Monthly Economic Update & Outlook

November 2021

Government of Pakistan
Finance Division
Economic Adviser's Wing

Contents

Executive Summary

- The unprecedented and severely disruptive global labor market shock triggered by the outbreak of COVID-19 pandemic has still not dampened. According to the ILO, around 220 million people are expected to remain unemployed globally in 2021, while the global unemployment rate may reach 5.7 percent in 2022. Likewise, Global commodity prices are on an upward trajectory mainly due to the rise in freight charges making international trade more costly. Global energy prices continued to soar by 16.1 percent in October. Non-energy prices also increased by 3.4 percent. The prices pertaining to all key sub-groups increased with agriculture commodities up by 1.8 percent, fertilizers 23.4 percent, metals & minerals 3.9 percent and precious metals increased by 0.3 percent.
- **Real Sector:** The revised estimates of cotton production released by Cotton Crop Assessment Committee (CCAC) for the current season shows 9.4 million bales against last year production of 7.1 million bales showing an increase of 32.8 percent. The inputs situation remained favorable as farm tractors production and sales increased by 14.0 percent in Jul-Oct FY2022. Agriculture credit disbursement increased by 6.5 percent to Rs 381.3 billion compared to Rs 358.0 billion during same period last year. LSM posted a growth of 5.15 percent in the first quarter of FY2022 against the growth of 4.53 percent same period last year.
- **Fiscal, Monetary & External:** The fiscal deficit in Jul-Sep FY2022 was recorded at 0.8 percent of GDP (Rs 438.5 billion). The primary balance remained in surplus and stood at Rs 184.2 billion (0.3% of GDP). Expenditures under PSDP grew by 63.2 percent to Rs 262.1 billion in Jul-Sep FY2022 against Rs 160.5 billion in the same period of last year. During the period 1st July-22nd October FY2022, Broad Money (M2) decreased by Rs 409.1 billion compared to the contraction of Rs 104.5 billion in the comparable period of last year. During Jul-Oct FY2022, the current account deficit was recorded at $ 5.1 billion against the surplus of $ 1.3 billion in the same period last year.
- **Economic Outlook:** Though economic recovery is underway, the economy is also confronted with pressure on inflation as well as the external sector. External pressures have begun to materialize mostly due to the compound impacts of increased economic activity, an expansionary macroeconomic policy mix, and rising international commodity prices.
- However, the government is taking all necessary measures to dampen inflationary shock. Further financial and economic support from friendly countries will ease out pressure on the external sector.
  - YoY inflation has accelerated in the last two months, but this may be moderated by the seasonal profile, which was notably positive in October but generally neutralizes in November. The government’s efforts to monitor the functioning of the retail markets especially in essential food products is ongoing and is being strengthened to counter the inflationary pressures.
  - The MEI is expected to remain strong on the back of observed favorable movements in macroeconomic high frequency indicators especially growth in LSM with strong multiplier effects in services sectors.
  - Exports of goods and services recorded approximately 3 billion USD in October. It is expected that in the coming months exports will keep rising, helped by the momentum in domestic economic dynamism, and specific government policies to stimulate exports.
  - The government's efforts to maintain fiscal discipline through an effective revenue mobilization strategy and better expenditure management will reduce budget deficit during the current fiscal year.

Pakistan is on a high growth path along with inflationary pressure due to exceptional surge in international commodity prices. This is putting stress on the external account, but government initiatives and reversal of the SBP policy will ease out the pressure. Recently, IMF has acknowledged the government's efforts to deal with COVID-19 by effectively minimizing human and macroeconomic repercussions, resulting in a strong economic recovery.

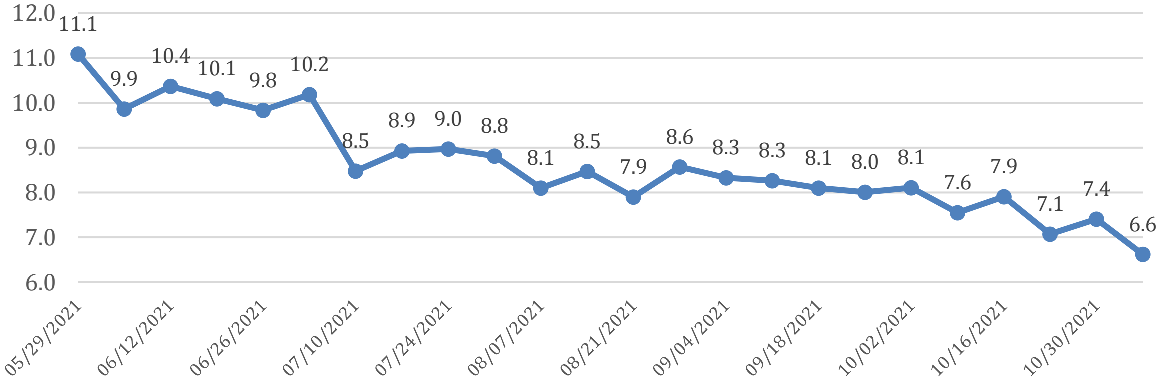
1. International Performance and Outlook

The unprecedented and severely disruptive shock to labor markets worldwide caused by the outbreak of COVID-19 pandemic since the beginning of 2020, not dampened yet. ILO data indicates that around 220 million people are expected to remain unemployed globally in 2021. The global unemployment rate may reach 6.3 percent, falling to only 5.7 percent in 2022, which is still above the pre-pandemic level of 5.4 percent in 2019. Despite the supportive policies undertaken in most of the countries around the globe, unemployment reached alarming levels in 2020, pushed many households into poverty. Although the global economy has been gradually rebounding over the course of 2021, the speed of convergence is still low to compensate for the earlier employment losses, especially in developing economies. This is true for those sectors that were hit hard particularly by the pandemic, such as tourism, travel, leisure and the hospitality industry.

This seemingly paradoxical situation of persistently high unemployment accompanied by serious labor shortages is explained by a confluence of various factors. An unbalanced rebound of the global economy across different sectors and changes in the composition of aggregate demand are among the reasons causing shifts in the labor demand pattern. The resulting labor shortages in specific sectors are not only holding back recovery from the crisis induced by the COVID-19 pandemic but also damaging the longer-run trajectory of the potential output growth for many countries.

