Monthly Economic Update & Outlook

August 2021

Government of Pakistan
Finance Division
Economic Adviser's Wing

Contents

Executive Summary

The global economic recovery, especially in Pakistan's main trading partners, is healthy sign for stimulating Pakistan's export growth and workers remittances. On the other hand, the rise in international commodity prices, especially oil prices, brings some risks in terms of inflation and of high import values.

Real Sector: The latest agriculture inputs situation remained favorable. The tractors production increased by 38.3 percent in July FY2022, while its sales also increased by 19.9 percent. Credit disbursement to the agriculture sector increased to Rs 1,366 billion in FY2021, witnessing a growth of 12 percent over an amount of Rs 1,215 billion in FY2020. Although, Cotton crop is at varying growth stages, however, overall, its condition is satisfactory. Large Scale Manufacturing (LSM) shows a remarkable performance during FY2021 and posted a growth of 14.9 percent, against the negative growth of 9.8 percent in FY2020. Inflation declined to 8.4 percent in July 2021 compared to 9.7 percent of the previous month and 9.3 percent of the corresponding month last year (July, 2020).

Fiscal, Monetary & External: Fiscal sector performance during FY2021 remained satisfactory owing to effective revenue mobilization and careful expenditure management. On the revenue side, improved tax collections have been realized both at the federal and provincial level, whereas, effective expenditure management helped in containing the current expenditures to the lower side. During FY2021, Money Supply witnessed expansion of Rs 3,394.6 billion (growth of 16.2 percent) as compared to expansion of Rs 3,109.5 billion (growth of 17.5 percent) in FY2020. The Current Account posted a deficit of $ 773 million (2.8 percent of GDP) for July FY2022 as against a surplus of $583 million (2.4 percent of GDP) last year. Current account deficit widened due to 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 19.7 percent during July 2021 and reached $ 2.3 billion in July 2021 ($ 1.9 billion last year). On August 23, 2021, SBP reserves became historical high at $ 20.3 billion due to IMF (SDR) reallocation of $ 2.8 billion.

Economic Outlook: The revival of economic activities along with accelerated vaccination process, are promising for achieving a strong economic growth. On the other hand, the risk of pandemic upsurge, along with increase in international commodity prices still exist. In this regard, the government's measures to build strategic reserves, especially related to food, along with measures to enhance exports will definitely mitigate the associated risks.

- In recent months, the YoY inflation rate is on a declining trend. It is expected that, ceteris paribus, YoY inflation is expected to fluctuate around 7.6 – 9.2 percent in August 2021.
- In July 2021, The MEI is showing continued strong growth, thus, a strong YoY growth of LSM is expected in July on the basis of continued cyclical uptrend of CLI in the main trading partners and domestic growth momentum.
- It is expected that trade deficit in goods and services could stabilize to approximately $ 3 billion in August. The current account deficit is expected to remain in manageable levels taking into account the monthly average of remittances flows around $ 2.5 billion and other secondary and primary income flows.

Recent developments in Pakistan's macroeconomic indicators are therefore positive. In the absence of any major unexpected negative shocks, the economy is smoothly moving to balanced and sustainable growth path.

1. International Performance and Outlook

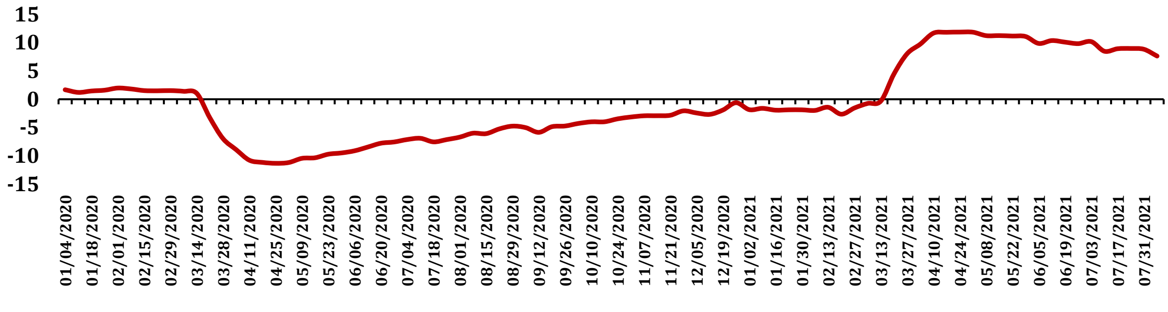
Despite global economic recovery continues, gaps still exist among advanced, emerging and developing economies. The pandemic has turned worse in some parts of the world during last couple of months. Close to 40 percent of the population in advanced economies has been fully vaccinated, compared with 11 percent in emerging markets economies and just 1 percent in low-income developing countries. Vaccine access has emerged as the principal problem, whereas divergences in policy supports are a second source of deepening divide. The outlook of economic recovery in advanced economies primarily depend on sizable fiscal support of $4.6 trillion announced for pandemic related measures available in 2021 and beyond. On the other hand, in emerging and developing economies most measures already expired in 2020 and countries are planning to rebuild fiscal buffers.

Recent price pressures for the most part reflect transitory supply-demand mismatches. Elevated inflation is also expected during the coming months in some emerging and developing economies partially related to high food prices.

Despite short-term supply disruptions, global trade volumes are projected to expand 9.7 percent in 2021, moderating to 7.0 percent in 2022. The merchandise trade recovery is set to broaden after being initially concentrated in pandemic-related purchases, consumer durables, and medical equipments. Services trade is expected to recover at a slower pace, consistent with subdued cross-border travel until virus transmission declines to low levels everywhere.

The Weekly Economic Index (WEI) of the Federal Reserve Bank of New York is an index of 10 daily and weekly indicators of real economic activity which represents the common component of series covering consumer behavior, the labor market and production (Fig-1). Since the end-March of 2021, this index continues its upward trend indicating a strong V-shaped recovery in the US Economy, although in recent weeks, the pace of growth seems to be a little decelerating. The labor market and jobs growth are recovering as expected, while consumer confidence spectacularly dived down in the first half of August and in July retail sales declined more than expected.

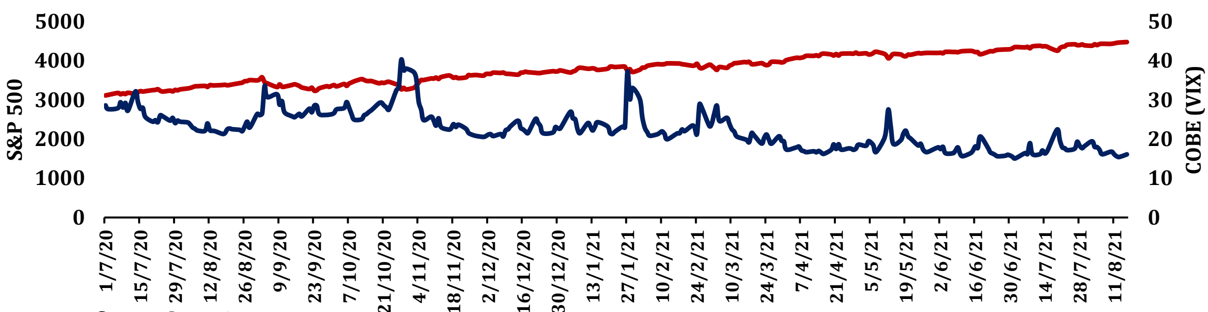
Fig-1: Growth in WEI (percent)



Source Federal reserve Bank of New York

In the US, monetary policy remains accommodative and long-term interest rates continued to settle at low levels. Thus a rebound in the US economy including a stellar second-quarter corporate earnings season along with accommodative monetary policy has supported positive sentiment for equities. As a result, S&P 500 has gained 100 percent since its March 2020 low and reached a new record gain of 4,480 points on 16th August, 2021 (Fig-2). This is also supported by the VIX index which is commonly used as a measure of investors' uncertainty, remained below 20 since 21st June, 2021 showing improved market sentiment and business confidence.

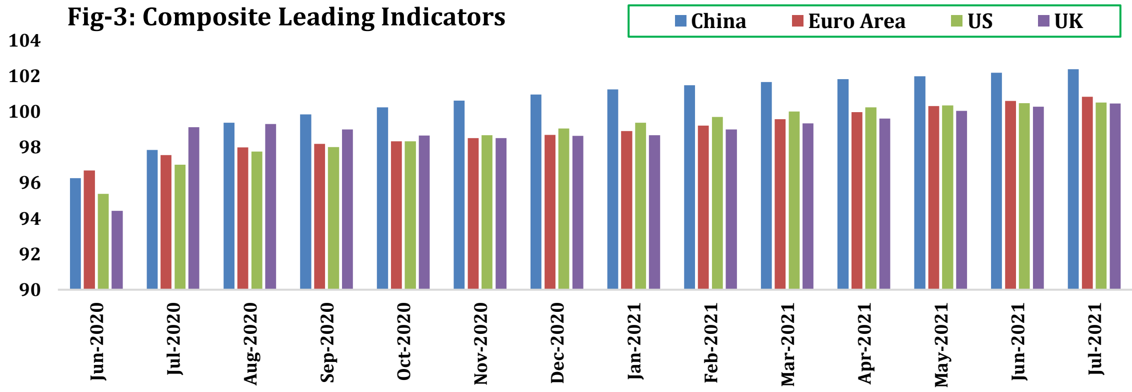
Fig-2: S&P 500 and the VIX index



Source: Investing.com

At the start of the third quarter of CY2021, the global economic upturn remained robust, with output growth especially robust in the Euro Area and the US. This is also confirmed by the US Composite Leading Indicator (CLI) compiled by the OECD, available up to July 2021 (Fig-3), which maintained an upward trend. The CLI of Pakistan's main export markets has increased in the month of July and the index exceeds 100 since April, 2021. The increasing trend of CLI is expected to improve further, which will have a transmission effect on global growth in 2021.

Fig-3: Composite Leading Indicators



Source: OECD

The upturn in global economic output was underpinned by rising intakes of incoming new business. New orders rose for the thirteenth successive month. The latest expansion reflected a strengthening of demand in several domestic markets, along with an increase in international trade flows for the sixth straight month. The month of July witnessed rise in employment as job creation was observed in the US, the Euro Area (led by a series-record expansion in Germany), China, UK, Brazil, Australia and Russia. Contractions were observed in India and Japan. In Euro Area, US and UK, the CLI indicate that output is close to potential output. The Chinese progressed even further, indicating a positive output gap.

Price pressures remained intense during July, with rates of both input cost and output charge inflation among the steepest in the survey history. Part of the increase in input prices reflected the ongoing disruption across global supply chains. Increased costs were passed on to clients in the form of higher charges. Rates of increase in both price measures were steeper at manufacturers than service provider's level.

Global energy prices gained by around 5.0 percent in July, 2021 following an increase in all components (Oil by 2.1percent), (Coal 16.9 percent) and (Natural Gas 18.5 percent). Non-energy prices changed little as a group and declined by 0.18 percent. Agriculture prices declined 0.8 percent in July. Fertilizer prices surged 6 percent, metal and minerals increased by 0.20 percent in July 2021.

Summarizing, the international scenario, on one side global economic recovery especially in Pakistan's main trading partners is a healthy sign for growth of exports and workers remittances, however, rise in international commodities price are becoming downside risk in term of high imports value and building inflationary pressure for Pakistan. Cognizant of these risks, government has already initiated building strategic reserves of essential commodities along with vigilant monitoring of imports.

2. Monthly Performance of Pakistan's Economy

The strong V-shaped recovery in FY2021 laid foundation of higher, inclusive and sustainable economic growth. The signs of economic recovery will continue in FY2022, not only because of the inertia but also from the growth-oriented government policies.

2.1 Real Sector

2.1-a Agriculture

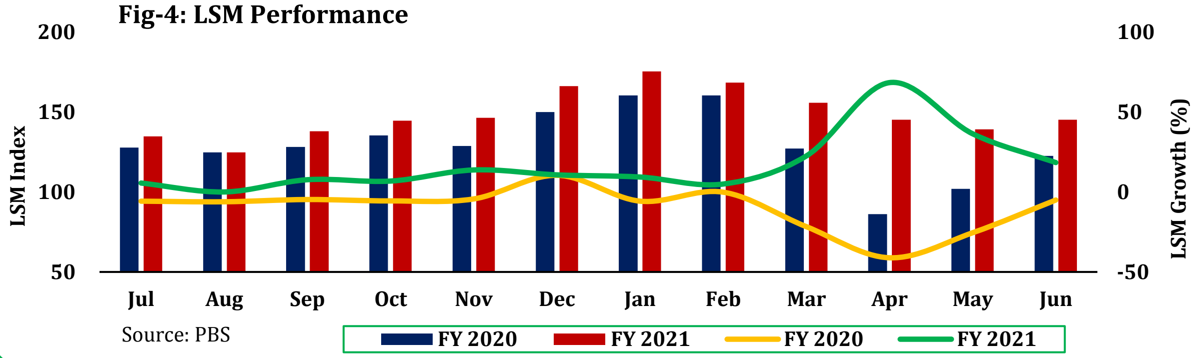
Cotton crop is at varying growth stages from germination to boll formation depending on sowing time. The crop condition is satisfactory. Sporadic attacks of insect pests particularly jassid, thrips and white fly were reported in some areas of the Punjab and increasing population was observed in the last week of June 2021. Keeping in view the situation of the cotton crop, farmers and concerned departments are very much vigilant for the spread and control of cotton pests. Sugarcane crop growth is satisfactory and the insect pest situation is also under control. Sugarcane production may increase during FY2022 mainly due to an increase in cropped area, effective and timely crop management activities because of higher sugar price and better sugarcane procurement price in the market.

The latest agriculture inputs situation remained favorable. According to the Pakistan Automotive and Manufacturing Association (PAMA), farm tractors production increased by 38.3 percent to 4,600 in July FY2022, while its sales also increased by 19.9 percent to 4,332 compared to the same month last year. Credit disbursement to the agriculture sector increased to Rs 1,366 billion in FY2021, witnessing a growth of 12 percent over an amount of Rs 1,215 billion in FY2020, despite the ongoing challenges posed by the Covid-19 pandemic and climate change. The urea off-take during June 2021 was 690 thousand tonnes showing a decrease of 40.7 percent over June 2020. Whereas, DAP offtake was 68 thousand tonnes, which decreased by 61.3 percent over June 2020.

2.1-b Manufacturing

LSM shows a remarkable performance during FY2021 and posted a growth of 14.9 percent, against the negative growth of 9.8 percent in FY2020. Governments' proactive measures in the form of timely resumption of economic activities, subsidized energy tariffs, construction package, relaxation in tariff rates for export-oriented industries and low borrowing costs by SBP pushed the large industries' performance up. In June FY 2021, LSM witnessed 18.4 percent growth on YoY basis (-5.0 percent in June FY 2020). While, on MoM basis, LSM clocked a growth of 4.4 percent in June FY2021 (-4.2 percent in May FY2021).

Fig-4: LSM Performance



Source: PBS

During FY 2021, 10 out of 15 subsectors of LSM have witnessed positive growth. Textile, having the highest weight, grew by 15.3 percent thus lifting up the whole LSM. Other major sectors like Food Beverages & Tobacco (11.01 percent), Coke & Petroleum Products (18.05 percent), Iron & Steel Products (15.58 percent), Automobile (51.06 percent) and Non-metallic Mineral Products (26.6 percent) have also performed well. The picking up of these major sectors bodes well due to inbuilt externalities.

Car production and sale increased by 85.1 percent and 104.2 percent respectively in July FY 2022. Total Oil sales increased by 16.9 percent to 1.9 million tonnes in July FY2022 (1.7 million tonnes last year).

Measures boosting the industry in general and construction activities in specific and creating jobs with spillover effects to other sectors includes:

- Major relief has been given to the Automobile industry in Budget 2021-22 by reducing the sales tax on 850cc cars from 17 percent to 12.5 percent along with exemption from value-added tax (VAT). As a result, car prices were reduced.
- Under SME Support Program for risk-sharing and collateral-free lending to SMEs, Rs 12 billion has been allocated.
- Rs 900 billion has been allocated in Federal PSDP 2021-22 which is 38.5 percent higher as compared to the previous year (Rs 650 billion last year).

2.2 Inflation

Inflation slowed down to 8.4 percent in July 2021 compared to 9.7 percent of the previous month and 9.3 percent of the corresponding month last year i.e. July, 2020. Urban CPI stood at 8.7 percent and Rural CPI stood at 8.0 percent during July 2021. Food inflation reduced to 1.74 percent as compared to June, 2021, primarily due to significant price reduction in major Food items.

Pakistan is the net importer of key food items such as wheat, sugar, edible oil and pulses. The current upsurge in international food prices amid the coronavirus pandemic makes it imperative to build strategic reserves of essential commodities to bring stability in prices of daily use items. The coronavirus pandemic has played havoc with global food prices due to supply chain disruptions. A comparison of global and domestic price increase of the essential imported items is presented as under:

Table 1: International Prices

Months	Sugar ($/MT)	Palm Oil ($/MT)	Soyabean Oil ($/MT)	Wheat ($/MT)	Crude Oil ($/Brl)
Jul-20	270.0	694.0	821.0	212.7	42.8
Jul-21	390.0	1057.0	1468.0	250.9	74.4
% Change	**44.4**	**52.3**	**78.8**	**18.0**	**73.8**

Source: Pink sheet (World Bank)

Table 2: Pakistan

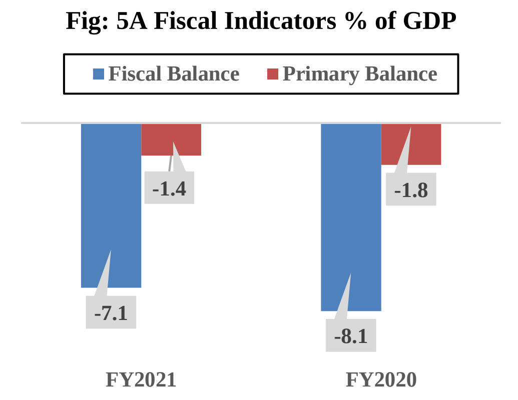
Months	Sugar Refined (Rs/Kg)	Cooking Oil Dalda (Rs/5Kg)	Vegetable Ghee Dalda (Rs/Kg)	Wheat Flour (Rs/20Kg)	Petrol (Rs/Liter)	Hi-Speed Diesel (Rs/Liter)
Jul-20	85.7	1268.8	246.9	1008.9	100.9	102.4
Jul-21	102.2	1614.4	319.5	1127.7	114.7	115.5
% Change	**19.3**	**27.3**	**29.4**	**11.8**	**13.6**	**12.8**

Source: PBS

The above comparative analysis reflects that the government consistently providing relief, keeping overall inflation in check.

2.3. Fiscal

In FY2021, the fiscal sector performance remained satisfactory owing to effective revenue mobilization and careful expenditure management. On the revenue side, improved tax collection have been realized both at the federal and provincial level. A recovery in domestic economic activity has provided significant impetus to overall tax collection, whereas, effective expenditure management helped in containing the current expenditures to the lower side.

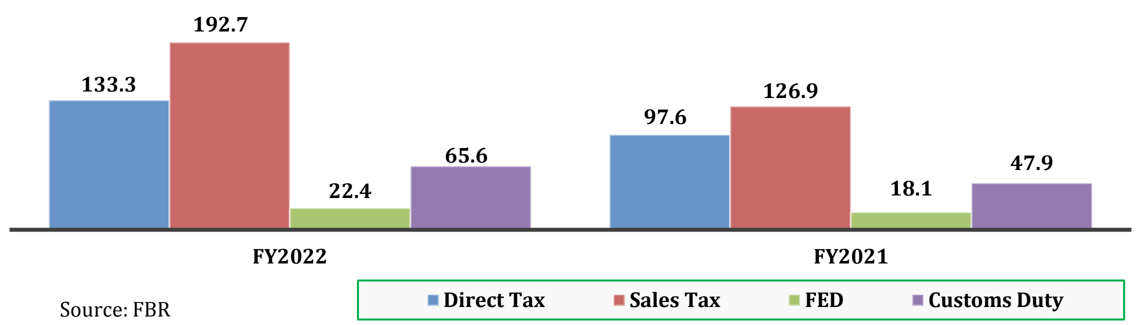


The fiscal deficit reduced to 7.1 percent of GDP in FY2021 against 8.1 percent of GDP recorded in FY2020. The fiscal deficit has been contained due to 10.1 percent rise in total revenues that outpaced the 6.8 percent growth in total expenditures during the period under review. While, the primary balance has been restricted to the deficit of Rs653.6 billion (-1.4 percent of GDP) during FY2021 against the deficit of Rs 756.6 billion (-1.8 percent of GDP) in the comparable period of last year. Such a prudent fiscal management is a result of appropriate reforms introduced by the government at macro level.

FBR Tax Collection

The FBR tax collection continued to increase, exceeding the target set for the month of July. The provisional net tax collection grew by 42.5 percent in July, FY2022 to stand at Rs 414.0 billion against Rs.290.5 billion in the same period last year. In July, FY2022, domestic tax collection increased by 43.6 percent to Rs 348.4 billion against Rs 242.6 billion in the comparable period of last year. Within the domestic collection, direct tax grew by 36.5 percent, sales tax 51.8 percent and FED by 24.2 percent.

Fig 5B: FBR Tax Collection (Rs.Billion) July



Source: FBR

2.4 Monetary

During FY2021, Money Supply witnessed expansion of Rs 3,394.6 billion (growth of 16.2 percent) as compared to expansion of Rs 3,109.5 billion (growth of 17.5 percent) in FY2020. On assets side, Net Foreign Assets point contribution in M2 growth stood at 5.9 percent and increased by Rs 1,240.9 billion as compared to (5.6 percent) expansion of Rs 990.9 billion in FY2020. On the other hand, Net Domestic Assets point contribution remained 10.3 percent witnessing expansion of Rs 2,153.7 billion against (11.9 percent) Rs 2,118.6 billion in FY2020.

On liability side, Currency in Circulation (CiC) increased by Rs 767.9 billion (growth of 12.5 percent) during FY2021 against expansion of Rs 1,192.0 billion (growth of 24.0 percent) in FY2020. Total deposits with banks witnessed expansion of Rs 2,599.9 billion (growth of 65.0 percent) against Rs 1,909.9 billion (growth of 22.5 percent) in FY2020. As a result of SBP's reforms and initiatives for digital transactions, growth in CiC remain contained and expansion in deposits growth reflects enhanced use of digital mode of payments. Consequently, strong growth in total deposits combined with substantial lower CiC has led to reduction in currency-to-deposits ratio to 39.9 percent in FY2021 compared to 41.7 percent in FY2020.

Table 3: Monetary Aggregates Rs Billion

	FY2021 (Stocks)	Flows	
		FY20	FY21
Net Foreign Assets (NFA)	724.8	990.9	1,241.0
Net Domestic Assets (NDA)	23,577.8	2,118.6	2,153.7
Net Government Borrowing	16,357.3	2,210.6	1,810.1
Borrowing for budgetary support	15,465.7	2,151.8	1,717.4
From SBP	5,419.8	-153.1	-1,119.0
from Scheduled banks	10,045.9	2,304.9	2,836.4
Credit to Private Sector	7,629.1	196.4	766.2
Credit to PSEs	1,436.7	96.3	-53.8
Broad Money	24,302.6	3,109.5	3,394.6
Reserve Money	8,663.5	1,106.4	983.6
Growth in M2 (%)		17.5	16.2
Reserve Money Growth (%)		16.8	12.8

Source: SBP

2.5 External Sector

The Current Account posted a deficit of $ 773 million (2.8 percent of GDP) for July FY2022 as against a surplus of $ 583 million (2.4 percent of GDP) last year. Current account deficit widened due to 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 19.7 percent during July 2021 and reached $ 2.3 billion in July 2021 ($ 1.9 billion last year).

As per PBS, during July, FY 2022, exports increased by 16.9 percent to $ 2.7 billion ($ 2.0 billion last year). The major exported commodities which have grown well during the review period includes Knitwear (24.4 percent), Readymade garments (9.8 percent), Bed wear (8.3 percent), Cotton Yarn (48.5 percent), Cotton Cloth (20.1 percent), Chemical & pharma products (61.4 percent), leather manufactured (12.7 percent), Vegetables (39.3 percent) and Basmati rice (17.49 percent). The increase in overall exports is contributed by the growth in exports of value-added sectors. The total imports in July, FY2022 increased to $ 5.6 billion ($ 3.7 billion last year), thus posted 52.4 percent growth. Main commodities imported were Petroleum products, Palm Oil, Petroleum crude, Iron & Steel, Liquefied Natural gas, Medicinal products, Plastic materials, Textile machinery, Electrical machinery & apparatus, Power generating machinery and Raw cotton. Higher imports of these commodities indicate growth in the related sectors as well.

2.5.1 Foreign Investment

In July FY2022, FDI was recorded at $ 89.9 million ($ 128.7 million last year) while total foreign investment registered an inflow of $ 1090.8 million during July FY2022. FDI received from Singapore $ 16.4 million (18.3 percent of total FDI), the United States $14.9 million (16.5 percent) and Hong Kong $ 12.3 million (13.7 percent). Power sector attracted highest FDI of $ 41.9 million (46.6 percent of total FDI), financial business $ 27.0 million (30.0 percent), Oil & Gas exploration $ 22.4 million (24.9 percent), & Communication $ 11.7 million (13.0 percent).

Foreign Private Portfolio Investment has registered a net outflow of $ 1.1 million during

July FY2022. Foreign Public Portfolio Investment recorded a net inflow of $ 1002.1 million. In April 2021, Pakistan established a Global Medium-Term Note (MTN) program which will allow Pakistan to tap the market at short notice. Through this program, Pakistan successfully raised $ 2.5 billion in April and $ 1.0 billion in July 2021 through a multi-tranche transaction of 5-, 10- and 30-years Eurobonds.

2.5.2 Worker's Remittances

In July FY2022, workers' remittances recorded at $ 2.7 billion ($ 2.8 billion last year). Workers' remittances continued their unprecedented streak of above $ 2.0 billion for the 14th consecutive month in July 2021. This is the second-highest ever level of remittances reported in the month of July. Share of remittances from Saudi Arabia 23.7 percent ($ 640.8 million), U.A.E 19.6 percent ($ 530.6 million), USA 11.5 percent ($ 311.8 million), U.K 14.5percent ($ 392.9 million), other GCC countries 10.9 percent ($ 293.8 million), Malaysia 0.4 percent ($ 11 million), EU 11.0 percent ($ 298.2 million) and other countries 8.4 percent.

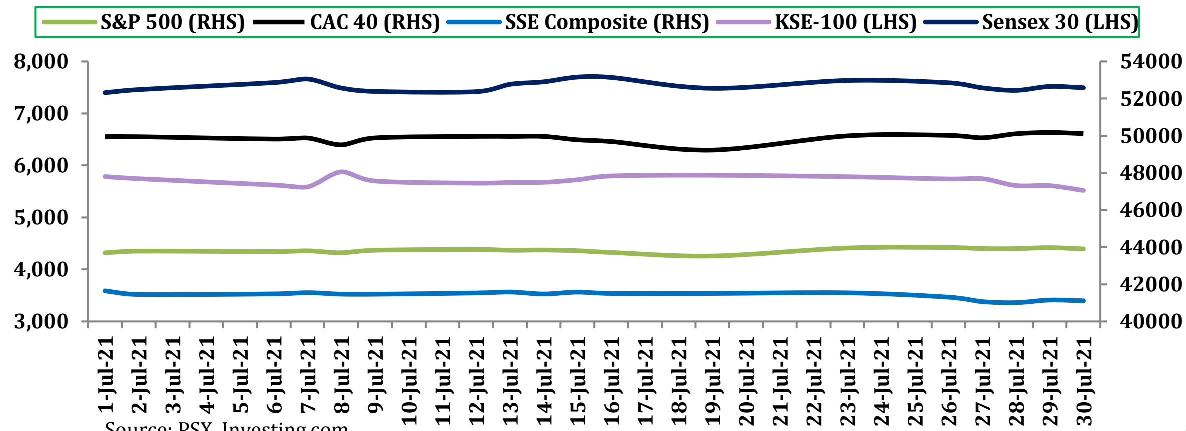
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to historically high level of $27.3 billion on August, 23 2021 with the SBP's reserves now stood at $20.3 billion due to IMF (SDR) reallocation of $2.8 billion, while commercial banks' reserves remained at $7.0 billion. Strong remittances flows contained current account deficit at manageable level without putting any pressure on foreign exchange reserve.

2.6 Performance of KSE Index

The KSE-100 index lost 301 points in July 2021 and closed at 47,055 on 30-07-2021, while the market capitalization of the PSX has lost Rs 54 billion and closed at Rs 8,243 billion on 30-07-2021. The trend in major world indices is given in the Fig - 6:

Fig-6: Major World Indices



Source: PSX, Investing.com

In the post budget scenario, after initial adjustment, the KSE-100 index will recover taking upward tick in coming months.

2.6 Social Sector

- The project steering committee of Ehsaas Tahafuz has approved the expansion of Tahafuz to 14 public sector hospitals in all federating units to protect the vulnerable population from catastrophic health expenditures.
- The government has approved the One-Window Ehsaas Policy to ensure delivery of services to marginalized segments of society through a single window, a one-stop shop.

- Under the National Poverty Graduation Program, 62,906 livelihood productive assets have been transferred to the ultra-poor households till 30th July, 2021 while during the month of July, 1,840 livelihood assets were distributed out of which over 93 percent assets have been transferred to the women.
- PPAF through its 24 Partner Organizations has disbursed 34,140 interest-free loans cases amounting to Rs 1.2 billion during the month of July, 2021. From July, 2019 till 30th July, 2021, a total of 1,450,199 interest-free loans amounting to Rs 51.65 billion have been disbursed to the borrowers.
- Under Kamyab Jawan Youth Entrepreneurship Scheme (PMKJ-YES) the government has disbursed Rs 14,944 million till June, 2021 to the youth for businesses.
- Bureau of Emigration and Overseas Employment ensured payment of more than Rs. 47 million as death/disability compensation during the month of July, 2021.
- Bureau of Emigration and Overseas Employment has registered 5,762 emigrants in July, 2021 for overseas employment in different countries.
- Overseas Employment Corporation (OEC) signed a Cooperation Agreement with the Ministry of Health (MoH), Kuwait for the supply of medical professionals on 4th July, 2020. 184 Medical professionals (Doctors / Nurses / Technicians) have been departed to Kuwait to join their duties with MoH, Kuwait in the month of July, 2021.
- Till 23rd August 2021, 1,127,584 confirmed COVID-19 cases with 1,012,662 recoveries and 25,003 deaths recorded in the country.
- Based on reported cases the mortality rate is approximately 2.2 percent.
- A total of 46.5 million doses have been administered till 23rd August 2021, while 13.4 million fully and 37.0 million individuals partially vaccinated against the COVID-19.
- In line with the government's vision to end an educational disparity in the country, the PM has launched the first phase of the Single National Curriculum (SNC) for students of Grade I-V with a view to transform the nation into a "unified entity, rooted in common morals and ethos".
- The government is currently taking all practical measures to narrow the gap between the rich and the poor and to develop social harmony in the country, as per Prime Minister's vision.

3. Economic Outlook

Revival of economic activities along with accelerated vaccination process, there are strong expectations about economic growth in FY2022. However, the risk of pandemic still exists. The Government has followed smart lockdown policies with restricting indoor activities which may have some impact on businesses especially related to Other Private Services. Further, an increase in international commodity prices can build pressure on domestic inflation as well as on the Balance of Payments. However, the government measures to build strategic reserves especially related to food along with initiatives to enhance exports will definitely mitigate the associated risks. Further, the recent geo-political situation will help Pakistan to grab more market share through exports.

3.1 Inflation

Pakistan's inflation rate is mainly driven by current and past fiscal and monetary policies, international commodity prices, USD exchange rate, seasonal factors and economic agents' expectations concerning the future developments of these indicators. Also, government structural policies to improve the functioning of markets and in particular the food markets play an important role.

In recent months, the YoY inflation rate is on a declining trend. It is expected that, in the absence of any major unexpected inflationary shocks, inflation may stabilize in August, before resuming its downward trend in the coming months. If no new inflationary impulses would occur in August, YoY inflation would decelerate from 8.4 percent in July to around 7.7 percent in August.

MoM inflationary impulses in August may come from second-round effects of previous increases in international commodity prices, from increases in administrated energy prices and currency depreciation.

Further, Government efforts to increase the efficiency of domestic food markets are still in place and are continuously being monitored and strengthened. Thus, all in all, YoY inflation in August is expected to fluctuate around the level attained in July within a range of 7.6 – 9.2 percent.

3.2 Agriculture

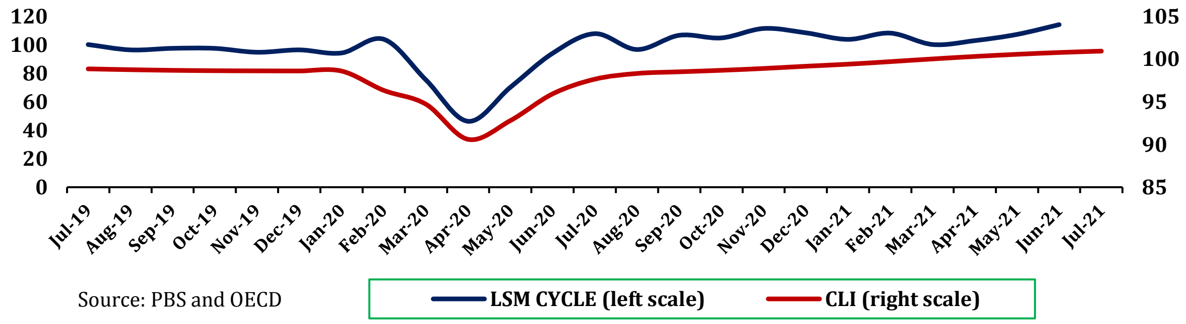
The inputs availability is satisfactory and it is expected that the agriculture sector will continue to perform better on account of continuing support of the government to the sector. The government has given prime importance to agriculture being the mainstay of economic growth due to its linkages with employment, trade and food security. In this regard, the government has taken steps for supplying improved seeds and fertilizer. Enhancing agriculture credit for mechanized farming, agro-based industries and cold chains & storage facilities. Further, a network of agri-malls is proposed to be spread across the country to minimize the role of the middle man. An additional amount of Rs. 25 bn is being allocated for the development of the agriculture sector. Thus, the agriculture sector is expected to perform well in absence of any adverse climate shock.

3.3 Industrial activity

Industrial activity, measured by the LSM index is the sector that is most exposed to external conditions like developments in international markets. Fig – 7 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 recovery 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.

Since March 2021, the LSM index recorded double digit YoY growth numbers. It is expected that trend will continue in July FY2022 as well. These staggering high growth rates of the LSM output reflect low base effects and also the strong momentum of the current economic expansion.

Fig - 7: Relationship between CLI and LSMI Cycle



Source: PBS and OECD

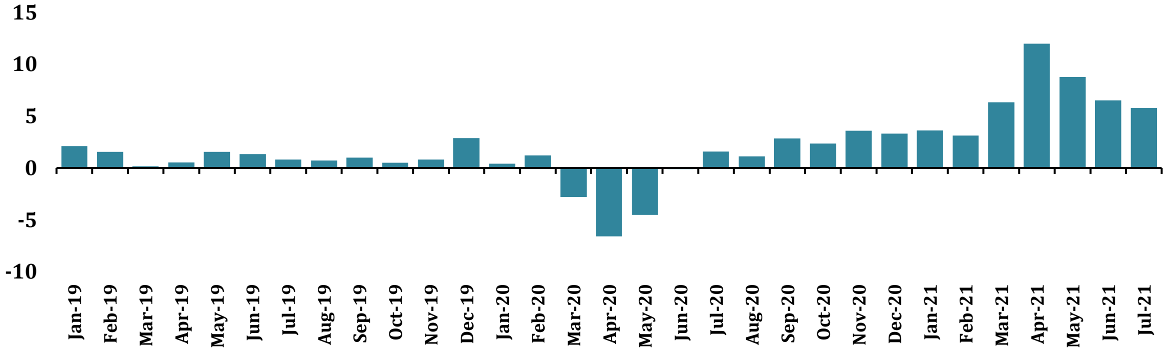
3.4 Overall economic activity

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-8, presents the MEI on monthly basis since January 2019. It should be noted that some of the data underlying the July MEI are still provisional and may be revised next month.

In May 2021, PBS published 3.9 percent as the official projected economic growth rate for FY2021 based on 9 months. The strong acceleration of the MEI during the last quarter of 2021, indicate that the annual GDP growth in FY2021 may exceed the provisional figure released by PBS. Since March 2021, MEI fluctuates at a significantly higher level as compared to the previous months of FY2021. This steep increase in the MEI during the last months of 2021 reflect the extraordinary strong acceleration in LSM growth on a YoY basis (which is known to exert significant multiplier effects on important segments of the services sector). Further, the rebound in imports, is another indicator of strong expansion in economic activity.

In July 2021, The MEI shows continued strong growth, mainly driven by several factors. First, an expected continued strong YoY growth of LSM in July. Furthermore, as observed in July continued cyclical uptrend in the main trading partners, continued strong growth in imports and deceleration of inflation.

Fig -8: Monthly Economic Indicator (MEI) Growth (percent)



Source: EAW Calculation

3.5. External

According to Balance of Payments (BoP) data, imports of goods and services spiked in June 2021, but return to normal level in July 2021. Usually, both June and July, but especially June, are characterized by positive seasonal effects. This positive seasonal impulse is expected to disappear in August. On the other hand, other factors, such as the recent increases in international oil prices and the ongoing revival of economic growth, may stimulate imports. It is expected that imports of goods and services will settle at around $ 6 billion in August 2021.

Contrary to imports, exports of goods and services, according to BoP data, usually experience negative seasonality during June through September. The moderation of this seasonal effect, together with the ongoing strong recovery in Pakistan's main export markets, the momentum in domestic economic dynamism and specific Government policies to stimulate exports are expected to guide exports of goods and services towards the $ 3 billion in August and beyond in subsequent months.

It is expected that trade deficit in goods and services could stabilize to approximately $ 3 billion in August with expectations about remittances to be stabilized around $ 2.5 billion and taking into account the other secondary income and primary income flows, the current account would remain in deficit at moderate monthly levels of around $ 0.5 billion in the coming month. These expectations depend on the absence of any unexpected negative shocks which may be generated by the potential slowdown of the economic revival abroad (due to loss of confidence, inflation fears, uncertainty for tapering of monetary accommodation and geopolitical risks, etc.). An international and domestic upsurge in COVID-19 infections remains an important risk factor.

3.6 Fiscal

- During FY2021, the fiscal consolidation efforts remained on track. The successful consolidation achieved on the back of prudent expenditure management and revenue mobilization efforts. For FY2022, the fiscal deficit is expected to reduce further.
- In FY2021, tax revenue increased by 18.4 percent, whereas in July FY2022, tax collection climbed up by 42.5 percent, indicating a good start to the new fiscal year. For FY2022, the tax collection is expected to reach Rs. 5,829 billion. To achieve the target, the government is pursuing a comprehensive tax policy that focuses on expanding the tax base by identifying new taxpayers, gradually eliminating exemptions & concessionary provisions, along with lowering tax rates.
- These achievements in the fiscal sector are important, especially when Pakistan like the whole world is constantly battling the resurgence of COVID 19. The persistence in consolidation efforts would pave the way to create fiscal space that would enable the government to withstand any untoward situation.

4. Way Forward

Recent developments in Pakistan's macroeconomic indicators are positive. In absence of any major unexpected negative shocks, the economy is moving on a balanced and sustainable growth path. The challenge remains to elevate this sustainable growth path to a higher level. This requires extending Pakistan's production capacity and ensuring that a sufficient proportion of this additional production is exported, besides satisfying the needs of domestic consumers. Enhancing production capacity and increasing its efficiency is not possible without directing a larger proportion of the available and future income towards investments, instead of consumption.

Economic Indicators
(25-08-2021)

	2020-21 (July)	2021-22 (July)	percent Change
External Sector			
Remittances ($ billion)	**2.8**	**2.7**	↓**2.1**
Exports FOB ($ billion)	**1.9**	**2.3**	↑**19.7**
Imports FOB ($ billion)	**3.6**	**5.4**	↑**51.7**
Current Account Deficit ($ billion)	**-0.6**	**0.8**	↑
Current Account Deficit (percent of GDP)	**-2.4**	**2.8**	↑
FDI ($ million)	**128.7**	**89.9**	↓**30.1**
Portfolio Investment-Public ($ million)	**-53.0**	**1,002.1**	↑
Total Foreign Investment ($ million) (FDI &Portfolio Investment)	**2.4**	**1,090.8**	↑
Forex Reserves ($ billion)	**19.745** **(SBP: 12.663)** **(Banks: 7.042)** (On 24th August 2020)	**27.309** **(SBP: 20.267)** **(Banks: 7.042)** (On 24th August 2021)	
Exchange rate (PKR/US$**)**	**168.38** (On 24th August 2020)	**165.21** (On 24th August 2021)	

Source: SBP

	2019-20 (Jul-Jun)	2020-21 (Jul-Jun)	percent Change
Fiscal			**(Rs Billion)**
FBR Revenue (July FY21 vs FY22)	**290.5**	**414**	↑**42.5**
Non-Tax Revenue	**1,861**	**1,631**	↓**12.3**
PSDP (Authorization)	**101.5** (1st Jul to 7th Aug)	**133.7** (1st Jul to 16th Jul)	↑**31.7**
Fiscal Deficit	**3,376**	**3,403**	↑
Primary Deficit	**757**	**654**	↓

Source: FBR & Budget Wing

	2019-20 (Jul-Jun)	2020-21 (Jul-Jun)	percent Change
Monetary Sector			
Agriculture Credit (provisional)	**1,215**	**1,366**	↑**12.4**
Credit to private sector (Flows)	**-129.4** (1st Jul to 7th Aug)	**-148.5** (1st Jul to 6th Aug)	↓
Growth in M2 (percent)	**-0.9** (1st Jul to 7th Aug)	**-2.4** (1st Jul to 6th Aug)	
Policy Rate (percent)	**7.0** (25-June-2020)	**7.0** (27-July-2021)	

Source: SBP

	2019-20	2020-21	percent Change
Inflation			
CPI (National) (percent)	**9.3** (July, FY21)	**8.4** (July, FY22)	
	10.7 (Jul-Jun)	**8.9** (Jul-Jun)	
Real Sector			
Large Scale Manufacturing (LSM) (percent)	**-5.0** (June)	**18.4** (June)	↑
	-9.8 (Jul-Jun)	**14.9** (Jul-Jun)	↑
Miscellaneous			
PSX Index*	**47801** (On 1st Jul 2021)	**47829** (On 24th Aug 2021)	↑**0.06**
Market Capitalization (Rs trillion)	**8.38** (On 1st Jul 2021)	**8.36** (On 24th Aug 2021)	↓**0.24**
Market Capitalization ($ billion)	**53.22** (On 1st Jul 2021)	**50.60** (On 24th Aug 2021)	↓**4.92**
Incorporation of Companies	**1,933** (July, FY21)	**1,949** (July, FY22)	↑**0.8**

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP