19 vaccine supply chain management. From 2nd March 2021, second phase has been started to vaccinate citizens with age more than 65 years and the common public will receive the vaccine in the third stage.

2.7 Social Sector

- The government is committed to lift seven million underprivileged women out of abject poverty by providing financial assistance under its Ehsaas Kafaalat programme by Jun, 2021 to financially empower disadvantaged women and girls.
- The government has formally inaugurated the Ehsaas Mobile Langar programme under the slogan 'No one Sleeps Hungry'. Under this programme, laborers and deserving people on roads will be provided food through mobile trucks. Initially, the programme has been started in Islamabad and Rawalpindi and it will be expanded in other cities in

the next phase.

- In order to protect the poor people from inflation and price-hike, the government will initiate a revolutionary programme of providing direct subsidy to 30 million families – around half of the country’s population from Jun, 2021.
- The government has decided to inject Rs 5 billion to upscale the Ehsaas Interest- Free Loan (IFL) programme which will further boost expansion of the programme across lagging of 28 new districts which were not included in the first phase.
- Under the National Poverty Graduation Program, 42,400 livelihood productive assets have been transferred to the ultra-poor till 28th Feb 2021; while, during the month of February, 4,588 livelihood assets were distributed out of which over 95 percent assets have been transferred to the women.
- PPAF through its 24 Partner Organizations has disbursed 39, 783 interest-free loans amounting to Rs 1.23 billion during the month of Feb 2021. From Nov 2017 till 28th Feb 2021 a total of 1,231,517 interest-free loans amounting to Rs 43.2 billion have been disbursed to the borrowers (45 percent Women).
- Under the Kamyab Jawan Youth Entrepreneurship Scheme, Rs 4,343 million has been disbursed till Jan, 2021 to the youth for various businesses.
- Bureau of Emigration and Overseas Employment has registered 31,027 emigrants during Feb, 2021 for overseas employment in different countries.
- Bureau of Emigration & Overseas Employment ensured payment of more than Rs 57 million as death/disability compensation to the overseas Pakistanis/their dependents during Feb, 2021.
- 1,043 Foreign Exchange Remittances Cards (FERC) of five categories (Silver, Silver Plus, Gold, Gold Plus, Platinum) against foreign remittances of US\$ 43,754,224/- have been issued to overseas Pakistanis till Feb 2021.
- There is third wave of COVID-19. Till 17th Mar 2021, 612315 confirmed cases with 575867 recoveries and 13656 deaths recorded in the country. Sindh has recorded the most 261823 cases, Punjab 189362, Khyber Pakhtunkhwa 76819 and Balochistan 19247. Based on reported cases, the mortality rate is approximately 2.2 percent.
- The government is taking steps to close all shopping malls, markets and marriage halls within allocated time slots following the prescribed SOPs.
- Tele-school and Radio School are providing nation-wide services for education.
- Ministry of Federal Education & Professional Training (FE & PT) is continuing its efforts to review and sharpen the Single National Curriculum (SNC) to implement in different grades. In this regard, symposiums on SNC are being held nation-wide.

3. Economic Outlook

Prospects of economic growth are showing visible signs of improvement, however, the third wave of the pandemic is posing some downward risks.

3.1 Inflation

Recent developments in inflation show that the declining trend observed in recent months was interrupted in February. Thus both YoY and MoM inflation increased. Recently, the Government implemented policy measures to improve the functioning of some segments of food market and to re-enforce the supply chain of particular food products. These interventions contribute to contain inflationary pressure in those markets. These measures have dampened the direct impact and the expected second round effects on other CPI components. On the other hand, international commodity prices are recently on a rising trend. In the last four months, oil prices and international food prices have been rising continuously. From Feb till Apr 2020, international commodity prices were declining and during that period, the CPI level actually declined.

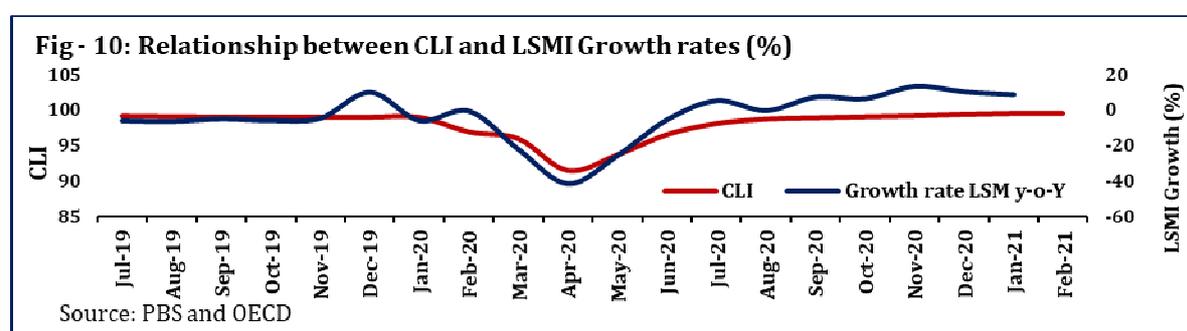
This low base effect may temporarily push YoY inflation higher in the next few months. However, the government measures to ensure smooth supply especially through Ramzan Package will ease out inflationary pressures. For next month it is expected to remain between 7.9 and 9.5 percent.

3.2 Agriculture

The downside risk to cotton production will hamper targeted growth in agriculture sector.

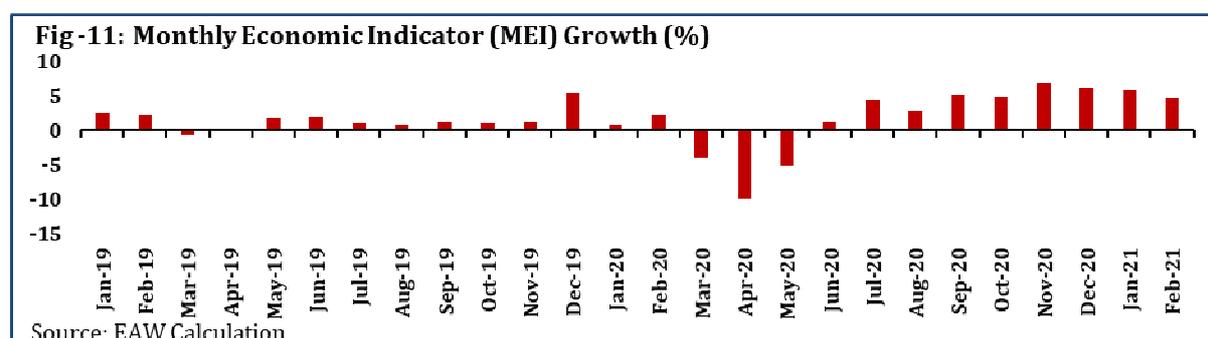
3.3 Industrial activity

YoY growth rate of LSM remained positive since Jul 2020. The growth of industrial activity is in line with the strong cyclical recovery observed in Pakistan’s main trading partners. It is expected that this recovery will continue in the coming months, providing the absence of a new upsurge of COVID-19 that may require restrictions on economic activity.



3.4 Overall economic activity

Monthly Economic Indicator (MEI) is based on combining monthly data of indicators that are proven to be correlated with GDP at constant prices. Fig – 11 presents the MEI on monthly basis since Jan 2019. It should be noted that some of the data underlying the February MEI are still provisional and may be revised next month. But based on available data, the MEI shows consistent growth in February. With downward risk of third wave, if MEI flatten out in coming months, economic growth in the current FY is expected to surpass its target.



3.5. External

During Jul-Feb FY 2021, exports of goods and services, as compiled in the Balance of Payments reached 19.9 billion USD as compared to 20.3 billion in the same period of last year. Likewise imports of goods and services reached 37.3 billion this year against 35.7 billion last year, which represents an increase of 4.5 percent. However, in Feb 2021, 3.2 percent growth was seen on YoY basis. Exports are expected to increase following export-oriented Government policies, while imports are also expected to

increase further on the back of recovery of the domestic economy, recent increases in international commodity prices and imports of food items to stabilize domestic food markets. Thus, trade balance is expected to slightly deteriorate but expected strong inflows of remittances will be able to cover the trade deficit.

3.6. Fiscal

The fiscal performance from Jul-Jan, FY2021 shows that the fiscal consolidation policy helped in preserving fiscal discipline, increasing revenues, and controlling expenditures. On the revenue side, the FBR tax collection continues to improve, having exceeded the eight-month target by Rs 17 billion. Eight months performance indicates that it will remain on track and the current fiscal year would end up meeting the set target. However, the increase in COVID infection and related containment measures may pose certain challenges, especially the expenditure side may come under pressure.

4. Way Forward

The expectations of economic recovery are strengthening on the basis of improvement in business confidence evident from industrial growth. The government's fiscal stimulus thus succeeded in improving economic as well as social prospects. Therefore, the State Bank of Pakistan in its recent Monetary Policy Statement is now projecting higher growth in FY 2021 compared to its previous anticipation. As the third wave of pandemic is posing downside risk, the government timely measures combined with the observance of SoPs by the general public will be helpful in continuation of economic recovery along with decelerating inflationary pressure and preserving external balance.

Economic Indicators

(22-03-2021)

	2019-20 (Jul-Feb)	2020-21 (Jul-Feb)	% Change
External Sector			
Remittances (\$ billion)	15.1	18.7	↑ 24.1
Exports FOB (\$ billion)	16.4	16.1	↓ 2.3
Imports FOB (\$ billion)	29.6	32.1	↑ 8.6
Current Account Balance (\$ billion)	-2.7	0.9	↑
Current Account Balance (% of GDP)	-1.5	0.5	↑
FDI (\$ million)	1,854.5	1,300.4	↓ 29.9
Portfolio Investment-Public (\$ million)	2,161.1	-132.2	↓
Total Foreign Investment (\$ million) (FDI & Portfolio Investment)	3,989.3	911.9	↓ 77.1
	18.269	20.310	
Forex Reserves (\$ billion)	(SBP: 12.219) (Banks: 6.050) (On 18 th Mar 2020)	(SBP: 13.185) (Banks: 7.125) (On 18 th Mar 2021)	
Exchange rate (PKR/US\$)	158.52 (On 18 th Mar 2020)	155.45 (On 18 th Mar 2021)	

Source: SBP

	2019-20 (Jul-Jan)	2020-21 (Jul-Jan)	% Change
Fiscal			
			(Rs Billion)
FBR Revenue (Jul-Jan)	2,750	2,915	↑ 6.0
Non-Tax Revenue (Consolidated)	957	941	↓ 1.7
PSDP (Authorization)	465.3 (1 st Jul to 13 th Mar)	479.2 (1 st Jul to 5 th Mar)	↑ 3.0
Fiscal Deficit	1,430	1,309	↓
Primary Balance	153	416	↑

Source: FBR & Budget Wing

	2019-20 (Jul-Feb)	2020-21 (Jul-Feb)	% Change
Monetary Sector			
Agriculture Credit (provisional)	783.8	806.4	↑2.9
Credit to private sector (Flows)	244.9 (1 st Jul to 6 th Mar)	365.9 (1 st Jul to 5 th Mar)	↑49.4
Growth in M2 (%)	5.3 (1 st Jul to 6 th Mar)	4.6 (1 st Jul to 5 th Mar)	
Policy Rate (%)	12.5 (17-Mar-2020)	7.0 (19-Mar-2021)	

Source: SBP

	2019-20	2020-21	% Change
Inflation			
CPI (National) (%)	12.4 (Feb)	8.7 (Feb)	
	11.7 (Jul-Feb)	8.3 (Jul-Feb)	
Real Sector			
Large Scale Manufacturing (LSM) (%)	-5.7 (Jan)	9.1 (Jan)	↑
	-3.2 (Jul-Jan)	7.9 (Jul-Jan)	↑
Miscellaneous			
PSX Index*	34,889 (On 1 st Jul 2020)	44,724 (On 18 th Mar 2021)	↑28.19
Market Capitalization (Rs trillion)	6.61 (On 1 st Jul 2020)	7.95 (On 18 th Mar 2021)	↑20.27
Market Capitalization (\$ billion)	39.33 (On 1 st Jul 2020)	51.13 (On 18 th Mar 2021)	↑30.00
Incorporation of Companies	13,237 (Jul-Feb)	18,174 (Jul-Feb)	↑37.30

*: Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX & SECP