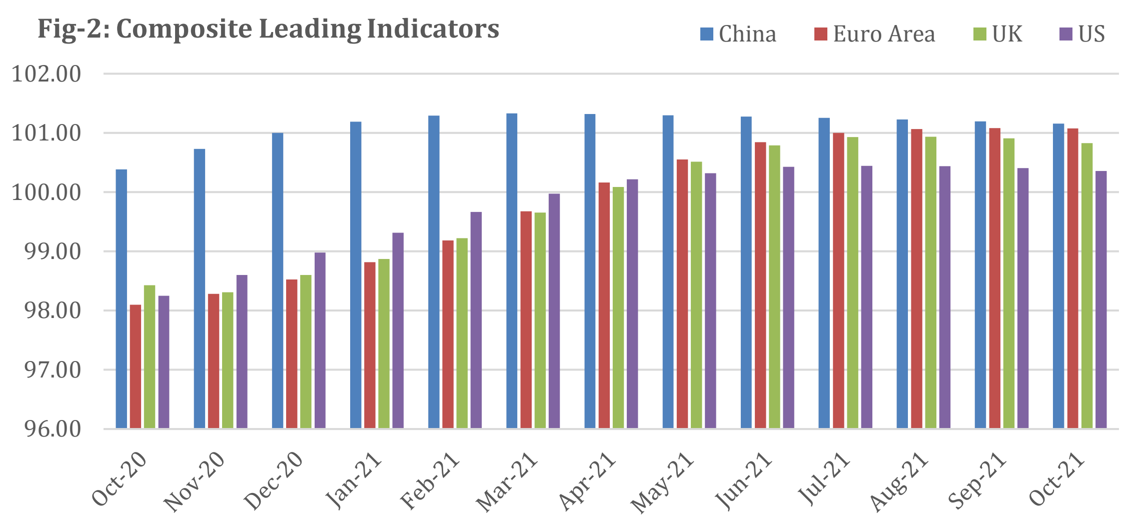
The US GDP growth slowed from an annualized pace of 6.7 percent in the second quarter to 2 percent in the third quarter, falling short of the consensus 2.6 percent forecast. The economic recovery in the US was strong but businesses can't make products faster enough to meet demand. The US is observing slower economic activity as supply chain bottlenecks limiting activity and raising prices, despite a huge desire to get to post-pandemic normalcy. The slowdown in the US economy also reflected from Weekly Economic Index (WEI) growth which represents the common component of a series covering consumer behavior, the labor market and production that continued to shrink during the last week of October and the start of November compared to the second-quarter numbers.

Fig-1: Growth in WEI



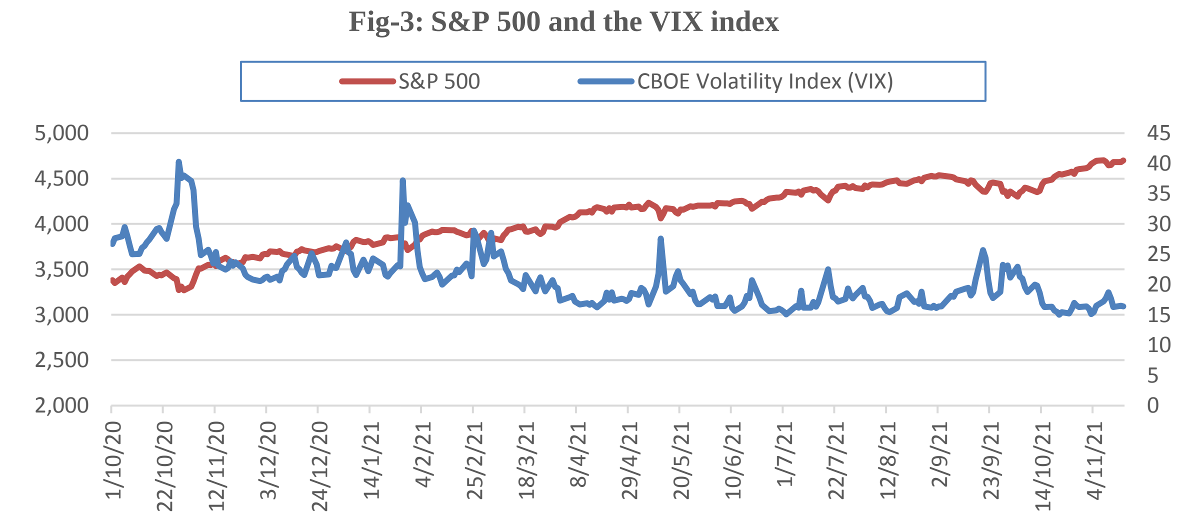
Source: Federal Reserve Bank of New York

The OECD system of Composite Leading Indicators (CLIs) is designed to provide early signals of turning points between expansions and slowdowns of economic activity. The CLI index is available up to October 2021. The CLI index of Pakistan's main export markets remained above 100 but slow down compared to September; as evident US at 100.36 (100.41 in Sep-21), UK 100.83 (100.91), China 100.16 (100.19) and Euro Area at same level of 100.08.



Source: OECD

In the US, more than 90 percent of the S&P 500 companies have handed in their financial results for the third quarter, and over 80 percent of them reported earnings better than expectations, as a result, S&P 500 climbed to 4,701 points as of 16th November 2021. This is also supported by the Chicago Board Options Exchange (CBOE) Volatility Index which is commonly used as a measure of investors' uncertainty, recorded below 20 in recent weeks (Fig-3).



Source: Investing.com

The J.P.Morgan Global Manufacturing PM – a composite index produced by J.P.Morgan and IHS Markit – edged higher to 54.3 in October 2021, up from 54.1 in September. The rise in the headline index reflected an increase in stock holdings and faster jobs growth. This offsets the effect on the PMI level of slower increases in both output and new orders.

The rate of expansion in global manufacturing production was the weakest during the current 16-month upturn in October. Output growth was impeded by substantial disruption to raw material deliveries, resulting input shortages, rising cost push inflation and a partially restricting international trade flows.

Of the 31 nations for which October data were available, all except two (Mexico and Myanmar) registered PMI readings above 50.0. The euro area remained a bright spot, with the top-five ranked countries. The US, Japan and China were in sixth, nineteenth and twenty-eighth positions respectively. Data observed by sector signaled expansions across the consumer, intermediate and investment good industries.

The growth of global manufacturing output slows amid record supplier delays, rising costs and stalling export trade. Production rose at a marginally quicker rate in the consumer goods sector but decelerated slightly in the intermediate goods category. Meanwhile, the investment goods industry observed an output decrease for the first time in 16 months.

Global supply chains remained under severe pressure during October, with average supplier delivery times increasing to the greatest extent in the survey history. The impact of supply-chain issues filtered to price inflation during October. Input costs increased at the fastest pace in over 13 years, while average output charges rose to the greatest extent on record. Rates of inflation in both price measures were noticeably steeper on average in developed nations compared to emerging markets.

Global commodity prices showed that energy prices continued to soar by 16.1 percent in October (10.8% in September). Energy prices stand 105.6 percent higher than one year earlier and raised in 10 of the last 12 months. Non-energy prices increased by 3.4 percent (-1.1% in Sep). Price rose for all key sub-groups, with agriculture commodities up 1.8 percent, fertilizers up 23.4 percent, metals & minerals up 3.9 percent and precious metals increased by 0.3 percent.

2. Monthly Performance of Pakistan's Economy

The economy of Pakistan is on track to achieve the growth target for FY2022. The 2nd estimates of the cotton crop along with the latest performance of high frequency variables are encouraging and set an optimistic baseline scenario. However, there are some risks to the economy associated with rising international commodity prices, widening of the current account deficit and subsequent pressure on PKR.

2.1 Real Sector

2.1-a Agriculture

The revised estimates for cotton production released by CCAC for current season shows 9.4 million bales against last year production of 7.1 million bales showing an increase of 32.8 percent. It has been reported that weather and price factors favored cotton production. The government announcement of intervention price enhanced the grower's confidence in investment on crop management resulted in higher arrivals of cotton in ginneries. Federal Committee on Agriculture (FCA) in its 17th meeting set the Rabi Crop 2021-22 target of wheat production at 28.9 million tonnes from a sowing area of 9.210 million hectares with a yield of 3136.3 Kg/ha.

The inputs situation remained favorable as farm tractors production increased by 14.0 percent to 17,427 in Jul-Oct FY2022 and its sales also witnessed an increase of 14.0 percent to 17,386 compared to the same period last year. During Jul-Oct, FY 2022, the agriculture credit disbursement increased by 6.5 percent to Rs 381.3 billion compared to Rs 358.0 billion during same period last year. The urea off-take in October 2021 was 514 thousand tonnes which increased by 24.4 percent over October 2020. DAP offtake increased by 49.2 percent from 229 thousand tonnes in October 2020 to 342 thousand tonnes in October 2021.

2.1-b Manufacturing

LSM posted a growth of 5.15 percent in the first quarter of FY2022 against the growth of 4.53 percent same period last year. During the period, 12 out of 15 subsectors of LSM have witnessed positive growth. Automobile shows massive growth of 42.64 percent, Iron & Steel Products by 13.77 percent, Pharmaceuticals by 11.53 percent, Leather Products by 13.94 percent, Wood Products by 4.44 percent and Chemicals grew by 4.70 percent.

The latest trend in high frequency indicators suggests an economic recovery as car production and sale increased by 74.7 and 70.9 percent, respectively during Jul-Oct FY2022, while tractor production and sale both increased by 14.0 percent. Domestic cement dispatches increased by 1.1 percent to 15.9 mn tonnes during Jul-Oct FY2022 (15.7 MT last year). Total Oil sales increased by 22.0 percent to 7.85 mn tonnes (6.44 mn tonnes last year). On YOY basis, total Oil Sales increased by 17 percent to 2.0 mn tonnes in October 2021 (1.7 mn tons last year).

Based on recent performance and the government's proactive measures, it is expected that the industrial sector will follow an upward trend and the overall growth target will be achieved.

2.2 Inflation

CPI inflation during Jul-Oct FY 2022 recorded at 8.74 percent against 8.87 percent during the same period last year. Inflation had started declining after surging to 11.1 percent in April, mainly driven by a drop in the prices of agricultural products.

Food prices have risen globally due to the shortage of supply of commodities and high demand. Pakistan has also been affected, as the country is a net importer of food items especially wheat, sugar, pulses, and edible oil. The government has already announced Rs 120 billion package, jointly funded by the Federal and Provincial governments which will provide a 30 percent discount on ghee, flour and pulses to 130 million deserving people.

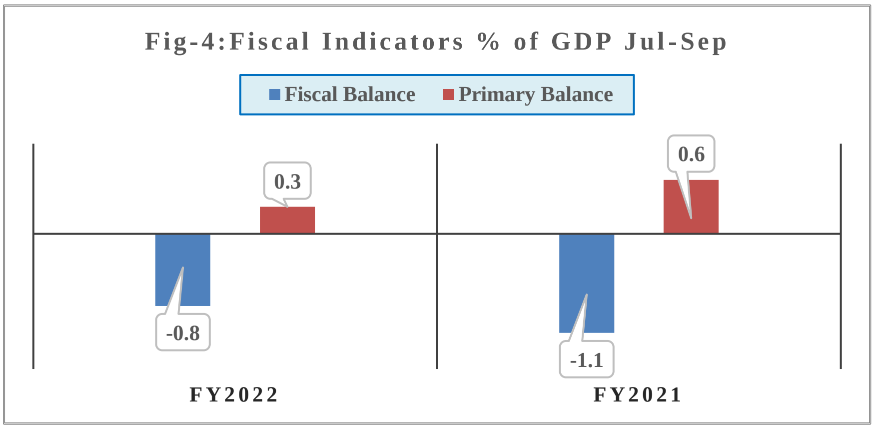
International Prices					
Months	**Sugar ($/MT)**	**Palm Oil ($/MT)**	**Soya bean Oil ($/MT)**	**Wheat ($/MT)***	**Crude Oil ($/Brl)**
Oct-20	300.0	819.0	915.0	219.7	40.5
Oct-21	420.0	1307.0	1483.0	263.6	83.7
% Change	40.0	59.6	62.1	20.0	106.7
Source: Pink sheet (World Bank) *: Price for the month of September					

Domestic Prices in 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**
Oct-20	99.3	1265.8	246.8	1034.4	104.9	105.0
Oct-21	103.1	1772.0	352.6	1200.6	133.4	129.1
% Change	3.8	40.0	42.9	16.1	27.2	23.0
Source: PBS						

The above comparative analysis suggests that the Government of Pakistan sustained pressure to provide relief and full inflationary pressure was not passed on to the domestic consumers proportionately.

2.3. Fiscal

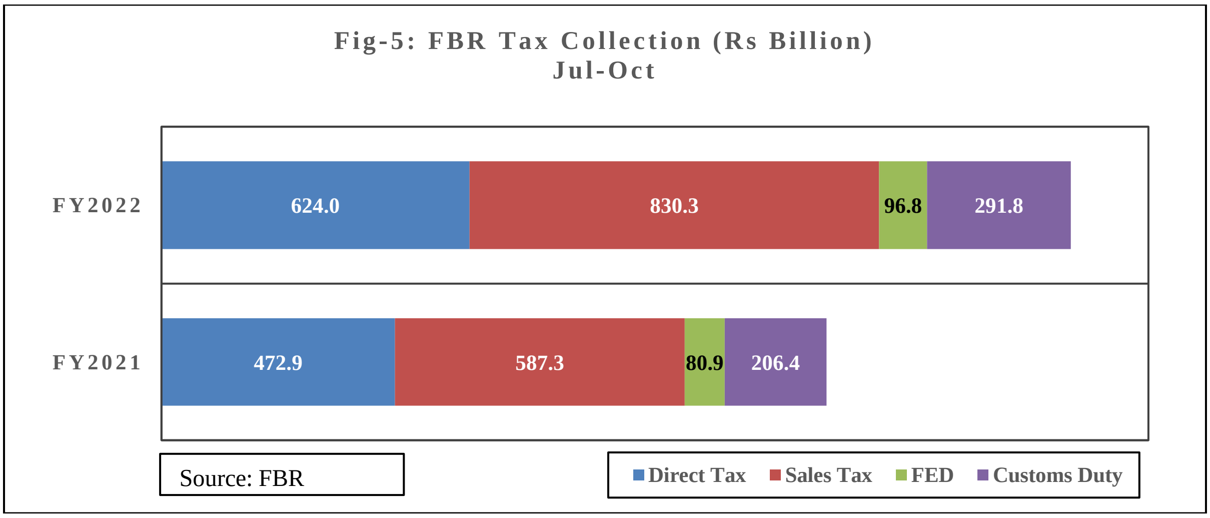
The fiscal deficit has been reduced to 0.8 percent of GDP (Rs 438.5 billion) in Q1 FY2022 against 1.1 percent of GDP (Rs 484.3 billion) in the comparable period of last year. The primary balance remained in surplus and stood at Rs 184.2 billion (0.3 percent of GDP) in Q1 FY2022 against the surplus of Rs 257.7 billion (0.6 percent of GDP) last year.



During the period under review, total revenues posted an impressive growth that outpaced the rise in expenditures. Total revenues grew by 22.3 percent, primarily driven by 36.6 percent growth in tax collection from both federal and provincial levels. On the other hand, total expenditures increased by 14.5 percent with 8.6 percent growth in current expenditures and 23.0 percent rise in development expenditures and net lending. Within the development, expenditures under PSDP grew by 63.2 percent to Rs 262.1 billion during Q1 FY2022 against Rs 160.5 billion in the same period of last year.
Similarly, the cumulative surplus of all the four provinces was higher than the previous year as it recorded at Rs 276.9 billion in Q1 FY2022 against Rs 44.4 billion last year.

FBR Tax Collection

FBR tax revenues increased significantly during Jul- Oct FY2022, exceeding its target by 14.7 percent for the period. In absolute terms, FBR collected Rs 235.9 billion higher revenues than the target fixed for Jul-Oct FY2022.



The provisional net collection grew by 36.8 percent to reach Rs 1,842.9 billion during Jul-Oct FY2022 against Rs 1,347.5 billion in the same period of last year. Domestic tax collection grew by 35.9 percent to Rs 1,551.1 billion in Jul-Oct FY2022 against Rs 1,141.1 billion in the corresponding period of last year. Within domestic taxes, the direct tax increased by 31.9 percent, sales tax by 41.4 percent and FED by 19.6 percent. While customs duty grew by 41.4 percent.

Box-I: FBR's System Automation for Documentation & Maximum Taxpayers' Facilitation

a. **Point of Sales (POS):** FBR has launched POS Invoicing, which is a computerized system for recording sales data, managing inventory and maintaining customer data. It is a real-time sales documentation system that links the electronic systems at the outlets of all tier-1 retailers with the FBR via the internet. The system is aimed to ensure that all sales are reported in real-time to FBR and are duly accounted for in the monthly sales tax returns of such retailers.

b. **The Track and Trace System:** Track and Trace System which was rolled out for Tobacco sector earlier in the financial year has now been extended to the sugar sector also. Efforts for rolling out of the system in Cement and Fertilizer Sectors are in progress. The system is aimed at enhancing tax revenue, reducing counterfeiting and preventing smuggling of illicit goods through the implementation of a robust, nationwide, electronic monitoring system through the affixation of tax stamps on various products at the production stage. This enables FBR to trace the entire supply chain of manufactured goods.

c. **Pakistan Single Window (PSW):** To achieve trade facilitation in automated environment, reduce clearance times for legitimate trade, improved compliance through increased access to regulatory information and functions, the system of PSW is being launched. This ensures greater Customs to Customs coordination and linkage with other border regulatory agencies at the national and international level for coordinated border management and increases transparency in regulatory processes and decision-making.

d. **Automated process for Scanning of Cargo:** FBR has introduced a new automated process in WeBOC system for scanning of containerized import consignments of industrial raw materials for their speedy clearance at ports. The introduction of Non-Intrusive Inspection System by Customs was a long-awaited initiative aimed at replacing physical inspection of cargo and reducing the dwell time at ports by using the latest scanning technology in line with international best practices.

e. **Automated issuance of refunds:** To facilitate taxpayers, centralized automated refund system has been introduced with no requirement for manual application and verification. For the exporters, the system-based verification system issues refund directly into the bank accounts of taxpayers without any requirement of face-to-face interactions with tax authorities. Enabling legal framework has also been provided through insertion of relevant provisions in tax laws.

f. **Single Sales Tax Portal:** Building further on its vision to facilitate taxpayers and ensure ease of doing business through automation, digitization, and minimization of human interaction with taxpayers, FBR is all set to launch Single Sales Tax Portal. This facility will enable taxpayers to file single monthly Sales Tax returns instead of multiple returns on different portals; thereby, significantly reducing the time and cost of compliance.

g. **E-hearing:** In order to provide faceless tax administration, reduce compliance costs and save precious time of the taxpayers, the mechanism of e-hearing has been devised. Enabling legal provisions for admissibility of evidence collected during e-hearing have been introduced through 227E of the Income Tax Ordinance.

h. **Electronic filing of appeal:** The mechanism of online filing of appeals has been made available to taxpayers. However, enabling legal provisions were lacking which have been introduced through section 127 of the Income Tax Ordinance.

Source: FBR

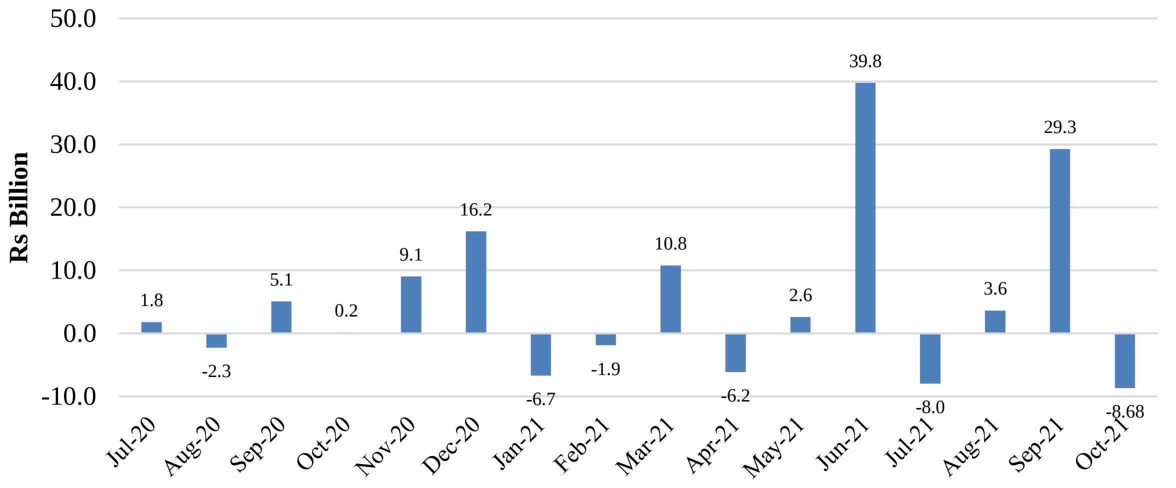
2.4. Monetary

SBP raised policy rate by 150 basis points to 8.75 percent on 19th November 2021 owing to associated risks related to inflation and BoP while the outlook for growth has continued to improve.

During 01st July-22nd October FY2022, Broad Money (M2) decreased by Rs 409.1 billion (growth of -1.68 percent) as compared with the contraction of Rs 104.5 billion (growth of -0.5 percent) during the same period last year. M2 contraction contributed by both factors Net Domestic Assets (NDA) and Net Foreign Assets (NFA), which have been reduced by Rs 350.3 billion and Rs 58.8 billion, respectively. Within NDA, government sector borrowing for budgetary support was reduced by Rs 78.7 billion compared to the borrowing of Rs 109.9 billion during the comparable period last year.

On the contrary, credit to the private sector witnessed an expansion of Rs 226.5 billion against the retirement of Rs 96.5 billion during the same period last year. Within private sector credit, loans for fixed investment increased by Rs 106.8 billion during Jul-Oct FY2022 against borrowing of Rs 87.8 billion during same period last year. On the other hand, working capital loans increased by Rs 146.6 billion as compared to the retirement of Rs 173.7 billion during the comparable period last year. Manufacturing sector loans have increased both for working capital and fixed investment, especially for the textile sector. The information and communication sector has borrowed Rs 28.4 billion under fixed investment against Rs 2.1 billion during the same period last year.

Fig-6: Loans amount released under Construction Financing



Source: SBP

2.5 External Sector

The current account posted a deficit of $ 5.1 billion (4.7 percent of GDP) for Jul-Oct FY2022 as against a surplus of $ 1.3 billion (1.4 percent of GDP) 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 commodity prices, COVID-19 vaccines, food, and metals. Imports grew by 66 percent to $ 23.5 billion as compared to $ 14.1 billion last year. Exports on fob grew by 32.2 percent during Jul-Oct FY2022 and reached $ 9.7 billion ($ 7.3 billion last year).

As per SBP, the major exported commodities which have grown well during the review period include Knitwear (47 percent), Readymade garments (36 percent), Bed wear (33.5

percent), Cotton Yarn (37.5 percent), Cotton Cloth (23.2 percent), Chemical & pharma products (31.5 percent), leather manufacturers (17.2 percent), Fruits (7.9 percent) and Basmati rice (12.5 percent). The increase in overall exports is contributed by the growth in exports of value-added sectors.

The main commodities imported were Petroleum products (98.7 percent), Palm Oil (77.7 percent), Petroleum crude (74.4 percent), Iron & Steel (81.6 percent), Liquefied Natural gas (179 percent), Medicinal products (3.7 percent), Plastic materials (40.9 percent), Textile machinery (154 percent), Electrical machinery & apparatus (30.2 percent) and Raw cotton (72 percent). Higher imports of these commodities indicate growth in the related sectors as well.

2.5.1 Foreign Investment

In Jul-Oct FY2022, total foreign investment registered an inflow of $ 423.7 million while FDI recorded at $ 662.1 million ($ 750.6 million last year). On MOM in October 2021 FDI stood at $299.6 million ($236 million in September 2021) increased by 26.9 percent. FDI received from: Netherlands $ 160.5 million (24.2% of total FDI), China $116.5 million (17.6%), United States $ 114.3 million (17.3%), and U.A.E $ 59.6 million (9%). Power sector attracted highest FDI of $ 173.5 million (26.2 percent of total FDI), financial business $ 114.2 million (17.2%) Communication $ 93.8 million (14.2%), & Oil & Gas exploration $ 81.6 million (12.3%).

Foreign Private Portfolio Investment has registered a net outflow of $ 178.3 million during Jul-Oct FY2022. Foreign Public Portfolio Investment recorded a net outflow of $ 60.1 million. In October 2021, an outflow of $ 1,040 million was recorded due to the repayment of the Sukuk bond. The total foreign portfolio investment recorded an outflow of $238.4 million during Jul-Oct FY2022 as against an outflow of $ 426.7 million last year.

2.5.2 Worker's Remittances

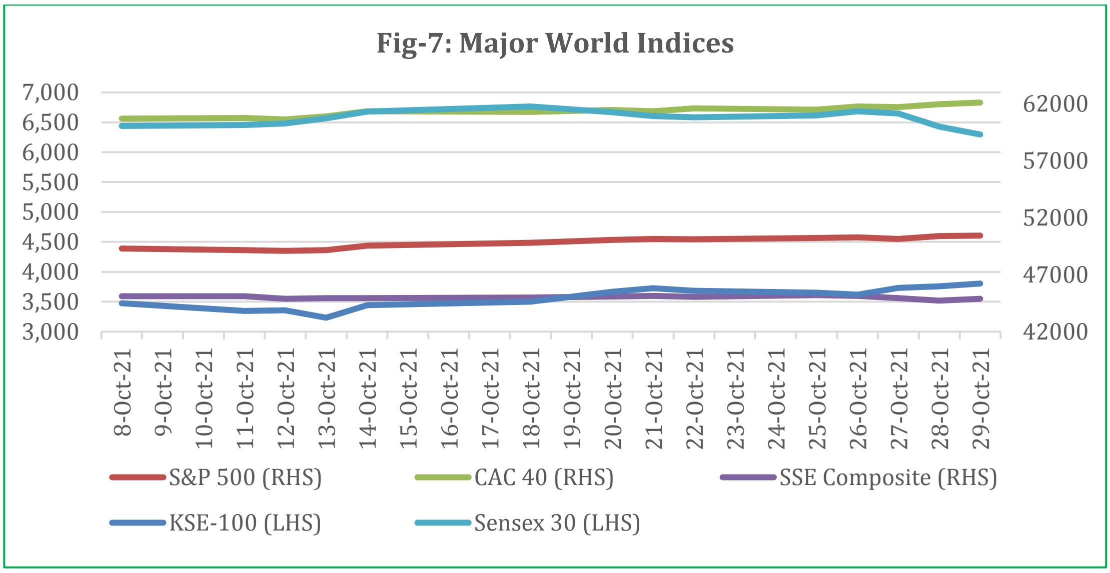
In Jul-Oct FY2022, workers' remittances reached $ 10.6 billion ($ 9.4 billion last year), increased by 11.9 percent. Workers' remittances continued their unprecedented streak of above $ 2.0 billion for the 17th consecutive month till October 2021. YoY, remittances grew by 10.2 percent to $ 2.5 billion in October 2021 ($ 2.3 billion in October 2020). Share of remittances (Jul-Oct FY2022) from Saudi Arabia remained 25.4 percent ($ 2,681.4 million), U.A.E 19.0 percent ($ 2,000.8 million), U.K 13.9 percent ($ 1,462.6 million), USA 10.1 percent ($ 1,067.9 million), other GCC countries 11.1 percent ($ 1,166.3 million), EU 11.2 percent ($ 1,180.2 million), Malaysia 0.4 percent ($ 45.2 million), and other countries 8.9 percent.

2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves stood at $ 22.6 billion on November 23, 2021, with the SBP's reserves recorded at $ 16.1 billion, while commercial banks' reserves remained at $ 6.5 billion.

2.6 Performance of KSE Index

The KSE-100 index gained 1,347 points in October 2021 and the index closed at 46,219 points on 29th October 2021. Similarly, Market capitalization increased by Rs 145 billion in the month and settled at Rs 7,954 billion. The trend of major world indices is depicted in Fig-7:



Source: PSX, Investing.com

2.7 Social Sector

- Under the 'Ehsaas Rashan' programme, the federal and provincial governments will spend Rs 120 billion to offer food subsidies. The eligible families can purchase three essential commodities, ghee, flour, and pulses at 30 percent lower prices.
- The Ehsaas Socio-economic Registry Survey 2021 which has just been completed will be used to identify deserving families for the program. The registration can be carried out through the online Ehsaas Rashan portal: ehsaasrashan.pass.gov.pk.
- Under the National Poverty Graduation Program, 74,547 livelihood productive assets worth Rs 4.5 billion have been transferred to the ultra-poor households till 31st October 2021 while during the month of October, 2,387 livelihood assets of Rs 143.22 million were distributed.
- PPAF through its 24 Partner Organizations has disbursed 47,774 interest-free loans amounting to Rs 1.71 billion during the month of October 2021. From July 2019 till 31st October 2021, a total of 1,597,513 interest-free loans amounting to Rs 57.02 billion have been disbursed to the borrowers.
- Bureau of Emigration and Overseas Employment has registered 26,099 emigrants during October 2021 for overseas employment in different countries.
- Bureau of Emigration and Overseas Employment has paid more than Rs. 44 million as death/disability compensation during the month of October 2021.
- Under Kamyab Jawan Youth Entrepreneurship Scheme (PMKJ-YES) the government has disbursed Rs 22,115 million till September 2021 to the youth for various businesses.
- As of November 23, 2021, the number of confirmed COVID-19 cases is recorded at 1,282,510 along with recoveries 1,238,980 and total deaths 28,668.
- Till November 23, 2021, the total number of doses administered is reported at 121,158,338 while 49,343,712 individuals are fully and 79,232,745 are partially vaccinated.

3. Economic Outlook

Though economic recovery is underway, the economy is also confronting inflation as well as external sector pressure. The acceleration of worldwide inflation, as well as a significant increase in freight charges making international trade more costly.

3.1 Inflation

Pakistan's inflation rate is driven by the demand factors, international commodity prices, exchange rate, seasonal factors and economic agents' expectations concerning the future developments of these indicators.

YoY inflation is marginally increased in the last two months. Going forward, this increase in inflation may be tempered by the seasonal profile whose contribution was positive in October but is usually about neutral in the months of November. Furthermore, government's policy, administrative and relief measures may support to ease out the inflationary pressures. On the other hand, new impulses in November may originate due to the rise in international commodity prices.

Globally the prices of crude oil along with all other energy inputs are on the rising trend due to increasing global demand post-COVID-19 scenarios. Added with this, a rise in freight charges have made international trade costly and caused a hike in global inflation. Even though the international price of crude oil rose by 106.7 percent on a YoY basis. However, Government of Pakistan did not pass it completely to the domestic consumers and adjusted duty to provide relief to the general public.

At present government aims to increase agriculture productivity and provision of Agri-loans to ensure food security and self-sufficiency to counter the food inflation. Taking into account new price impulses in November and the low base effect, it is expected that inflation may remain 8.5 to 9.5 percent.

3.2 Agriculture

The revised estimates for cotton production released by Cotton Crop Assessment Committee are more encouraging. The inputs availability will remain satisfactory as more certified seeds for wheat, gram and maize will be ensured for Rabi 2021-22 season. The credit to agriculture also shows an increasing trend in FY2022, thus it is expected that in the absence of any adverse climate shock, the agriculture sector will perform better.

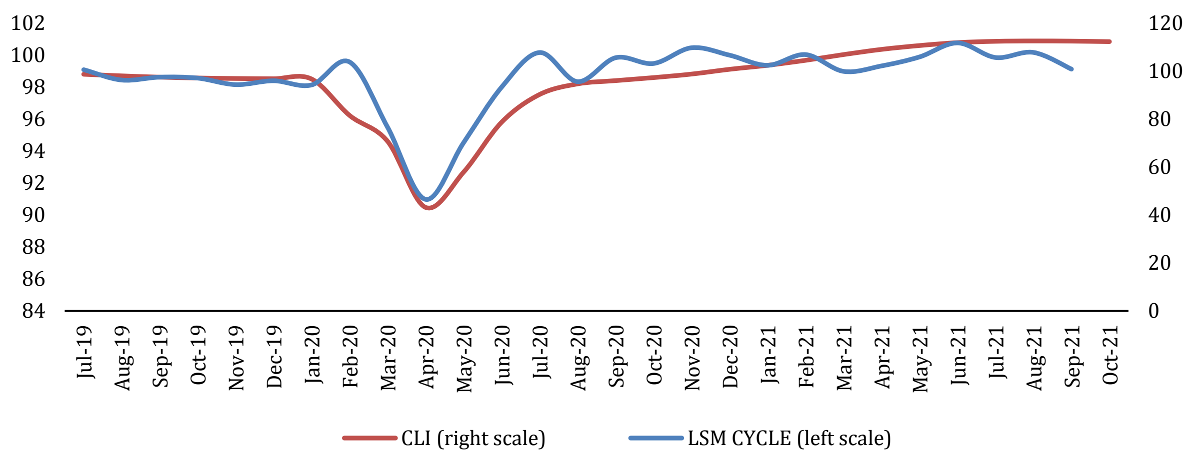
3.3 Industrial activity

Industrial activity, measured by the LSM index is the sector that is most exposed to external conditions. Its exposure to developments in international markets is illustrated in Fig-8 which compares the cyclical component of LSM with the weighted average Composite Leading Indicators (CLI) of 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. The LSM cycle is following the cyclical movements of 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 components of GDP of Pakistan's main export markets.

Recently, the upward cyclical dynamics of Pakistan's main export markets, measured by the CLI, was interrupted. In many countries, the COVID-19 pandemic resurged after the opening of these economies in previous months. Furthermore, economic expansion is still confronted with severe supply chain related bottlenecks.

For October, it is expected that LSM will resume moderate growth compared to the level observed in September, despite an expected negative seasonal effect, usually observed in the month of October and may take upswing in the later months.

Fig-8: Relationship between CLI and LSMI Cycle



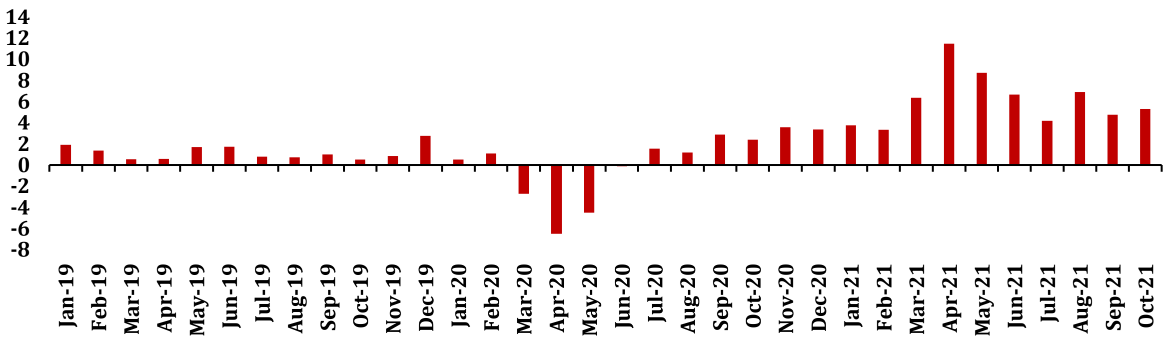
Source: PBS and OECD

3.4 Overall economic activity

The Monthly Economic Indicator (MEI) is based on combining monthly data of indicators that are 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 October MEI is still provisional and may be revised next month.

Since March 2021, the MEI is on a higher level as compared to the previous months. This is based on favorable movements observed in macroeconomic high frequency indicators such as growth in LSM (which is known to exert strong multiplier effects in services sectors) and strong recovery in Pakistan's main trading partners. In October, the growth dynamics are expected to continue as per the expected manufacturing production supported by the higher imports of capital goods during Jul-Oct FY2022.

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



Source: EAW's Calculation

3.5. External

According to BOP data, October imports of goods and services were marginally higher than their levels observed in September. In fact, in recent months these imports have roughly stabilized at relatively elevated levels. The continuing rise in international oil prices, exchange rate weakness and strong domestic recovery are contributing to the rising imports. Given these recent dynamics and under unchanged policy assumptions, imports would remain at around current high levels during the coming months. But the recent steps taken in terms of monetary policy and other measures to curb unnecessary imports will be helpful in keeping the expansion of imports under control.

Exports of goods and services, according to BOP data, ended just below the 3 billion USD mark in October. It is expected that in the coming months, these exports will start moving upwards again, helped by the momentum in domestic economic dynamism, specific government policies to stimulate exports and from a historical perspective, low level of the Real Effective Exchange Rate. But these dynamics may be hindered if the economic conditions in the main export markets would take a turn for the worse, although this is not the baseline scenario.

As a result of these events, the trade deficit in goods and services increased somewhat as compared to level observed in September but is expected to improve in the coming months.

If remittances inflows remain at around current levels and given the expected other components of secondary income, as well as primary income balance, the expected improvement in the trade balance will be reflected in the overall current account balance. This is the baseline scenario and further ongoing developments will be monitored closely.

3.6. Fiscal

The fiscal performance remained strong during the first quarter of the current fiscal year on the back of healthy growth in tax revenues, careful expenditure management and higher provincial surplus. The fiscal deficit narrowed to 0.8 percent of GDP in Q1 FY2022, down from 1.1 percent last year, as revenue growth outpaced the growth in expenditures.

Within revenues, FBR tax collection has witnessed a sharp rise during Jul-Oct FY2022. FBR is highly committed to further improve the tax collection through documentation and maximum taxpayer's facilitation (Box-I).

Government is proficiently dealing with COVID-19 challenges through timely effective measures. It has speed up the vaccine process so that the economic activity remains on track without any disruption. While increasing expenditure on priority areas, the government is adhering to a strict spending management strategy. On the one hand, the government has increased the spending on growth-oriented projects, while on the other; it is focusing on bolstering the social safety net through various Ehsaas poverty alleviation programmes. The current fiscal performance reaffirms the government's commitment to strike a balance between fiscal deficits due to COVID 19 and boosting the growth of the economy, keeping the primary balance at a sustainable level, and protecting social spending.

The government's efforts to maintain fiscal discipline through an effective revenue mobilization strategy and better expenditure management will continue to aid in further reducing the budget deficit during the current fiscal year.

4. Way Forward

Pakistan is on a high growth path. At the same time, it is confronted with persistent inflationary pressure. The level and degree of persistence of inflation is the consequence of depreciation that followed the previous balance of payments crises, reinforced by the acceleration of worldwide inflation and the exceptional surge in international commodity prices.

These events put a lot of stress on the external accounts, more specifically on the balance in trade of the goods and services and from there on the current account balance. Government aims to alleviate this stress as much as possible by implementing structural measures as well as by demand policy management. In terms of demand management, fiscal consolidation, while protecting the vulnerable sections of the population from the surge in food and energy prices, is the main objective of fiscal policy. At the same time, SBP is redirecting monetary policy from an accommodative to a more neutral stance.

These measures should contain the current account deficit for the current FY within manageable and financeable proportion. This will also help to adjust pressure on the exchange rate and hence on expected inflation.

Moreover, IMF has also acknowledged that based on available data, the government's extensive policy response to the COVID 19 pandemic had helped minimize its human and macroeconomic repercussions and thus resulting in a strong economic recovery. External pressures, on the other hand, have begun to materialize, mostly due to the compound impacts of increased economic activity, an expansionary macroeconomic policy mix, and rising international commodity prices. However, due to the measures taken by the government will ease out these pressures in coming months.

Economic Indicators
(25-11-2021)

	2020-21 (Jul-Oct)	2021-22 (Jul-Oct)	percent Change
External Sector			
Remittances ($ billion)	9.4	10.6	↑11.9
Exports FOB ($ billion)	7.3	9.7	↑32.2
Imports FOB ($ billion)	14.1	23.5	↑66.3
Current Account Deficit ($ billion)	-1.3	5.1	↑
Current Account Deficit (percent of GDP)	-1.4	4.7	↑
FDI ($ million)	750.6	662.1	↓11.8
Portfolio Investment-Public ($ million)	-281.1	-60.1	↑
Total Foreign Investment ($ million) (FDI & Portfolio Investment)	323.9	423.7	↑
Forex Reserves ($ billion)	**20.533 (SBP: 13.396) (Banks: 7.137)** (On 23rd Nov 2020)	**22.579 (SBP: 16.045) (Banks: 6.534)** (On 23rd Nov 2021)	
Exchange rate (PKR/US$)	**161.05** (On 23rd Nov 2020)	**174.30** (On 23rd Nov 2021)	

Source: SBP

	2020-21 (Jul-Sep)	2021-22 (Jul-Sep)	percent Change
Fiscal			**(Rs Billion)**
FBR Revenue (Jul-Oct)	1347	1843	↑36.8
Non-Tax Revenue (Federal)	343	249	↓27.4
PSDP (Authorization)	112.0 (1st Jul to 4th Sep)	392.7 (1st Jul to 03rd Sep)	↑250
Fiscal Deficit	484	438	↓
Primary Balance	258	184	↓

Source: FBR & Budget Wing

	2020-21 (Jul-Oct)	2021-22 (Jul-Oct)	percent Change
Monetary Sector			
Agriculture Credit (provisional)	**358.0**	**381.3**	**↑6.5**
Credit to private sector (Flows)	**-96.5** (1st Jul to 23rd Oct)	**226.5** (1st Jul to 22nd Oct)	↑
Growth in M2 (percent)	**-0.5** (1st Jul to 23rd Oct)	**-1.7** (1st Jul to 22nd Oct)	
Policy Rate (percent)	**7.00** (23-Nov-2020)	**8.75** (19-Nov-2021)	

Source: SBP

	2020-21	2021-22	percent Change
Inflation			
CPI (National) (percent)	**8.9** (Oct)	**9.2** (Oct)	
	8.9 (Jul-Oct)	**8.7** (Jul-Oct)	
Real Sector			
Large Scale Manufacturing (LSM) (percent)	**7.7** (Sep)	**1.2** (Sep)	
	4.5 (Jul-Sep)	**5.2** (Jul-Sep)	
Miscellaneous			
PSX Index*	**47801** (On 1st Jul 2021)	**44949** (On 23rd Nov 2021)	**↓5.97**
Market Capitalization (Rs trillion)	**8.38** (On 1st Jul 2021)	**7.72** (On 23rd Nov 2021)	**↓7.88**
Market Capitalization ($ billion)	**53.22** (On 1st Jul 2021)	**44.26** (On 23rd Nov 2021)	**↓16.84**
Incorporation of Companies (Jul-Oct)	**8,263**	**8,232**	**↓0.38**

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP