Monthly Economic Update & Outlook

August 2022

Government of Pakistan
Finance Division
Economic Adviser's Wing

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Executive Summary

- Higher global inflation, monetary tightening, COVID-19 related restrictions, and the Russia-Ukraine conflict have contracted the global GDP growth in the second quarter of 2022. According to the World Economic Outlook July 2022, global GDP is expected to grow by 3.2 percent in 2022 from 6.1 percent in 2021. Global commodity prices eased in July 2022. Overall energy prices fell by 1.3 percent, led by crude oil (-10.0%), while European natural gas gained more than 8.9 percent. Agricultural prices dropped by 7.4 percent. Food prices declined by 8.5 percent and fertilizers eased by 3.7 percent. Metals plunged 13.4 percent and precious metals declined by 6.6 percent.

- **Real Sector:** The torrential rains/floods during the month of July & August has adversely affected the standing Kharif crops specifically the cotton crop. Assessment of the crop damages is in progress by the provinces; however, significant losses can be witnessed. The present situation depicts water inundated cotton fields mostly in Sindh, Balochistan and southern districts of Punjab. During FY2022, LSM posted a growth of 11.7 percent as compared to 11.2percent in FY2021.

- **Fiscal, Monetary & External:** The fiscal deficit FY2022 was recorded at 7.9 percent of GDP. The primary balance posted a deficit of Rs 2,078 billion. During FY2022, Money Supply (M2) witnessed an expansion of Rs 3,283.3 billion (growth of 13.5 percent) as compared to an expansion of Rs 3,389.7 billion (growth of 16.2 percent) in FY2021. During July FY2023, the current account deficit was recorded at $ 1.5 billion.

- **Economic Outlook:** Global and domestic uncertainties are still surrounding the economic outlook. In addition, recent flooding caused by abnormally heavy monsoon rains has negatively impacted economic activity in a number of cities, which may diminish economic prospects.

    - The months of June and July 2022 witnessed a significant increase in inflation on YoY basis due to the higher international commodity prices and depreciation of PKR. The inflationary pressure may continue in August 2022, even if there would be no further MoM increase in inflation, as prices of essential items are significantly higher than the last year.

    - The CLI in Pakistan's major export countries continues to follow a downward trend due to the supply chain bottlenecks and geo-political tensions. The economy of Pakistan also witnessing a slowdown in growth. However, overall economic growth in Pakistan remains positive due to a continuing high growth path of potential output.

    - The trade balance on goods and services improved significantly in July compared to June, and it is anticipated that this trend will continue in the coming months. In addition, it is anticipated that remittances will reach around $3 billion in the coming months. Thus, taking into consideration the anticipated trajectory of the balance on goods and services as well as the other components, the current account balance may gradually approach equilibrium in coming months.

    - The fiscal deficit surpassed its target and recorded at 7.9 percent of GDP due to an increase in total expenditure amid higher grants and subsidies. For FY2023, the government is confident to achieve the fiscal sector related targets through resource mobilization and prudent expenditure management.

1. International Performance and Outlook

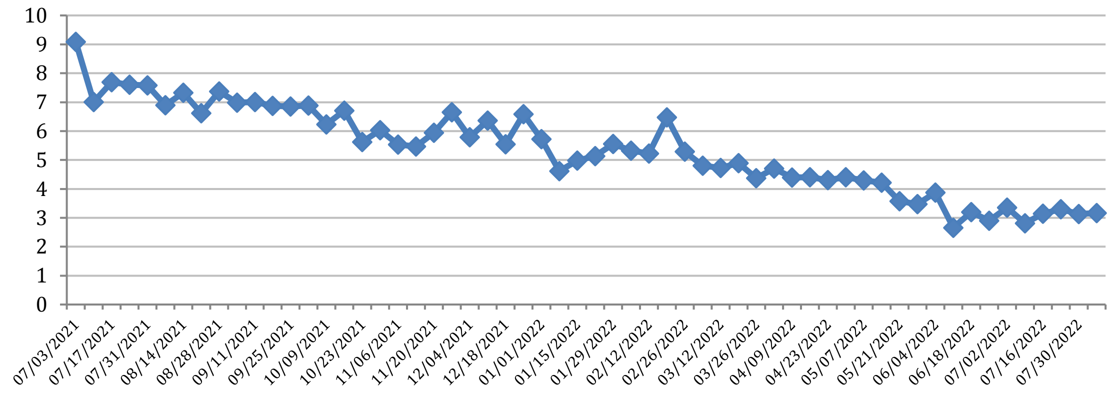
A nascent recovery in 2021 has been followed by gloomy and uncertain developments in 2022 as risks began to materialize. Global output contracted in the second quarter of this year, owing to downturns in China and Russia, while US consumer spending fell short of expectations. Several shocks have hit a world economy already weakened by the pandemic; higher than expected inflation worldwide especially in the United States and major European economies, triggering tighter financial conditions, a higher-than-expected slowdown in China due to COVID-19 outbreaks and lockdowns and further negative spillovers from Russia-Ukraine conflict. Global output growth is expected to slow from 6.1 percent in 2021 to 3.2 percent in 2022, 0.4 percentage points lower than the IMF's April 2022 World Economic Outlook.

In China, further lockdowns and the deepening real estate crisis have led growth to be revised down by 1.1 percentage points, with major global spillovers. In Europe, significant downgrades reflect spillovers from the Russia-Ukraine conflict and tighter monetary policy. Food and energy prices, as well as lingering supply-demand imbalances, have pushed global inflation up and it is expected to reach 6.6 percent in advanced economies and 9.5 percent in emerging market and developing economies this year, representing 0.9 and 0.8 percentage point increases, respectively. All these shocks will have a spillover effect in 2023, with global output increasing by only 2.9 percent.

The U.S economy contracted in the second quarter, with consumer spending growing at the slowest pace in two years and business spending declining. Second-quarter's GDP decreased by 0.9 percent. While the second straight quarterly decline in GDP largely reflected a more moderate pace of inventory accumulation by businesses. The U.S central bank raised its policy rate by other three-quarters of a percentage point, bringing the total rate hikes since March to 225 basis points.

However, U.S Inflation eased slightly to 8.5 percent in July compared to 9.1 percent in June. The annual rate decelerated from a four-decade high, as costs of energy and gasoline dropped. U.S job growth unexpectedly accelerated in July, lifting the level of employment above its pre-pandemic level, unemployment rate fell to 3.5 percent in July from 3.6 percent in June. The impact of the first two quarters' decrease in GDP is also reflected in the growth of WEI which is constantly on a declining trend (Fig-1).

Fig-1: Growth in WEI



Source: Federal Reserve Bank of New-York

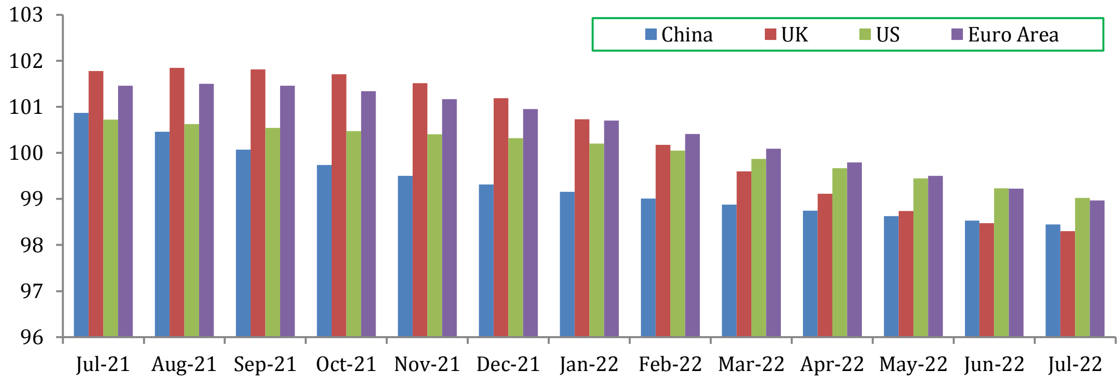
The month of July observed the rate of global economic growth ease to its weakest during the current 25-month sequence of expansion. The slowdown was mainly centred on developed nations, where output contracted for the first time since June 2020. Emerging markets showed greater resilience. Inflation has remained contained, with five-month lowest cost-push inflation.

The J.P.Morgan Global Composite Output Index – posted 50.8 in July, down from 53.5 in June. The headline index has stayed above the neutral 50.0 mark for 25 months. Growth slowed to a six-month low in the services sector, while stagnant output is observed in the manufacturing sector. Three out of the six sub-industries covered by the survey observed a contraction in output at the start of the third quarter (consumer services, financial services, and intermediate goods). Although upturns continued in the business services, consumer goods, and investment goods categories, rates of expansion eased in all three cases.

National PMI data indicated that the slowdown was led by developed nations. US output contracted for the first time since June 2020, with downturns signalled in both the US manufacturing and services sectors. Economic activity decreased slightly in the euro area (on average) for the first time since early 2021, as contractions in Germany and Italy offset expansions (albeit slower) in France and Spain. Growth in Japan also drifted to near stagnation.

The global slowdown in growth pattern is also reflected through Composite Leading indicators (CLI) of Pakistan's main export markets, which is available till July 2022, as compiled by OECD (Fig-2). All economies included (China, Euro Area, UK& US) have observed the lowest CLI value in the last twelve months values.

Fig-2: Composite Leading Indicator



Source: OECD

Global employment increased for the twenty-third consecutive month in July, which indicates that job creation in almost all the nations covered by the survey (the exception being China). However, the rate of increase eased to a six-month low.

Inflationary pressures eased in July. Input costs and output charges rose at the slowest rates since February 2022 and September 2021 respectively. Inflationary pressure for both price measures remained substantially higher (on average) for developed nations compared to emerging markets.

Global commodity prices eased in the month of July 2022. Energy prices fell by 1.3 percent, led by crude oil (-10.0%), while European natural gas gained more than 8.9 percent. Agricultural prices dropped by 7.4 percent. Food prices declined by 8.5 percent and fertilizers eased by 3.7 percent. Metals plunged 13.4 percent and precious metals declined by 6.6 percent.

2. Monthly Performance of Pakistan's Economy

The economy of Pakistan is going through high inflationary and external sector pressures due to higher commodity prices both in the international & domestic market and exchange rate depreciation (YoY). However, the government is taking all possible measures to counter these pressures so that the growth momentum may remain intact.

2.1 Real Sector

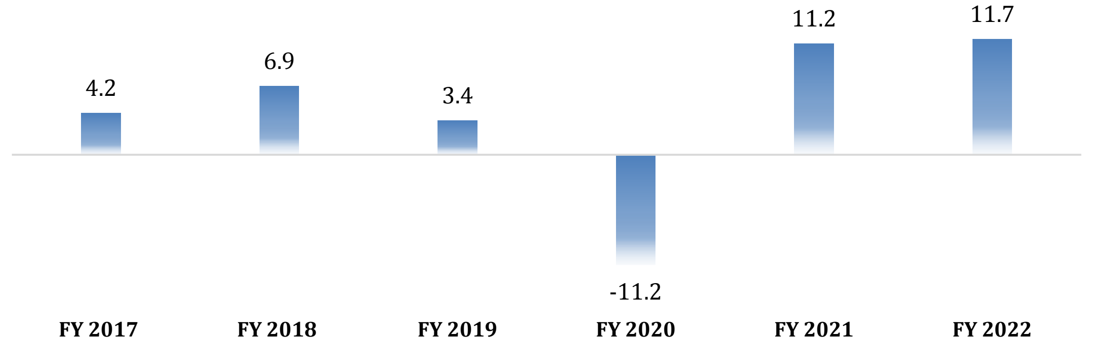
2.1-a Agriculture

Flash floods caused by abnormally heavy monsoon rains would have a negative effect on the productivity of major and minor Kharif crops 2022. For July FY2023, farm tractor production dropped by 47.8 percent to 2,400 and its sales slowed by 48.0 percent to 2,254 compared to the same month last year. During Jul-May FY2022, the agriculture credit disbursement increased by 2.3 percent to Rs 1,219.3 billion as compared to Rs 1,191.6 billion last year. During Kharif 2022 (April-June), urea off-take was recorded at 1,615 thousand tonnes showing an increase of 7.5 percent while DAP off-take reached 355 thousand tonnes witnessing an increase of 16.5 percent over the same period of the previous year.

2.1-b Manufacturing

Despite global and domestic headwinds, FY2022 ended well for the LSM with a growth of 11.7 against 11.2 percent in the last year. The growth was also seen as broad-based as 19 out of 22 sectors witnessed growth which includes Food, Tobacco, Wearing Apparel, Textile, Chemicals, Automobiles, Iron & Steel products, Leather Products, and Paper & Paperboard while it decreased in Rubber Products and Other Transport Equipment. On YoY basis, LSM increased by 11.5 percent in June 2022 while on MoM basis, LSM inched up 0.2 percent.

Fig-3: LSM Growth (%) July-June



Source: PBS

However, the first month of FY 2023 proved to be challenging for the auto industry due to a challenging economic environment such as a massive increase in prices, tightening auto finance, and suspension of bookings by two major assemblers. Car production and sale decreased by 5.9 and 49.8 percent, respectively, Trucks & Buses production and sale decreased by 13.0 and 54.0 percent and tractor production and sale decreased by 47.8 and 48.0 percent, respectively.

In July 2022, total cement dispatches nosedived by 47.7 percent to 2.04 mn tonnes (3.90 mn tonnes in July 2021) as a massive decline of 45.3 percent was observed in local cement dispatches and 66.1 percent in exports dispatches. In July FY2023, total Oil sales decreased by 26.0 percent to 1.4 mn tonnes (1.9 mn tonnes last year).

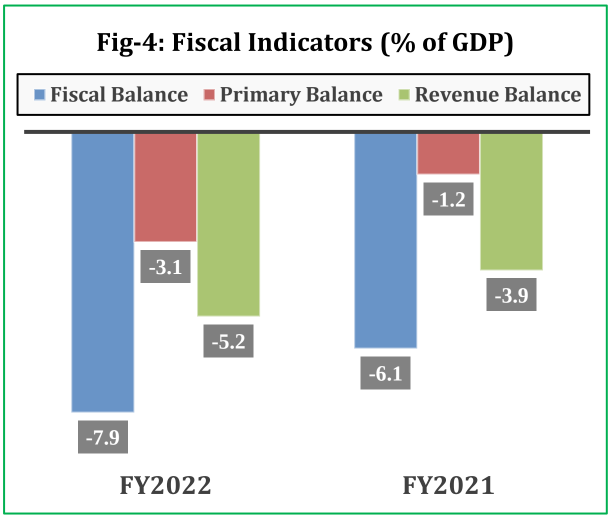
2.2 Inflation

CPI inflation for the month of July FY2023 is recorded at 24.9 percent as compared to 8.4 percent during the same month last year. This is the second consecutive month in which YoY inflation escalated above 20 percent, however, MoM, its pace decelerated.

The Urban CPI inflation increased by 23.6 percent on YoY basis in July 2022 as compared to an increase of 19.8 percent in the previous month and 8.7 percent in July 2021. Rural inflation increased by 26.9 percent on YoY basis in July 2022 as compared to an increase of 23.6 percent in the previous month and 8.0 percent in July 2021.

WPI increased by 38.5 percent during the month of July 2022 as against the increase of 38.9 percent in June 2022 and an increase of 17.3 percent in July 2021. On MoM basis, WPI inflation increased by 2.0 percent in July 2022 as compared to an increase of 8.2 percent a month earlier and an increase of 2.3 percent in July 2021. A higher trend in WPI will ultimately transmit into headline CPI inflation in the coming months.

2.3 Fiscal



The fiscal year 2022 witnessed strong growth in tax collection, however, an unprecedented rise in expenditures significantly hampered the consolidation efforts. The fiscal deficit widened by 55 percent in FY2022. In terms of GDP, it increased to 7.9 percent (Rs 5,260 billion) in FY2022 against 6.1 percent (Rs 3,403 billion) in FY2021. Similarly, the primary balance posted a deficit of Rs 2,077 billion (-3.1 percent of GDP) against the deficit of Rs 654 billion (-1.2 percent of GDP). With the growing fiscal deficit, total financing requirements in FY2022 grew by 55 percent. Domestic and external resources fetched Rs 4,081 billion and Rs 1,178 billion, respectively. Within total domestic resources, financing from banks stood at Rs 3,101 billion and from non-banks at Rs 981 billion.

Total revenues increased by 16.4 percent to Rs8,035 billion in FY2022, up from Rs6,903 billion during the previous year. In total, tax revenues grew by 28 percent while non-tax collection on the other hand fell by 21 percent in FY2022.

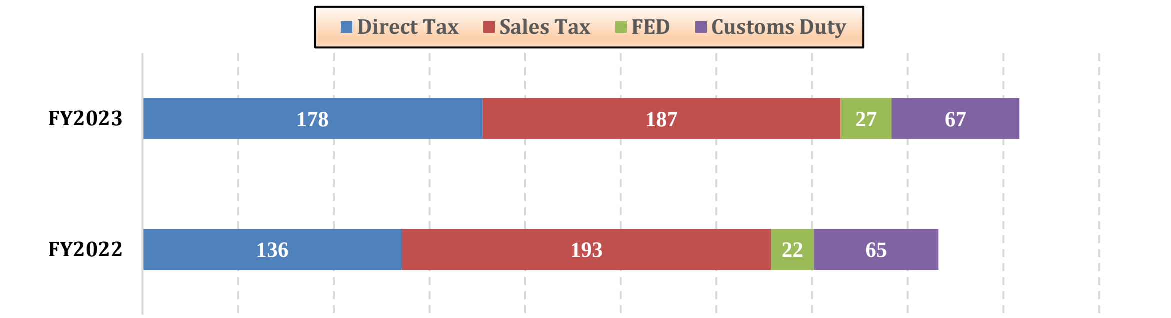
Total expenditure increased by 29 percent to Rs 13,295 billion in FY2022 against Rs 10,307 billion in FY2021. Within the total expenditures, current spending grew by 27 percent, while development expenditures and net lending increased by 26 percent. The growth in current expenditures is largely attributed to a 32 percent rise in non-mark-up spending, while mark-up payments grew by 16 percent. Within non-markup expenditures, subsidies and grants witnessed a sharp rise. Similarly, PSDP expenditures (federal and provincial) increased by 34 percent, owing to a significant increase in provincial development spending.

FBR Tax Collection

In July FY2023, FBR surpassed the target of Rs 443 billion by Rs 15 billion. The provisional net collection represents a growth of 10.2 percent to stand at Rs 458 billion during July FY2023 against Rs 416 billion in the comparable period of last year. The performance clearly reflects FBR's continuous efforts to maintain the growth trajectory established last year.

With a 31 percent growth in direct taxes, domestic tax collection stood at Rs 391 billion in July FY2023 against Rs 351 billion last year, representing a growth of 12 percent. With regard to other tax heads, collection from FED increased by 19 percent, customs duty by 3 percent, while sales tax was reduced by 3 percent.

Fig-5: FBR Tax Collection (Rs Billion) July



Source: FBR

To prevent liquidity shortages in the industry, FBR released refund on the fast track as it grew by 33 percent to Rs 28 billion in July FY2023 as compared to Rs 21 billion in the same period of last year.

2.4 Monetary

During FY2022, Money Supply (M2) witnessed an expansion of Rs 3,283.3 billion (growth of 13.5 percent) as compared to an expansion of Rs 3,389.7 billion (growth of 16.2 percent) in FY2021. On the assets side, Net Foreign Asset (NFA) decreased by 1,481.3 billion as compared to an expansion of Rs 1,240.9 billion in FY2021. NFA reduction in FY2022 reflects pressure on the external front owing to deterioration in the current account deficit. On the other hand, Net Domestic Asset (NDA) witnessed an expansion of Rs 4,764.6 billion against an expansion of Rs 2,148.8 billion in FY2021. Within NDA, government sector borrowing increased to Rs 3,379.7 billion against borrowing of Rs 1,717.9 billion in FY2021. Credit to private sector witnessed an expansion of Rs 1,612.1 billion as compared to an expansion of Rs 766.2 billion in FY2021.

On the liability side, Currency in Circulation (CiC) contained to Rs 662.5 billion in FY20222 as compared to an increase of Rs 767.9 billion in FY2021. Total deposits with banks witnessed an expansion of Rs 2,593.1 billion as compared to Rs 2,594.9 billion in FY2021. This brought the currency to deposit ratio down to 38.0 percent in FY2022 against 39.9 percent in FY2021. This uptick in the deposit mobilization can be attributed to a cumulative 675 bps increase in the policy rate during FY2022 and the removal of the withholding tax on the banking transactions with effect from July 01st, 2021.

Table-1: Monetary Aggregates (Rs Billion)

	FY2022 (Stocks)	Flows			
		FY21	FY22	29-Jul-22	30-Jul-21
Net Foreign Assets (NFA)	-756.6	1,240.9	-1,481.3	-537.1	116.0
Net Domestic Assets (NDA)	28,337.6	2,148.8	4,764.6	182.2	-533.2
Net Government Borrowing	19,644.8	1,717.9	3,379.7	272.9	-196.9
Borrowing for budgetary support	18,528.4	1,625.2	3,155.0	269.0	-189.5
From SBP	5,185.4	-1,206.3	-147.1	76.1	-562.4
from Scheduled banks	13,343.1	2,831.5	3,302.1	192.9	372.9
Credit to Private Sector	9,241.2	766.2	1,612.1	-139.4	-144.2
Credit to PSEs	1,393.4	-53.8	-43.3	24.3	-4.5
Broad Money	27,581.0	3,389.7	3,283.3	-354.9	-417.1
Reserve Money	9,326.4	983.6	662.9	417.3	110.4
Growth in M2 (%)		16.2	13.5	-1.3	-1.7
Reserve Money Growth (%)		12.8	7.7	4.5	1.3
Source: SBP					

2.5 External Sector

The Current Account posted a deficit of $ 1.2 billion for July FY2023 as against a deficit of $ 851 million last year, mainly due to decline in workers' remittances owing to seasonality. However, the current account deficit shrank to $ 1.2 billion in July 2022 as against $ 2.2 billion in June 2022, largely reflecting a sharp decline in energy imports and continued moderation in other imports. Exports on fob grew by 2.7 percent during July FY2023 and reached $ 2.3 billion ($ 2.2 billion last year). Imports on fob grew by 0.3 percent during July FY2023 and reached $ 5.38 billion ($ 5.37 billion last year). Resultantly, the trade deficit (July FY2023) reached $ 3.09 billion as against $ 3.1 billion last year.

As per PBS, during July FY 2023, exports decreased by 3.7 percent to $ 2.25 billion ($ 2.34 billion last year). On MOM basis, exports declined by 22.7 percent in July 2022 as against $ 2.9 billion in June 2022. The major export commodities which have shown tremendous performance during the review period include Readymade garments(1.1 percent in value & 48.5 percent in quantity), Cotton Cloth (1.4 percent in value despite 30.8 percent decline in quantity), Knitwear (10.7 percent in value & 57.7 percent in quantity), Carpet, Rugs & Mats (35.6 percent in value & 20.5 percent in quantity) Foot wear (28.0 percent in value), Foot balls (32.3 percent in Value & 40.3 percent in quantity) and Others rice (15.1 percent in value & 7.2 percent in quantity).

The total imports in July FY2023 decreased to $ 5.0 billion ($ 5.6 billion last year), thus declining by 10.4 percent. The main commodities imported were Petroleum products ($728.1 million), Medicinal products ($ 91.9 million), Petroleum crude ($ 431.1 million), Liquefied Natural gas ($ 230.5 billion), Palm Oil ($ 299.4 million), Plastic materials ($ 241.8 million) and Iron & Steel ($ 196.8 million).

2.5.1 Foreign Investment

FDI reached $ 58.9 million during July FY2023 ($ 103.8 million last year) and decreased by 43.3 percent. On MOM basis, FDI was recorded at $ 58.9 million in July 2022 as against an inflow of $ 271.1 million in June 2022. FDI received from U.A.E $12.6 million (21.5 percent of total FDI), Switzerland $ 11.5 million (19.6 percent), Germany $ 6.5 million (11.0 percent), Netherland $ 6.3million (10.6 percent), and China $ 4.6 million (7.7 percent of total FDI). The power sector attracted the highest FDI of $ 30.6 million (51.9 percent of total FDI), Financial Business $ 27.7 million (47.0 percent), and Communication $ 10.6 million (17.9 percent).

Foreign Private Portfolio Investment has registered a net inflow of $ 3.7 million during July FY2023. Foreign Public Portfolio Investment recorded a net outflow of $ 17.7 million. The total foreign portfolio investment recorded an outflow of $ 13.9 million during July FY2023 as against an inflow of 1000.7 million last. Total foreign investment during July FY2023 reached $ 44.9 million ($ 1104.5 million last year).

2.5.2 Worker's Remittances

In July FY2023, workers' remittances recorded at $ 2.5 billion ($ 2.7 billion last year), decreased by 7.8 percent and have continued to remain above the $ 2 billion mark since June 2020. On MoM basis, remittances decreased by 8.6 percent in July 2022 as compared to June 2022 ($ 2.7 billion). This decrease largely reflected the lower number of working days in July because of Eid, at 17 working days compared to 22 last month and 18 in July 2021. Share of remittances (July FY2023) from Saudi Arabia remained 23.0 percent ($ 580.6 million), UAE 18.1percent ($ 456.2 million), U.K 16.3percent ($ 411.7 million), USA 10.1percent ($ 254.3 million), other GCC countries 11.1 percent ($280.6 million), EU

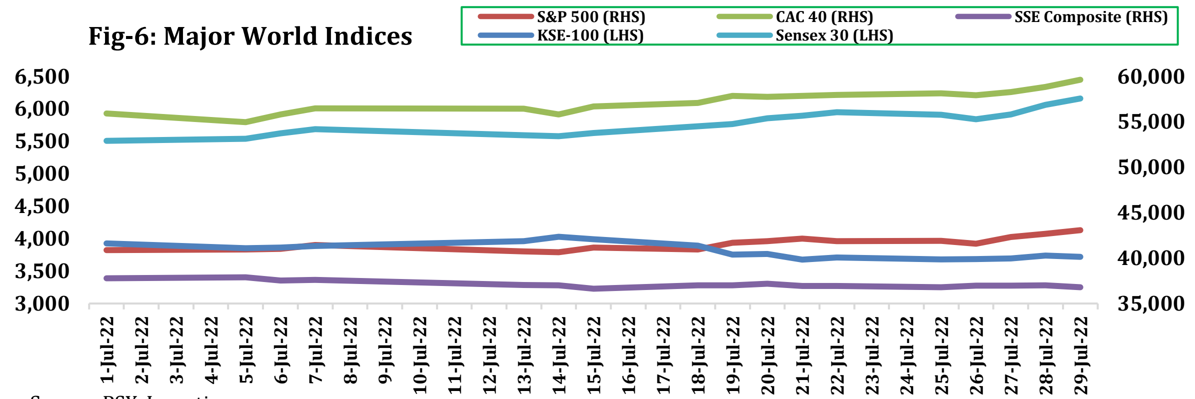
11.7percent ($ 294.4 million), Malaysia 0.5percent ($ 11.4 million), and Other Countries 9.2 percent.

2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves stood at $ 13.5 billion on Aug19, 2022, with the SBP's reserves recorded at $7.8 billion, while commercial banks' reserves remained at $5.7 billion.

2.6 Performance of KSE Index

The KSE-100 index closed at 40,150 points as on 29th July 2022 while market capitalization settled at Rs 6,772 billion. The trend of major world indices is depicted in Fig-6:



Source: PSX, Investing.com

2.7 Social Sector

- Keeping in view the prevailing situation in the country, the government has planned to expand the scope of BISP and increase the number of beneficiaries to 10 million.
- At present, eight million people are enrolled as beneficiaries of the financial assistance under the Benazir Kafalat and other schemes. One million will be included this year and another one million in the next year's budget.
- The government has decided to include 500,000 more people from Balochistan in BISP, which would cover 65 percent to 70 percent population of the province. For this purpose, more BISP centers would be established in the province.
- The government has decided to establish the Nashonuma centers in all the districts of the country at an expenditure of around Rs 21.5 billion to address the issue of malnutrition in the children of deserving families. Currently, there are 50 centers in the country.
- PPAF, through its 24 Partner Organizations has disbursed 36,677 interest-free loans amounting to Rs 1.50 billion during the month of July 2022. Since the inception of the interest-free loan component, a total of 1,974,315 interest-free loans amounting to Rs 71.73 billion have been disbursed to the borrowers.
- Bureau of Emigration and Overseas Employment has registered 45626 emigrants during July 2022 for overseas employment in different countries.
- Under Kamyab Jawan Youth Entrepreneurship Scheme (PMKJ-YES), the government has disbursed Rs 51,704 million till June 2022 to the youth for businesses.
- Till 18 August 2022, the number of confirmed COVID-19 cases reached 1.56 million with 1.52 million recoveries and 30,544 deaths.
- As on 18 August 2022, administered doses are reported at 290 million with 130

million fully and 138 million partially vaccinated.

- In a recent US-PAK Health dialogue, the US committed to donate 16 million doses of pediatric Pfizer vaccines to Pakistan. An additional $20 million was also pledged by USAID to support Pakistan's vaccination efforts.
- The Dialogue also highlighted the donation of four mobile testing labs by the US that would augment Pakistan's capacity in diagnosing COVID-19 and other communicable diseases, especially in remote areas. The USAID will also undertake new programs in Pakistan under Global Health Security Agenda.
- It was also decided to strengthen cooperation between the US Food & Drug Administration (FDA) and the Drug Regulatory Authority of Pakistan (DRAP). The US Centre for Disease Control will also help NIH in strengthening the disease data center in Pakistan. The US side also appreciated Pakistan's campaign for polio eradication and reiterated its commitment to continue its support against the crippling disease.

Economic Outlook

The economic outlook is surrounded by global and domestic uncertainties. Geopolitical tensions remain unabated, worldwide inflation remains high, interest rates show tendencies to rise, and the US dollar strengthens. Pakistan's external environment is therefore facing increasing challenges. Domestically, the Government has taken necessary measures to comply with IMF requirements. These have further increased inflation, but also have the positive effect of alleviating the external financing constraints. Recent floods caused by abnormally heavy monsoon rains has adversely affected important and minor crops which may impact the economic outlook through agriculture performance.

3.1Inflation

YoY and MoM inflation have been accelerating drastically in June and July. The main drivers were seen to be the pass-through of high international commodity prices and exchange rate depreciation into domestic retail prices. On the other hand, during the last 12 months, money supply growth was compatible with a low and stable inflation rate.

But the recent supply shocks have brought the CPI to a level much higher than one year ago. Taking into account, the expectation that domestic retail prices may further increase in August 2022 compared to July 2022, even if there would not be any further MoM increase in August 2022, YoY inflation will settle at nearly the same level as the one observed in July 2022.

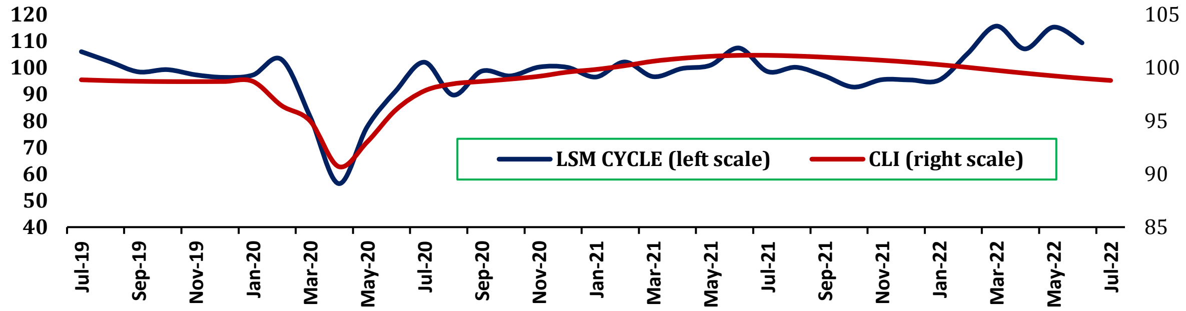
3.2 Agriculture

Recent floods driven by exceptionally heavy monsoon rains have reduced the potential output of both main and minor Kharif crops, thereby tempering the positive outlook of the agricultural sector.

3.3 Industrial Activities

Industrial activity, measured by the LSM index is the sector that is most exposed to the developments in international markets as illustrated in Fig-7. It compares the cyclical component of LSM with the weighted average Composite Leading Indicators (CLI) in Pakistan's main export markets. The CLI of some individual countries is 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.

Fig-7: Relationship between CLI and LSMI cycle



Source: PBS, OECD and EAW Calculations

The LSM cycle is following the cyclical movements in the main trading partners, but since it is focused on the main industrial sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets. Nevertheless, although the cyclical position of Pakistan's main trading partners has deteriorated month after month since August 2021, LSM's cyclical pattern was up to June 2022 holding on remarkably well.

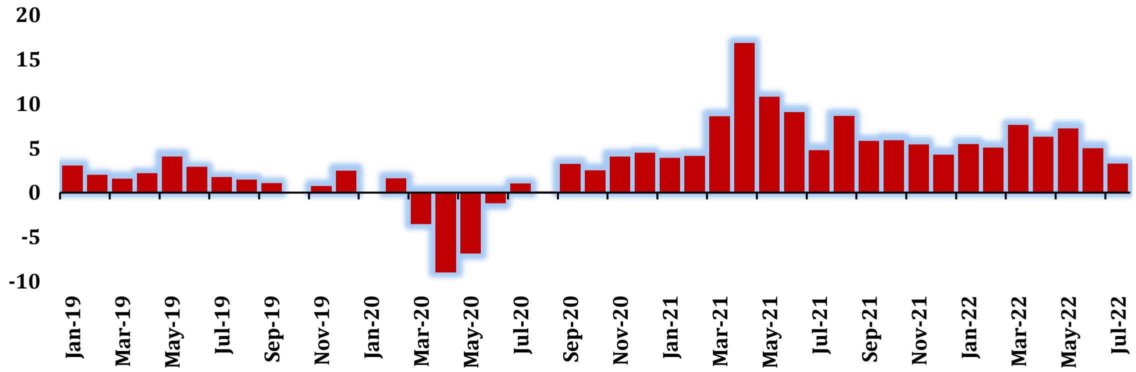
As expected, LSM output stabilized in June as compared to May and its YoY growth rate remained on a positive trend. In July, international economic slowdown and domestic negative seasonal effects may drag down LSM as compared with its level recorded in June. But on YoY basis, LSM may stabilize or show limited growth.

3.4 Overall economic activity

The Monthly Economic Indicator (MEI) is developed as a tool to distribute the past annual GDP numbers, as reported by the PBS, on a monthly/quarterly basis and to nowcast on that same frequency GDP growth for the FY in which the National Accounts are not yet available. It is based on combining monthly data of indicators that are proven to be correlated with GDP at constant prices. Fig-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. The MEI has also been adjusted to the new rebased National Accounts.

In recent months, the CLI in Pakistan's most important export areas has shown gradually deteriorating, reflecting negative output gaps. It seems that in June and July, Pakistan is also experiencing a growth slowdown, and even the economy's output gap may also have turned into negative territory in the month of July. Nevertheless, overall economic growth in Pakistan remains positive due to a continuing high growth path of potential output.

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



Source: EA Wing's Calculations

3.5 External

According to BOP data, the trade balance in US dollars deteriorated significantly in June 2022. To a large extent, this was the result of seasonal and idiosyncratic events. These effects are reversed in July 2022. Imports of goods and services came back to more normal levels and are expected to roughly stabilize in the coming months. Exports of goods and services also declined in July as compared to June, but this decline is also partly the result of a negative seasonal influence. All in all, the trade balance on goods and services improved considerably in July as compared to June and is expected to continue improving in the coming months. Further, remittances are expected to hold around $ 3 billion in the coming month.

Considering the expected trajectory of the balance on goods and services, as well as all other components, the current account balance may gradually move into the direction of equilibrium in the coming months.

3.6 Fiscal

The fiscal sector remained under tremendous pressure in FY2022 due to additional expenditures related to the procurement of the COVID-19 vaccine, IPPs Circular debt payment, and social sector spending. Higher international oil and commodity prices as a result of the Russia-Ukraine conflict exacerbated the situation further. In the backdrop of these challenges, the expansionary fiscal policy stance in FY2022 reversed the consolidation gains achieved in the preceding two years. Consequently, the fiscal deficit surpassed the revised target of 7.1 percent of GDP and stood at 7.9 percent in FY2022. However, in FY2023, the fiscal deficit is expected to reduce to 4.9 percent of GDP, while the primary balance is likely to be in surplus of Rs 153 billion.

To achieve the set targets, the budget FY2023 is focused on stabilizing the economic growth, increasing revenues, enhancing exports, and protecting the vulnerable segments of society through relief measures and pro-poor initiatives.

4. Way Forward

Inflation has continued to accelerate in recent months, mainly due to supply shocks that have created very significant monthly impulses on the CPI level. If these monthly impulses can be contained to more normal levels in future months, inflation may start to decelerate. But even then, YoY inflation may stay in double digit for rest of the current FY.

Economic growth remains positive. But restrictive demand management and high inflation may cause Pakistan's cyclical position to deteriorate in the coming months.

This cooling off may bode well for the trade balance and by extension for the current account balance, official reserves, and the exchange rate. On the other hand, recessionist tendencies in Pakistan's main export markets may contain exports. Furthermore, Pakistan's NEER has significantly depreciated in recent months, and its REER appreciated again in June. The current account balance is expected to improve considerably in the coming months.

The new agreement with the IMF ensures that Pakistan's external financing needs will be met. This opens room for further implementation of supply-side policies that should elevate Pakistan's potential growth rate to a higher sustainable level. One essential necessary condition for this to happen is a drastic increase in Pakistan's propensity to invest. Physical and human capital accumulation and productivity enhancement are the essential ingredients to upgrade Pakistan's sustainable long-run growth path.

Economic Indicators
(25-08-2022)

	2021-22 July	2022-23 July	percent Change
External Sector			
Remittances ($ billion)	2.7	2.5	↓7.8
Exports FOB ($ billion)	2.2	2.3	↑2.7
Imports FOB ($ billion)	5.4	5.4	↑0.3
Current Account Deficit ($ billion)	0.9	1.2	↑
FDI ($ million)	103.8	58.9	↓43.3
Portfolio Investment-Public ($ million)	1,002.1	(17.7)	↓
Total Foreign Investment ($ million) (FDI &Portfolio Investment)	1,104.5	44.9	↓95.9
Forex Reserves ($ billion)	27.343 (SBP: 20.302) (Banks: 7.041) (On 23rd Aug 2021)	13.428 (SBP: 7.727) (Banks: 5.701) (On 23rd Aug 2022)	
Exchange rate (PKR/US$)	164.43 (On 23rd Aug 2021)	217.66 (On 23rd Aug 2022)	

Source: SBP

	2020-21	2021-22	percent Change
Fiscal			(Rs Billion)
FBR Revenue (July FY22 vs FY23)	416.1	458.4	↑10.2
Non-Tax Revenue	1630.7	1280.2	↓21.5
PSDP (incl. grants to provinces)	667	558	↓16.4
Fiscal Deficit	3403	5260	↑
Primary Balance	(654)	(2077)	↓

Source: FBR & Budget Wing

	2020-21 (Jul-May)	2021-22 (Jul-May)	percent Change
Monetary Sector			
Agriculture Credit (provisional)	**1191.6**	**1219.3**	↑2.3
Credit to private sector (Flows)	**-148.5** (1st Jul to 6th Aug FY22)	**-195.3** (1st Jul to 5th Aug FY23)	↑
Growth in M2 (percent)	**-2.4** (1st Jul to 6th Aug FY22)	**-2.1** (1st Jul to 5th Aug FY23)	
Policy Rate (percent)	**7.0** (27-July-2021)	**15.0** (22-Aug-2022)	

Source: SBP

	2020-21	2021-22	percent Change
Inflation			
CPI (National) (percent)	**8.4** (July FY22)	**24.9** (July FY23)	
Real Sector			
Large Scale Manufacturing (LSM) (percent)	**23.8** (Jun)	**11.5** (Jun)	
	11.2 (Jul-Jun)	**11.7** (Jul-Jun)	
PSX Index*	**41630** (On 1st Jul 2022)	**43367** (On 23rd Aug 2022)	↑4.17
Market Capitalization (Rs trillion)	**6.96** (On 1st Jul 2022)	**7.21** (On 23rd Aug 2022)	↑3.59
Market Capitalization ($ billion)	**33.99** (On 1st Jul 2022)	**33.13** (On 23rd Aug 2022)	↓2.53
Incorporation of Companies (July FY22 vs FY23)	**1949**	**1691**	↓13.24

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP