Monthly Economic Update & Outlook

April 2022

Government of Pakistan
Finance Division
Economic Adviser's Wing

Contents

Executive Summary

- The war between Russia and Ukraine affecting the global economy through three channels. First, higher commodity prices are deteriorating the real income. Second, neighboring countries grappling with disrupted trade along with refugees influx. Third, higher investors' uncertainty is reducing business confidence. Consequently, these channels are soaring international commodity prices and downgrading the global output growth by 0.8 percentage points in 2022. Both energy and non-energy prices surged in March 2022 by 24.1 and 8.1 percent respectively. Among key sub-groups, agriculture commodities jumped 7.2 percent, fertilizers 20.7 percent, metals and minerals 7.7 percent and precious metals 5.3 percent.

- **Real Sector:** The production of all important Kharif crops in Pakistan is encouraging. Cotton production increased 17.7 percent to 8.3 million bales, Rice up by 10.7 percent to 9.3 million tonnes, Sugarcane increased by 9.6 percent to 88.8 million tonnes and Maize increased by 8.6 percent to 9.7 million tonnes. During Jul-Feb FY2022, LSM posted a growth of 7.8 percent as compared to 2.2 percent during the same period last year.

- **Fiscal, Monetary & External:** The fiscal deficit in Jul-Mar FY2022 was recorded at 4.0 percent of GDP. The primary balance posted a deficit of Rs 447.2 billion. During 1stJuly-1stApril, FY2022 money supply (M2) observed growth of 2.7 percent (Rs 665.5 billion) as compared to growth of 6.7 percent (Rs 1,439.5 billion) last year. During Jul-Mar FY2022, the current account deficit is recorded at $ 13.2 billion.

- **Economic Outlook:** Although the economic recovery is underway, still, the domestic and international scenario is changing over the course of time. Thus, inflationary, and external sectors risks are building macroeconomic imbalances.

  - International commodity prices are expected to rise further. The pass-through of the increase in global commodity prices is somewhat contained due to government measures. Still it is expected that CPI inflation will increase and remain in double digit in April 2022.

  - The MEI remains strong, although some slowdown in growth since Feb 2022 is observed. For the last 2 months, growth in economic activity is fluctuating around 4%. Moreover, economic activities in Pakistan's main trading partners continues to remain slightly above trend, some slowdown has been observed due to geo-political uncertainty and surge in commodity prices. If these tensions continue, Pakistan's growth may be affected as well.

  - For April 2022, exports of goods and services are expected to continue their upward trend due to the exports-oriented policies. Imports are expected to remain at the level in line with domestic economic activity and international commodity prices. Resultantly, trade deficit is expected to remain around $ 3.0 billion in April. Remittances are expected to remain high as compared to previous months due to the Eid factor. Taking these factors into account, the current account will stay around $ 1.0 billion in April.

  - During the first nine months of the current fiscal year, FBR exceeded its revenue target by 5.8 percent. Despite massive tax relief on various essential items to the common man, FBR has been able to achieve a sizeable portion of its annual target. Similarly, various policy and operational measures have been initiated to maximize revenue potential through digitization, transparency and taxpayer facilitation. All these efforts have not only ensured the ease of doing business but also translated into healthy and steady revenue growth.

Geo-political tensions and persistent high domestic inflation may impact domestic economic activities. The high inflation accompanying with monetary policy reaction may temporarily reduce growth prospects in the short run. But in the long-run, economic growth and employment are determined by the path of Pakistan's productive capacity. This requires more productive investments from both foreign and domestic sources.

1. International Performance and Outlook

The global impacts of the Russia-Ukraine war are becoming evident. The true extent depends on the intensity and duration of the conflict. The consequent sanctions had impeded the trade and the countries concerned struggling to find agreed solutions to maintain the economic stability. Beyond the suffering and humanitarian crisis from Russia-Ukraine war, the entire global economy is feeling the effects of slower growth and faster inflation.

The war is impacting the global economy through three main channels. First, higher prices for commodities especially food and energy pushing up inflation which in turn eroding the value of incomes and weighing on demand. Second, neighboring economies in particular are grappling with disrupted trade, supply chains and remittances as well as an historic surge in refugee flows. Third, reduced business confidence and higher investors' uncertainty are impacting asset prices and tightening financial conditions.

Russia and Ukraine are major commodities producers and key suppliers of agricultural goods globally, especially wheat which is 28 percent of global wheat exports. The price of wheat rose sharply since the outbreak of the conflict, against the background of concerns about future. Geopolitical conflicts and the pandemic have already contributed to a dramatic escalation in food insecurity. If the conflict continues, severe supply challenges may emerge undermining food security.

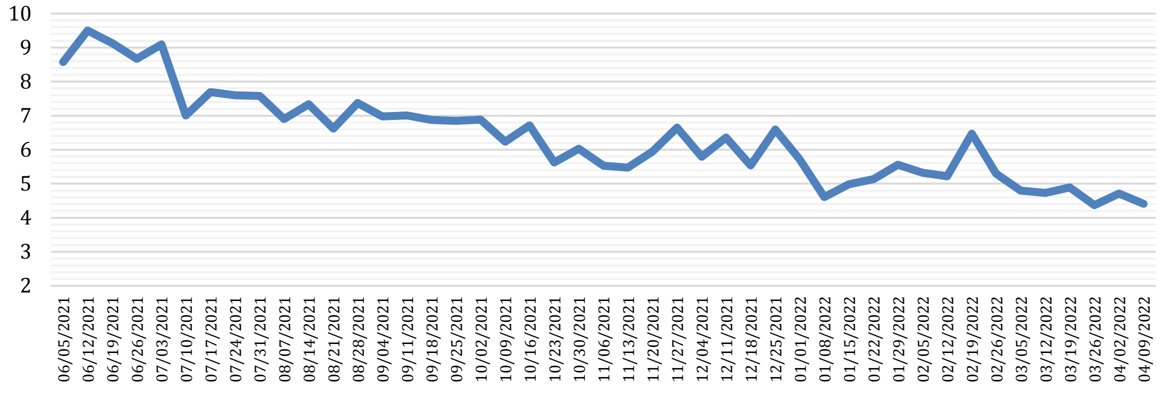
Beyond global spillovers, countries with direct trade, tourism and financial exposures will feel additional pressures. Economies reliant on oil imports will see wider fiscal and trade deficits and more inflationary pressure, though some countries including Middle East and Africa may benefit from higher prices for oil exports.

The uncertainty in Euro Area is especially a down-side risk for developing economies exports. The recent sharp increase in economic uncertainties, combined with the anticipation of a series of steep interest rates hikes by the Federal Reserve throughout 2022 has led to volatile financial markets for countering risk assessments of inflation expectations on financial asset portfolios. Moreover, an escalation of the war beyond the current geographical scope can easily destabilize financial markets further.

Global output growth may fall by around 0.8 percentage points from its previous forecast in 2022 alone due to the spillover effects of conflict in Ukraine. The World Economic Outlook also downgraded global growth for 2022. These developments would further obstruct progress towards eradicating poverty, hunger and several other SDGs.

U.S. economy shows strong outlook momentum and consumerism is driving growth up. After capping off 2021 with 5.7 percent growth in GDP, the strongest rate since 1984, the economy is set to grow at a still-healthy 3.5 percent in 2022. The highest inflation in decades is hitting consumers, but efforts to bring it under control could have an impact as well. The Federal Reserve increased its benchmark interest rate by a quarter of a percentage point in March and signaled more hikes to bring inflation under control. But the Fed faces the challenging task of slowing inflation without stalling economic activity, which is made more complicated as the Russia-Ukraine conflict rages on. Nearly every U.S. labor market indicator is signaling strength, including low unemployment rates. Given the recent geopolitical disruptions, it is likely that there will be some resetting of the U.S. and world economies in this year. Revived economic situation in U.S. is also evident from 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 posted 52.7 in March, down from 53.5 in February. The index has signaled growth in each of the past 21 months, but the rate of growth eased to the slowest since January on the back of intensifying inflationary pressures, supply chain issues and geopolitical tensions.

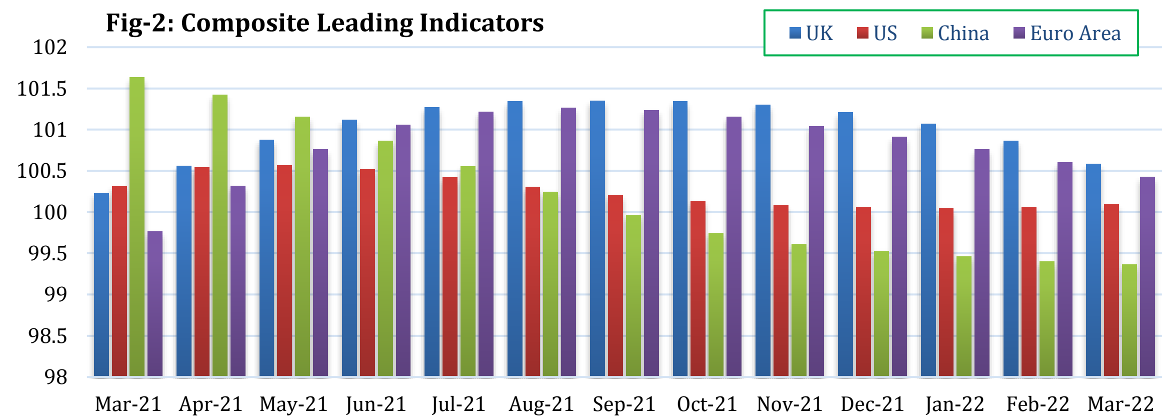
The global economic upturn lost a little traction at the end of the first quarter, with March seeing rates of expansion in output and new orders ease and new export business contract. Rising inflationary pressures, stretched supply chains and geopolitical tensions also stymied growth and hit confidence. Business optimism dipped to a 15-month low, but the rate of job creation matched the highest registered since the end of 2007.

Both manufacturing output and services growth slowed. The easing of COVID-19 containment measures that were previously tightened in the face of the Omicron variant's spread continued to benefit the service sector, keeping the rate of expansion above of manufacturing.

All six of the sub-sectors covered by the survey observed economic activity increase during March, of which, four sectors' rates of expansion slow (business services, consumer services, intermediate and investment goods), with growth easing to near stagnation in the intermediate goods and investment goods categories. Consumer goods and financial services both registered persistent rates of increase.

Amongst the developed countries, the US and UK observed composite PMI output growth accelerate with COVID-19 restrictions down to pandemic-lows in March. In comparison, growth in the eurozone had been dampened by the Ukraine war and tighter health restrictions than observed in the US and UK. The economic situation of Pakistan's main exports markets is evident from Composite Leading Indicators, which is available till March-2022, complied by OECD (Fig-2).

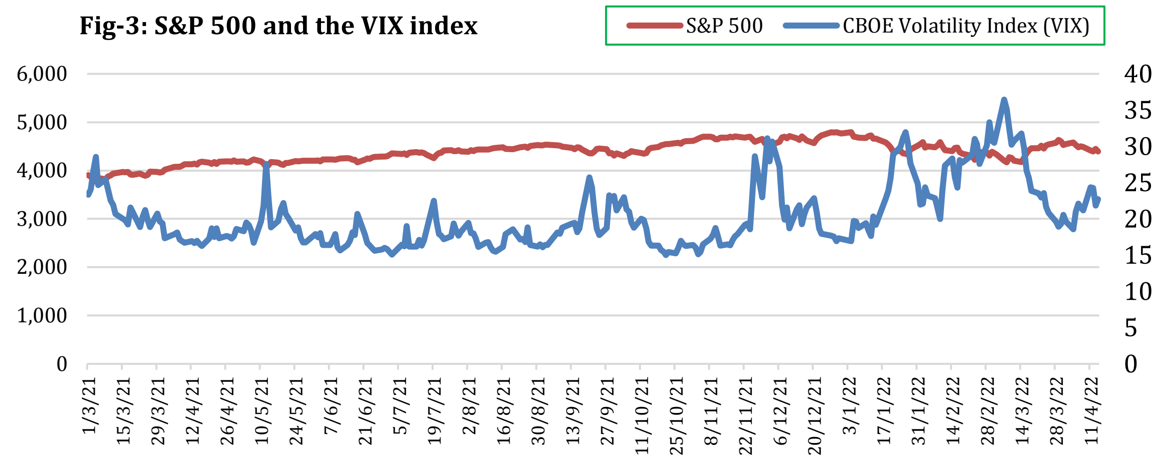
Fig-2: Composite Leading Indicators



Source: OECD

In US, stock investors are reluctant amid geopolitical uncertainty and the Federal Reserve's fight against inflation that could dent economic growth. As a result, S&P 500 registered a month low i.e., 4,393 points as on 14th April 2022. This is also supported by the Chicago Board Options Exchange (CBOE) Volatility Index which is commonly used as a measure of investors' uncertainty recorded above 20 in recent weeks (Fig-3).

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



Source: Investing.com

Increase in input prices intensified inflationary pressures in March. For both price measures, rates of inflation were quicker at manufacturers than service providers. Rates of increase were also steeper in developed nations than in emerging markets. Employment increased for the nineteenth consecutive month in March, with the rate of jobs growth highest since December 2007.

Global commodity prices continued to increase in March 2022. Energy prices surged 24.1 percent, led by crude oil (20.2%), coal (49.9%), and natural gas Europe (55.7%). Non energy prices gained 8.1 percent in March. Over the past twelve months, energy commodities have risen 101.6 percent and non-energy commodities 31.7 percent. Among key sub-groups, agriculture commodities jumped 7.2 percent, fertilizers 20.7 percent, metals and minerals 7.7 percent and precious metals 5.3 percent.

2. Monthly Performance of Pakistan's Economy

Pakistan's economy is on growth trajectory confronting risks of inflation and external sectors pressures.

2.1 Real Sector

2.1-a Agriculture

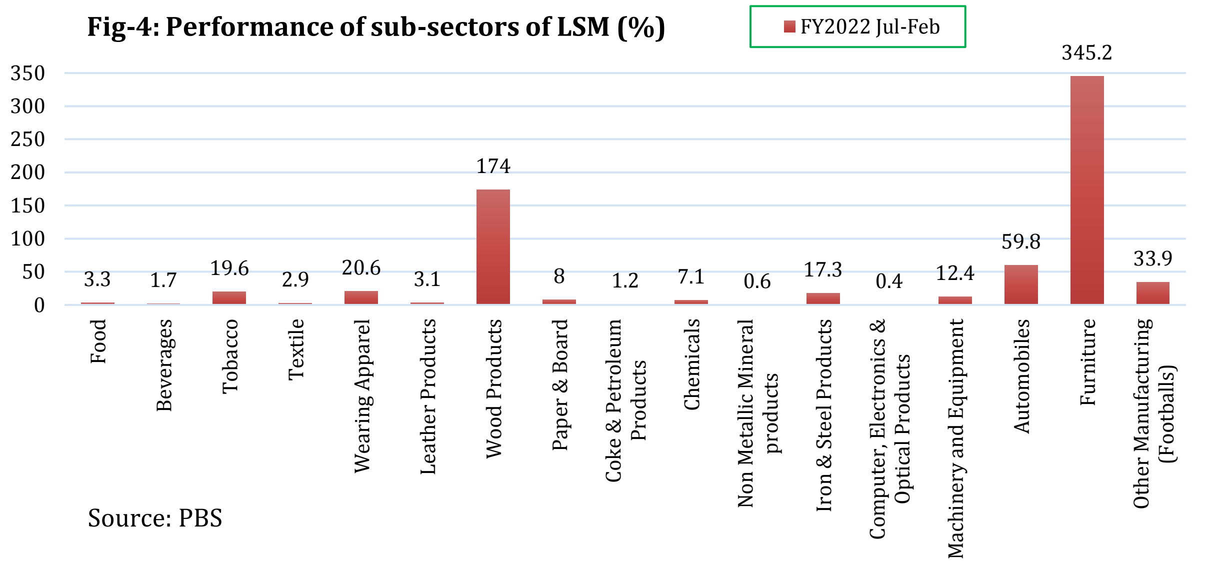
The agriculture performance was reviewed during 18th meeting of FCA held on 31st March 2022. The production of all major Kharif crops increased compared to last year's production: Cotton increased 17.7 percent to 8.3 million bales from 7.1 million bales, Rice increased by 10.7 percent to 9.3 million tonnes from 8.4 million tonnes, Sugarcane increased by 9.6 percent to 88.8 million tonnes from 81.0 million tonnes and Maize increased by 8.6 percent to 9.7 million tonnes from 8.9 million tonnes which will jack up agriculture growth for FY 2022. For Rabi season 2021-22, wheat production is estimated 26.8 million tonnes showing decrease in production by 2.5 percent over the last year (27.5 million tonnes).

During Jul- Mar FY2022, the agriculture credit disbursement increased by 0.5 percent to Rs 958.3 billion compared to Rs 953.7 billion same period last year. The farm tractors production increased by 13.5 percent to 41,872 and its sales also witnessed an increase of 12.1 percent to 41,603 compared to last year. As far as fertilizer is concerned, urea off-take during Rabi 2021-22 reached 3,320 thousand tonnes showing an increase of 3.0 percent, while DAP off take was 927 thousand tonnes showing a decrease of 16.4 percent over same period of last season.

2.1-b Manufacturing

During Jul-Feb FY 2022, LSM witnessed the growth of 7.8 percent against the growth of 2.2 percent same period last year. The outstanding performance in sub-sectors of LSM has been observed especially in Furniture, Wood Products, Sports, Automobile, Tobacco, and Wearing Apparel. On YoY basis, LSM growth clocked at 8.6 percent in February 2022 against 4.5 percent in the same month last year. During the period under review, 17 out of 22 subsectors of LSM have witnessed positive growth.

Fig-4: Performance of sub-sectors of LSM (%)



Source: PBS

During Jul-Mar FY 2022, Car production and sale increased by 56.7 and 53.8 percent respectively, Trucks & Buses production and sale increased by 66.0 and 54.0 percent and tractor production and sale increased by 13.5 and 12.1 percent respectively.

In March 2022, total cement dispatches declined by 6.3 percent to 5.0 mn tonnes (5.4 mn tonnes in March 2021). Domestic consumption marginally increased by 4.0 percent to 4.7 mn tonnes against 4.6 mn tonnes same month last year. During Jul-Mar FY2022, total cement dispatches in the country decreased by 5.8 percent to 40.8 mn tonnes (43.3 mn tonnes last year).

In March 2022, oil sales clocked in at 1.8 mn tonnes showing an increase of 23 percent against 1.5 mn tonnes last year. During Jul-Mar FY2022, total Oil sales increased by 14.9 percent to 16.3 mn tonnes (14.2 mn tonnes last year).

2.2 Inflation

CPI inflation was recorded at 10.8 percent during Jul-Mar compared to 8.3 percent in the same period of last year. CPI for the March 2022 recorded at 12.7 percent on YoY basis against 9.1 percent in March 2021.

The overall spike in CPI is on account of increased in the prices of imported items, as the country is a net importer of items especially crude oil, pulses and edible oil which ultimately transmitted into domestic prices. Upward price movement is further fueled by Russia Ukraine war, supply chain disruption and recovery in global demand.

International Prices					
Months	Sugar ($/MT)	Palm Oil ($/MT)	Soyabean Oil ($/MT)	Wheat ($/MT)	Crude Oil ($/Brl)
Mar-21	340.0	1031.0	1170.0	273.1	65.2
Mar-22	420.0	1777.0	1957.0	486.3	115.6
% Change					
Mar-22/Mar-21	23.5	72.4	67.3	78.0	77.3
Source: WB Pink sheet					

Prices in Pakistan						
Months	Sugar Refined (Rs/Kg)	Cooking Oil Dalda (Rs/5Kg)	Vegetable Ghee Dalda (Rs/Kg)	Wheat Flour (Rs/20Kg)	Petrol (Rs/Litre)	Hi-Speed Diesel (Rs/Litre)
Mar-21	98.1	1500.2	297.5	957.9	112.9	117.1
Mar-22	87.6	2258.2	451.2	1167.4	150.6	144.9
% Change						
Mar-22/Mar-21	-10.7	50.5	51.6	21.9	33.4	23.8
Source: PBS						

The above table gives a comparative analysis of international and domestic prices of major commodities.

2.3 Fiscal

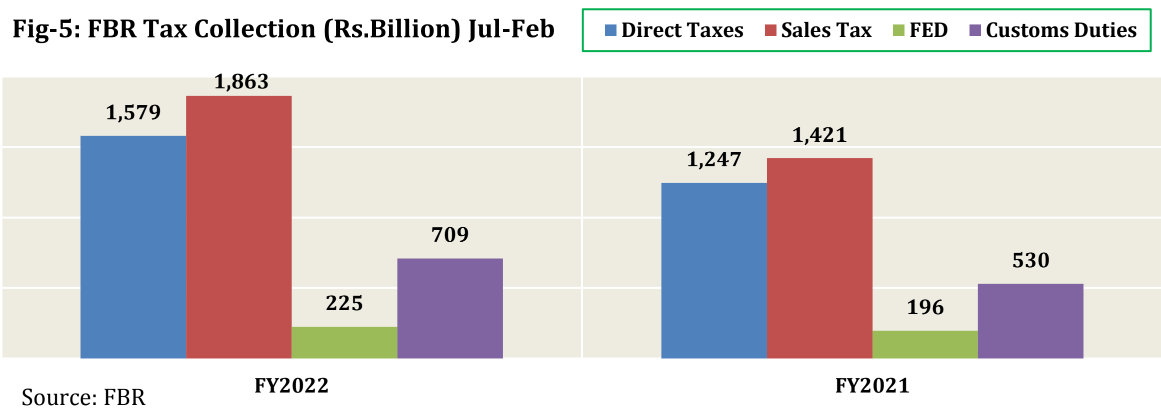
During the first nine months of the current fiscal year, the fiscal deficit stood at 4.0 percent of GDP against 3.0 percent of GDP (on the basis of revised GDP) last year. Similarly, the primary balance posted a deficit of Rs 447.2 billion (-0.7 percent of GDP) as compared to surplus of Rs 451.8 billion (0.8 percent of GDP).

During Jul-Mar, FY2022, the total revenues grew by 17.7 percent to Rs 5,874.2 billion against Rs 4,992.6 billion in the same period of FY2021. Within revenues, non-tax collection was reduced by 14.3 percent, while FBR tax collection increased by 29 percent during the period under review. On the other hand, total expenditure, grew by 27.0 percent to Rs 8439.8 billion during Jul-Mar FY2022, against Rs 6,644.6 billion in the comparable period of last year. Within total expenditures, PSDP spending increased by 58 percent to Rs 1032.7 billion in Jul-Mar FY2022 against Rs 653.9 billion in the same period of last year. While current spending increased by 21.2 percent to reach Rs 7,378.0 billion as compared to Rs 6,085.4 billion last year.

FBR Tax Collection

The provisional net tax collection during Jul-Mar FY2022 grew by 28.9 percent to stand at Rs 4,375.6 billion against Rs 3393.7 billion in the same period of last year. During the first nine months of the current fiscal year, FBR exceeded its revenue target by 5.8 percent.

Fig-5: FBR Tax Collection (Rs.Billion) Jul-Feb



Source: FBR

Domestic tax collection grew by 28.1 percent during Jul-Mar FY2022. Within domestic, direct tax grew by 26.7 percent, sale tax by 31.1 percent, FED by 14.9 percent whereas customs duty increased by 33.7 percent.

2.4 Monetary

Monetary Policy Committee (MPC) has increased the policy rate by 250 bps to 12.25 percent in its meeting held on 07th April 2022, on account of significant uncertainty around the outlook for international commodity prices and global financial condition.

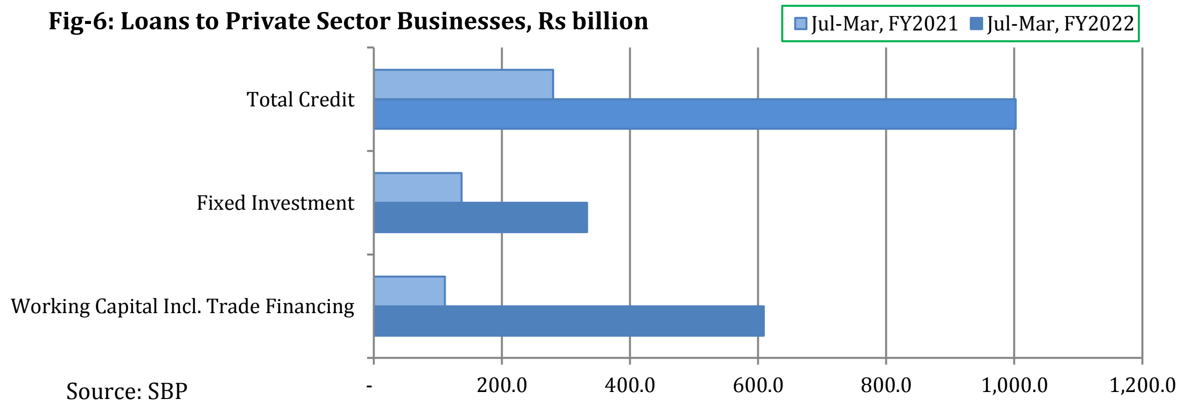
During 1st July – 01st April, FY22 money supply (M2) observed growth of 2.7 percent (Rs. 665.5 billion) as compared to growth of 6.7 percent (Rs. 1,439.5 billion) last year. Within M2, Net Foreign Assets (NFA) decreased by Rs 1,198.9 billion as compared to an increase of Rs 704.7 billion last year, shows pressure on external front. Net Domestic Assets (NDA) of the banking sector increased by Rs. 1,864.4 billion as compared Rs. 734.8 billion last year. Under the borrowing for budgetary support, government has borrowed Rs. 895.7 billion against the borrowing of Rs. 711.1 billion last year. Government has retired Rs. 52.4 billion to SBP against the retirement of Rs. 1,194.8 billion last year.

Government has borrowed Rs. 843.2 billion from Scheduled banks against the borrowing of Rs 1,905.9 billion last year. Under the head of net government borrowing, government has borrowed Rs 840.6 billion as compared to the borrowing of Rs. 600.3 billion over the previous year.

Private Sector has borrowed Rs 1,198.3 billion as compared Rs 443.7 billion last year showing a growth of 20.8 percent as on 01st April, FY2022.

Within loans to private sector businesses, fixed investment loans observed expansion of Rs 333.1 billion as compared to Rs 137.0 billion during same period last year. Whereas, working capital loans increased to Rs 608.7 billion against borrowing of Rs 110.8 billion last year. The construction financing increased to Rs 60.5 billion during Jul-Mar, FY2022 as compared to Rs 32.2 billion during same period last year.

Fig-6: Loans to Private Sector Businesses, Rs billion



Source: SBP

2.5 External Sector

The Current Account posted a deficit of $ 13.2 billion for Jul-Mar FY2022 as against $ 275 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 26.6 percent during Jul-Mar FY2022 and reached $ 23.7 billion ($ 18.7 billion last year). Imports on fob grew by 41.3 percent during Jul-Mar FY2022 and reached $ 53.8 billion ($ 38.1 billion last year). Resultantly the trade deficit (Jul-Mar FY2022) reached $ 30.1 billion as against $ 19.3 billion last year.

As per PBS, during Jul-Mar, FY 2022, exports increased by 25.0 percent to $ 23.3 billion ($ 18.7 billion last year). The exports grew by 17.7 percent in March 2022 to $ 2.78 billion as against $ 2.36 billion last year. The major export commodities which have shown tremendous performance during the review period include Ready-made garments (26.2 percent in value & 33.9 percent in quantity), Bed wear (19.3 percent in value & 15.0 percent in quantity), Cotton Yarn (26.0 percent in value and quantity declined by 11.2 percent), Cotton Cloth (26.5 percent in value & 8.9 percent in quantity), Knitwear (34.1 percent in value quantity declined by 4.8 percent), Chemical & pharma products (29.6 percent in value), leather manufactured (8.5 percent in value) and Basmati rice (21.6 percent in value & 26.1 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-Mar, FY2022 increased to $ 58.8 billion ($ 39.5billion last year), thus posted a growth of 49.1 percent. Main commodities imported were Petroleum products, Palm Oil, Petroleum crude, Iron & Steel, Liquefied Natural gas, Medicinal products, Plastic materials, Textile machinery, Electrical machinery & apparatus, Power generating machinery and Raw cotton. Higher imports of these commodities indicate growth in the related sectors as well.

2.5.1 Foreign Investment

In Jul-Mar, FDI reached $ 1,285.1 million ($ 1,311.1 million last year) decreased by 2.0 percent. In March net outflow was recorded at $ 30.4 million, on account of political instability which resulted in change of regime. FDI received from China $ 333.5 million (26.0 percent of total FDI), United States $ 183.1 million (14.2 percent), Hong Kong $ 133.0 million (10.3 percent), U.E.A $ 100.8 million (7.8 percent) and Singapore $ 90.5 million (7.0 percent). Power sector attracted highest FDI of $ 489.1 million (38.0 percent of total FDI), Financial business $ 322.8 million (25.1 percent), Oil & Gas exploration $ 179.7 million (14.0 percent) & Information Technology $ 118.5 million (9.2 percent).

Foreign Private Portfolio Investment has registered a net outflow of $ 341.7 million during Jul-Mar FY2022. Foreign Public Portfolio Investment recorded a net inflow of $ 502.6 million. In March 2022, $ 402 million outflow was in debt securities (Sale/purchase of Special US $ bond, Eurobond, FEBC, DBC, T bills and PIBs). The total foreign portfolio investment recorded an inflow of $ 160.9 million during Jul-Mar FY2022 as against outflow of 266.2 million last. Total foreign investment during Jul-Mar FY2022 reached $ 1,446.0 million ($ 1,044.8 million last year).

2.5.2 Worker's Remittances

In Jul-Mar FY2022, workers' remittances reached $ 23.0 billion ($ 21.4 billion last year), increased by 7.1 percent. Workers' remittances continued their unprecedented run of above $ 2.0 billion since June 2020. Share of remittances (Jul-Mar FY2022) from Saudi Arabia remained 25.3 percent ($ 5809.9 million), U.A.E 18.7 percent ($ 4283.9 million), U.K 13.9 percent ($ 3187.3 million), USA 9.6 percent ($ 2211.3 million), other GCC countries 11.6 percent ($ 2665.5 million), EU 10.9 percent ($ 2504.8 million), Malaysia 0.5 percent ($ 106.4 million), and other countries 9.5 percent.

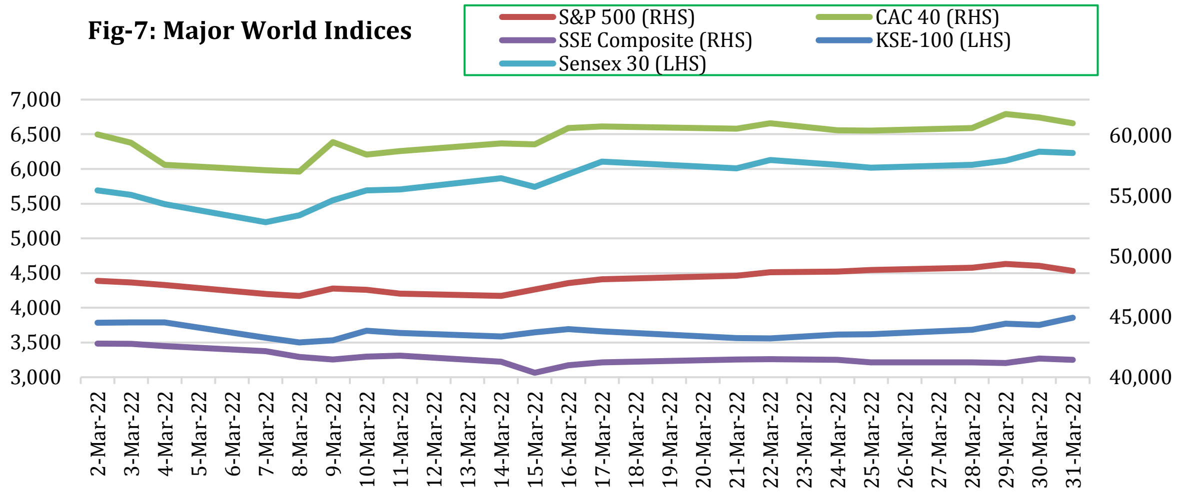
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves stood at $ 16.8 billion on April20, 2022, with the SBP's reserves recorded at $10.6 billion, while commercial banks' reserves remained at $6.2 billion.

2.6 Performance of KSE Index

The KSE-100 index closed at 44,929 points as on 31st March 2022, gained 468 points in March 2022. The market capitalization settled at Rs 7,583 billion. The trend of major world indices is depicted in Fig-7:

Fig-7: Major World Indices



Source: PSX, Investing.com

2.7 Social Sector

- PPAF through its 24 Partner Organizations has disbursed 44,386 interest free loans amounting to Rs 2.0 billion during the month of March 2022. Since inception of interest free loan component, a total of 1,805,297 interest free loans amounting to Rs 64.9 billion have been disbursed to the borrowers.
- Bureau of Emigration and Overseas Employment has registered 88,353 emigrants during March, 2022 for overseas employment in different countries.
- Under Kamyab Jawan Youth Entrepreneurship Scheme (PMKJ-YES) the amount disbursed stands at Rs 36,846 million till February 2022 to the youth for businesses
- Covid-19 pandemic has been successfully contained by the government with its mass vaccination drive. The NCOC is dissolved keeping in view the persistently falling positivity rate.
- The Ministry of FE&PT and Malala Fund signed a Letter of Understanding (LoU) to work together on promotion of STEAM in girls high schools.
- Federal Board of Intermediate and Secondary Education (FBISE) has partnered with the Easy-Paisa for facilitating students for digital fee-payments.

Economic Outlook

The domestic and international scenarios are changing which carries implications for the economic recovery. Meanwhile, inflationary and external sector 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 contributors. Further, exchange rate fluctuations also affect domestic prices. The movements in broad money are also considered a useful indicator because it reflects the influences of monetary and fiscal policies on the domestic price index. Finally, market expectations regarding these inflationary developments are also contributing factors.

Following recent geo-political tensions and especially the war in Ukraine, monthly international oil and food prices are accelerating again. These may sustain the next MoM increases in domestic consumer prices. The April inflation number may also be subject to an upward seasonal effect. On the other hand, monetary policy has become more restrictive. The measures to limit the renewed pass through of these upswings in international commodity prices, especially oil prices into domestic final goods prices and production costs. However, based on currently available information, YoY inflation for the month of April may remain within a range of 11.5 to 12.5 percent.

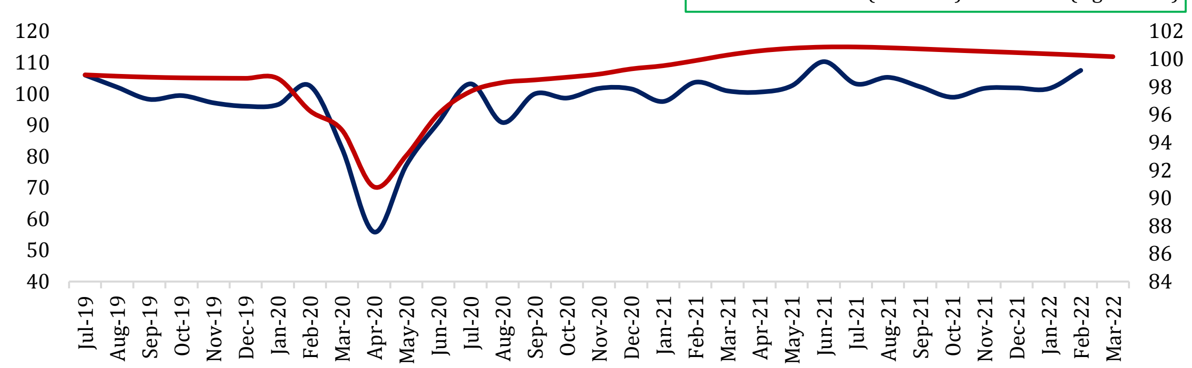
3.2 Agriculture

The higher temperature in March 2022 stressed wheat production, however, no adverse climate shock expected in the coming months. Thus, it is expected that the overall agriculture sector's performance will remain satisfactory.

3.3 Industrial Activities

Industrial activity, measured by the LSM index (rebased on prices of 2015-16) is most exposed to developments in international markets as illustrated in Fig-8. It compares the cyclical component of LSM with the weighted average Composite Leading Indicators in Pakistan's main export markets (CLI). 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.

Fig-8: Relationship between CLI and LSMI Cycle



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. Pakistan's main export markets continue to experience stable cyclical position with slightly positive output gaps. Recovery in potential output following ease in Covid restrictions, these countries experienced significant economic growth. But recent geo-political tensions and the accompanying negative effects of accelerating commodity prices and overall inflation may depress purchasing power in those countries. This may negatively affect world economic growth.

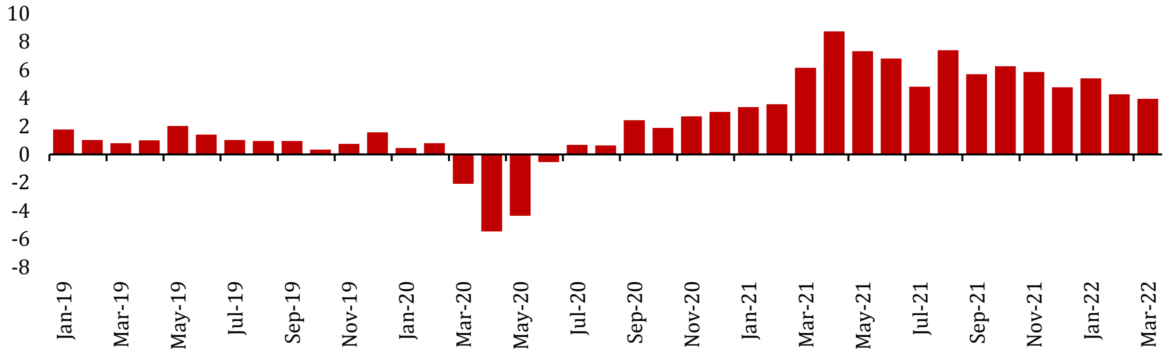
Pakistan's industrial sector kept the growth momentum intact. For March, it is expected that the YoY growth of industrial production has remained positive, although a slight contraction may appear compared to February.

3.4 Overall economic activity

The Monthly Economic Indicator (MEI) is based on combining monthly data of indicators that are proven to be correlated with GDP at constant prices. Fig-9 presents the MEI on monthly basis since January 2019. It should be noted that some of the data underlying the March MEI are still provisional and may be revised next month.

The MEI remains strong, although some slowdown in growth since February is observed. In the last two months, growth of economic activity seems to fluctuate around 4 percent on a YoY basis. This observation is based on movements in macroeconomic high frequency indicators such as growth in LSM, growth in imports, inflation and the external environment. Economic growth in Pakistan's main trading partners continues to remain slightly above trend, although some slowdown may be possible surrounding uncertainties due to the recent geo-political tensions and the continued increase in international commodity prices. If these tensions continue or intensify, Pakistan's growth may be affected as well. At domestic front, the tightening of monetary policy and the increasing inflation may affect domestic growth prospects.

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



Source: EA Wing's Calculations

3.5 External

According to BOP data, exports of goods and services expressed in USD are on an increasing trend since mid-2020. This followed the re-opening of domestic and external economies after the COVID-19 induced lockdowns. With the further domestic and international relaxing of protective measures against the pandemic, Pakistan's exports benefited from a largely depreciated Nominal Effective Exchange Rate. It compensated for the differential between Pakistan's inflation and the inflation in its main trading partners.

Domestic economic expansion, and the positive trend in exports, as well as the historically strong surge in international commodity prices, have also brought imports on a rising trend since mid-2020. The main challenge is to expand further the share of exports in domestic Gross Value-Added creation and to limit the further expansion of the share of imports to reduce trade balance. The monetary policy tightening as well as measures taken to limit unnecessary imports may bring correction to the external sector imbalances in the short to medium-term.

According to BOP data, the trade deficit in goods and services recorded at \$ 3.4 billion in Mar 2022. For April, it is expected that the trade balance will revert back to levels of around \$ 3 billion. Since mid-2020, remittances have fluctuated around a monthly average of \$ 2.5 billion. In April 2022, it is expected that remittances may surge on account of Eid festive. However, geopolitical risks are still not over. Thus, imports of goods and services may continue to show a rising trend mainly due to the rise in international commodities prices. Taking these factors into account, as well as its other components, the current account deficit is expected to stay around \$ 1 billion in the coming months.

3.6 Fiscal

During the first nine months of the current fiscal year, FBR exceeded its revenue target by 5.8 percent. In absolute terms, revenue amounting to Rs.4,375.6 billion was collected against the target of Rs.4,134.1 billion, which is Rs.241.5 billion more than the ninth month's target. Collection during Jul-Mar of the CFY is also higher by Rs. 981.9 billion in absolute and by 28.9 percent as compared to last year. Despite massive tax relief on various essential items to the common man, FBR has been able to achieve a sizeable portion of its annual target during the first ninth months of the current fiscal year. Similarly, various policy and operational measures have been initiated to maximize revenue potential through digitization, transparency and taxpayer facilitation. All these efforts have not only ensured the ease of doing business but also translated into healthy and steady revenue growth. FBR tax collection likely to follow the same trend to achieve the target set for the current fiscal year.

On the expenditures side, higher subsidies and grants are putting significant pressure on fiscal accounts. During Jul-Mar, FY2022, the fiscal deficit has been increased to 4.0 percent of GDP against 3.0 percent of GDP last year. It is expected that fiscal deficit may increase further in the coming months.

4. Way Forward

Following international developments and persistent high domestic inflation may impact domestic economic activities. Among the determining factors of current trends in both international and domestic inflation are supply chain issues and surging international commodity prices. Under normal circumstances, these prices follow a cyclical pattern. That implies that normally, price spikes are followed by a cooling-off period. But the current cycles of international food and oil prices are different. First, the volatility in these markets is high compared to historical standards. Second, due to geo-political tensions, the increasing trend in prices may remain intact.

High inflation and the accompanying monetary policy reaction may temporarily dampen the cyclical position of Pakistan's economy thereby reducing growth prospects in the short run. But in the long-run, Pakistan's productive capacity will determine the growth as well as employment prospects. This requires a substantial upward shift in the propensity to invest and of the productivity of investment expenditures. Stimulating the propensity to invest implies that a larger share of the income that the country generates is used to finance Gross Fixed Capital Formation. Structural policies are to be further designed to attract more productive investments from foreign sources (Foreign Direct Investments) and from both private and public domestic investors.

High international commodity prices not only keep inflation elevated, they are also a burden on Pakistan's external account and hence on its foreign exchange reserves. Many other countries are facing the consequences of high and volatile commodity prices, especially oil and gas prices. Strengthening of Pakistan's overall supply side through increasing its productive potential would allow it to produce more for exports and to discourage import. These prospects would relax the external constraint that has historically weighed on Pakistan's economy and which has caused regular Balance of Payments crises and an accompanying stop-and-go profile in Pakistan's economic growth path.

Economic Indicators
(28-04-2022)

	2020-21 (Jul-Mar)	2021-22 (Jul-Mar)	percent Change
External Sector			
Remittances ($ billion)	**21.4**	**23.0**	**↑7.1**
Exports FOB ($ billion)	**18.7**	**23.7**	**↑26.6**
Imports FOB ($ billion)	**38.1**	**53.8**	**↑41.3**
Current Account Deficit ($ billion)	**0.3**	**13.2**	↑
FDI ($ million)	**1311.1**	**1285.1**	**↓2.0**
Portfolio Investment-Public ($ million)	**-3.5**	**502.6**	↑
Total Foreign Investment ($ million) (FDI &Portfolio Investment)	**1044.8**	**1446.0**	↑
Forex Reserves ($ billion)	**23.613 (SBP: 16.521) (Banks: 7.092)** (On 26th Apr 2021)	**16.572 (SBP: 10.542) (Banks: 6.030)** (On 26th Apr 2022)	
Exchange rate (PKR/US$**)**	**154.14** (On 26th Apr 2021)	**185.63** (On 26th Apr 2022)	

Source: SBP

	2020-21 (Jul-Mar)	2021-22 (Jul-Mar)	percent Change
Fiscal			**(Rs Billion)**
FBR Revenue	**3393.7**	**4375.6**	**↑28.9**
Non-Tax Revenue	**1227.6**	**1052.2**	**↓14.3**
PSDP (Authorization)	**492.5**	**603.5**	**↑22.5**
Fiscal Deficit	**1652**	**2566**	↑
Primary Balance	**452**	**(447)**	↓

Source: FBR & Budget Wing

	2020-21 (Jul-Mar)	2021-22 (Jul-Mar)	percent Change
Monetary Sector			
Agriculture Credit (provisional)	**953.7**	**958.3**	**↑0.5**
Credit to private sector (Flows)	**443.7** (1st Jul to 2nd Apr)	**1198.3** (1st Jul to1st Apr)	↑
Growth in M2 (percent)	**6.9** (1st Jul to 2nd Apr)	**2.7** (1st Jul to 1st Apr)	
Policy Rate (percent)	**7.00** (19-Mar-2021)	**12.25** (07-Apr-2022)	

Source: SBP

	2020-21	2021-22	percent Change
Inflation			
CPI (National) (percent)	**9.1** (Mar)	**12.7** (Mar)	
	8.3 (Jul-Mar)	**10.8** (Jul-Mar)	
Real Sector			
Large Scale Manufacturing (LSM) (percent)	**4.5** (Feb)	**8.6** (Feb)	
	2.2 (Jul-Feb)	**7.8** (Jul-Feb)	
PSX Index*	**47801** (On 1st Jul 2021)	**45871** (On 26th Apr 2022)	**↓4.15**
Market Capitalization (Rs trillion)	**8.38** (On 1st Jul 2021)	**7.63** (On 26th Apr 2022)	**↓9.19**
Market Capitalization ($ billion)	**53.22** (On 1st Jul 2021)	**41.11** (On 26th Apr 2022)	**↓22.75**
Incorporation of Companies (Jul-Mar)	**19250**	**19932**	**↑3.54**

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP