

### HIGHLIGHTS:

- The Federal Government presented its 4<sup>th</sup> Budget for the fiscal year 2021-22 which is presumed to be growth-oriented. The total outlay of the Federal budget 2021-22 is PKR 8.5 trillion, in which current expenditure accounts 88.64% of the total estimated expenditures.
- Federal Government has projected 24% growth in the FBR's tax revenue from current fiscal year revised figures of PKR 4,691 billion. With the Budget deficit curtailing at 6.4% of GDP equivalent to PKR 3,420 billion for the next budget against revised estimates of fiscal deficit standing at 7.5% of GDP in the outgoing fiscal year.
- According to the Planning Commission annual report 2021-22, "The overall GDP growth is expected to pick up in 2021-22. The GDP growth of the country for 2020-21 is targeted at 4.8% out of which, agriculture, industry and services sector are expected to post 3.5%, 6.5% and 4.7% growth respectively."
- As per State Bank of Pakistan (SBP), Pakistan's total debt and liabilities surged by 52% to a staggering PKR 15.59 trillion in 33 months of the current regime. Similarly Pakistan's public debt increased by 4.41% or PKR 1.607 trillion in 10 months of the current fiscal year as the government borrowed heavily to fund the budget deficit and the COVID related expenditure needs.
- Pakistan's Large Scale Manufacturing (LSM) growth stood at 12.84% during July-April 2021 vs. Last year. Whereas, the LSM growth plunged by 7% in April 2021 on month-on-month-basis compared to the previous month of March.
- The outstanding stock of 'Hot Money' stood at negative \$438 million till 17<sup>th</sup> June 2021.
- According to the SBP, on year-on-year basis, Pakistan's Overseas Worker's Remittances surged by 33.53% from \$1.86 billion in April 2020 to \$2.49 billion in April 2021.
- According to official statistics, FBR has collected tax revenue of PKR 4,170 billion in July-May 2020-21 vs. PKR 3,549 billion last year. This reflects FBR's tax revenue collection grew by 17.5% or PKR 621 billion vs. last year.
- The Broad Money (M2) stock since 1<sup>st</sup> of July to 4<sup>th</sup> May 2021 stood at PKR 2,092 billion vs. PKR 2,239 billion last year.
- According to the Pakistan Bureau of Statistics ("PBS"), CPI inflation surged by 10.90% on a year-on-year basis in April 2021 vs. 8.22% last year.
- According to the Pakistan Bureau of Statistics, the country's exports have plunged by 25.45% to \$1.65 billion in May 2021 vs. \$2.21 billion in April 2021 on a month-on-month basis.
- The country posted a current account deficit for consecutive sixth months which stood at \$632 million in May 2021 which leads to Current Account Balance for ongoing Jul-May fiscal year 2020-21 at \$153 million minor surplus. Due to back rise in imports the current fiscal year might not end with an overall surplus.
- During July-May 2020-21, Pakistan's net FDI depreciated by 27.69% or \$671 million to \$1.75 billion as compared to \$2.42 billion last year.
- According to SBP, total Foreign Investment of the country has rose by almost 107% to \$3.92 Billion during July-May 2020-21 compared to \$1.94 billion last year.

The outlook of the economy of Pakistan is as follows;

### ➤ ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
<b>LSM</b>	April	↑	68.07%	(41.89%)
<b>Total Debt and Liabilities</b>	March	↑	45.47 Trillion	42.80 Trillion
<b>Credit to Private Sector</b>	Jul - 11 <sup>th</sup> June	↑	PKR 458 billion	PKR 195 billion
<b>SCRA inflows (Hot Money)</b>	As of 17 <sup>th</sup> June	↓	US\$(389) million	US\$ 241 million
<b>Worker's Remittances</b>	May	↑	US \$2.49 billion	\$1.86 billion
<b>Currency in Circulation</b>	As of 11 <sup>th</sup> June	↑	PKR 7.07 Trillion	PKR 6.27 Trillion
<b>Net Government Sector borrowing</b>	Jul - 11 <sup>th</sup> June	↓	PKR 1280 billion	PKR 2022 billion
<b>CPI (Base Year 2015-16)</b>	May	↑	10.90%	8.22%
<b>FBR Tax Collection</b>	Jul-May	↑	PKR 4,170 billion	PKR 3,549 Billion
<b>Foreign Exchange Reserves with SBP</b>	As of 11 <sup>th</sup> June	↑	\$16.41 Billion	\$12.13 Billion
<b>Foreign Direct Investments</b>	Jul - May	↓	\$1.75 Billion	\$2.42 Billion
<b>Trade Deficit in Goods</b>	Jul - May	↑	US\$ (27.48) Billion	US\$ (21.05) Billion
<b>Current Account Balance</b>	Jul-May	↑	\$153 million	(\$ 4,328) Million

### 1. LARGE SCALE MANUFACTURING:

According to Pakistan Bureau of Statistics (PBS), Pakistan's Large-Scale Manufacturing (LSM) grew by 68% in March 2021 on-year-on-year-basis. Whereas, LSM declined by almost 7% on-month-on-month basis, April was the third successive month in which the sector maintained a downward trend on a month-on-month basis amid the third wave of Covid-19. Overall growth in LSM stood at 12.84% during July-April 2020-21 compared to a negative growth of 9% in the same period last year.

Out of 15 industries that are part of LSM segment, 10 posted a surge in production during the 10 months under review. These include textile, food, beverages and tobacco, coke and petroleum products, pharmaceuticals, chemicals, non-metallic mineral products, automobiles, iron and steel products, fertilizer and paper and board.

Textile sector, which accounts 20% of weightage average in LSM remains the single largest export earning sector of Pakistan, has maintained robust production for the past many months after local firms secured significantly higher number of export orders as the pandemic peaked in regional countries including India.

LSM	Weight (%)	April-21 (%)	March-21 (%)	April -20 (%)	July-April 2020-21 (%)	Y/Y growth Cumulative
Textile	20.92	191.29	40.41	(64.09)	13.15	3.39
Food, Beverages & Tobacco	12.4	8.73	(16.22)	(20.69)	11.46	2.52
Coke & Petroleum Products	5.5	85.76	76.85	(51.5)	17.52	0.91
Non-Metallic Mineral Products	5.4	27.32	56.39	(16.35)	24.6	3.05
Iron & Steel Products	5.4	843.22	31.46	(88.96)	12.16	0.46
Automobiles	4.6	2953.06	123.27	(96.83)	37.89	1.68
Fertilizers	4.44	11.96	6.01	6.16	6.33	0.4
Pharmaceuticals	3.6	5.81	16.05	(5.29)	11.83	0.96
Paper & Board	2.3	30.66	2.61	(14.09)	1.92	0.08
Electronics	2	275.75	26.68	(80.88)	(12.9)	(0.44)
Chemicals	1.7	91.64	26.44	(32.11)	17.87	0.45
Leather Products	0.9	100.1	(16.7)	(66.89)	(33.33)	(0.49)
Engineering Products	0.4	72.41	22.7	(61.7)	(20.61)	(0.05)
Rubber Products	0.3	(14.92)	(30.36)	(17.1)	(13.08)	(0.07)
Wood Products	0.6	168.6	186.53	(89.77)	(41.34)	0
LSM Growth for April 2021 (Y/Y)						68.07%
LSM Growth for April 2021 vs. March 2021(M/M)						(7.0)%
LSM Growth for July-April 2021						12.84%

(Source: PBS)

## 2. SCRA (“SPECIAL CONVERTIBLE RUPEE ACCOUNT”) INFLOWS:

The term hot money flows is generally used for capital moving from one country to another in order to earn short-term and long term profit on interest rate differentials or anticipated exchange rate shifts. These flows typically increase after a hike in interest rate in the receiving country.

According to the official data from SBP, the gap between inflows and outflows of hot money is narrowing down as it stood at negative 389 million till 17<sup>th</sup> of June which was previously recorded at 482 million same period last month. Global investors do not show interest in Pakistan investment bond, in our previous newsletter PIBs inflows and outflows stood at \$255.6 million and 21.5 million respectively. With no change has been recorded of the current fiscal year despite interest rate on 10 year paper is now trading close to 10. Whereas, Short term treasury bills are gaining slightly appeal for foreign investors relatively to previous month. Foreign investors bought \$669 million worth of T-bills as of 17<sup>th</sup> June during FY2021, while they sold \$879 million short-term papers. Foreign investors put \$925 million in Treasury Bills and PIBs as of July to date FY2021, while taking \$901 million out of these securities in the same period of this year. The latest inflow of almost \$134 million in domestic short term bonds since 17<sup>th</sup> may 2021 could be an encouraging sign for foreign investors.

Cumulative net inflows in Equity, T-Bills and PIBs				
During current fiscal year, till 17 June 2021				
Description	Equity	T-Bills	PIBs	Total
	('000 USD')			
Inflows	658,108	669,662	255,621	1,583,391
Outflows	(1,071,518)	(879,505)	(21,553)	(1,972,576)
Balance	(413,410)	(209,843)	234,068	(389,185)

The outstanding stock of 'Hot Money' stood at negative \$389 million.

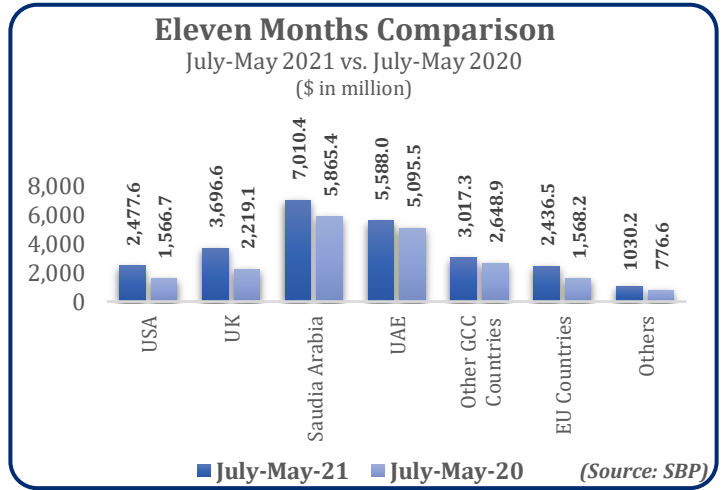
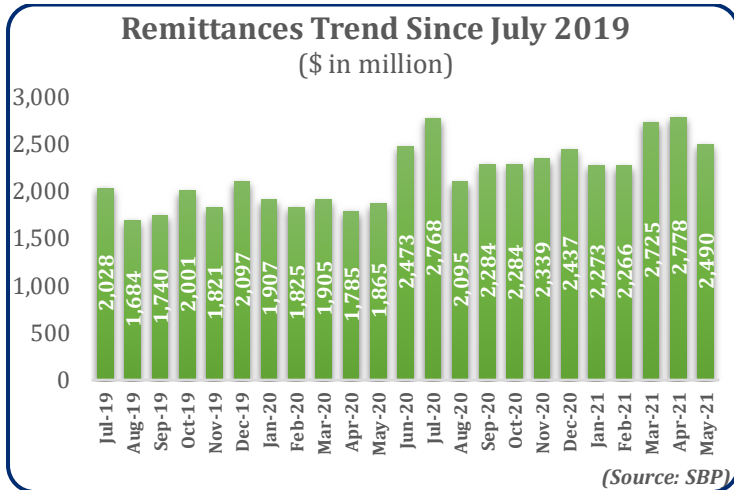
(Source: SBP)

## 3. WORKER'S REMITTANCES:

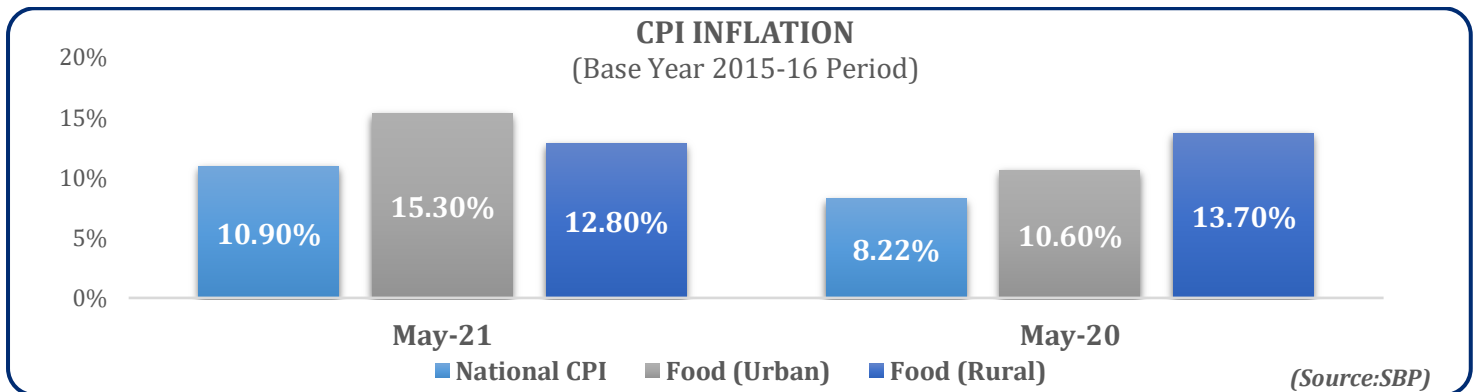
According to the SBP, Pakistan's Overseas Worker's Remittances fell by 10.35% to \$2.49 billion in May 2021 vs. \$2.77 billion in April 2021 on-month-on-month basis due to post Eid-ul-Fitr period. However remittances continued their exceptional streak in May 2021, remaining above \$2 billion for a record 12th straight month. On a cumulative basis, remittances surged to US \$ 26.7 billion during July-May FY 2020-21, higher by 29.4% over the same period last year.

Remittances during the first eleven months of ongoing fiscal year have already crossed the full FY 2019-20 level by \$3.6 billion, inflows were mainly sourced from Saudi Arabia which stood at \$7 billion, \$5.6 billion from United Arab Emirates, \$3.7 billion from United Kingdom, and \$2.5 billion from the United States. On year-on-year basis, Pakistan's Overseas Worker's Remittances surged by 33.53% from \$1.86 billion in May 2020 to \$2.49 billion in May 2021.

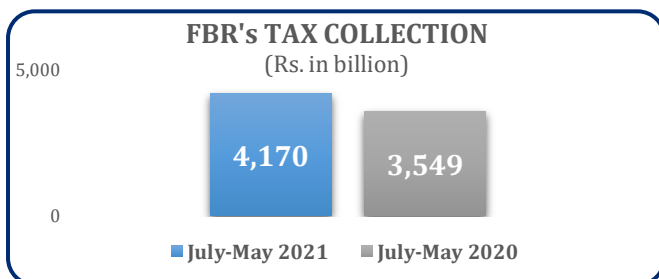
On a month-on-month basis, country's remittances plunged by 15.34% from United Kingdom, 7.58% from Saudi Arabia, 6.72% from United Arab Emirates and 12% from other GCC countries. On a cumulative basis, remittances stood at \$26.73 billion during July-May 2020-21, which grew by 29.42% compared to \$20.65 billion last year.



#### 4. CONSUMER PRICE INDEX ("CPI") INFLATION:



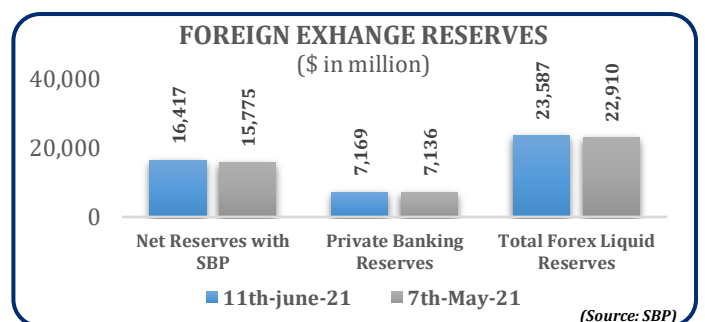
#### 5. TAX REVENUE COLLECTION:



According to official statistics, FBR collected tax revenue of PKR 4,170 billion in July-May 2020-21 vs. PKR 3,549 billion last year. FBR's tax revenue grew by 17.5% or PKR 621 billion vs. last year. FBR needs to collect PKR 521 billion to achieve revised tax revenue collection target of PKR 4,691 billion (previously 4,963 billion) for Tax Year 2020-21.

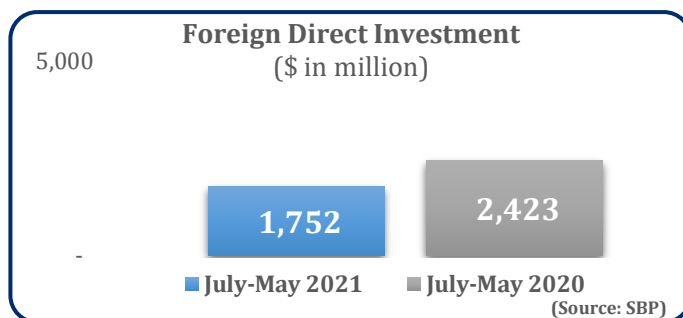
#### 6. FOREIGN EXCHANGE RESERVES:

SBP reserves stood at \$16.417 billion as of 11<sup>th</sup> June 2021. The country's forex reserves had been rising by \$2 million or 0.01% from \$16.415 billion in the previous week boosted by inflows from Eurobonds, workers' remittances and financial assistance coming from multilateral institutions.

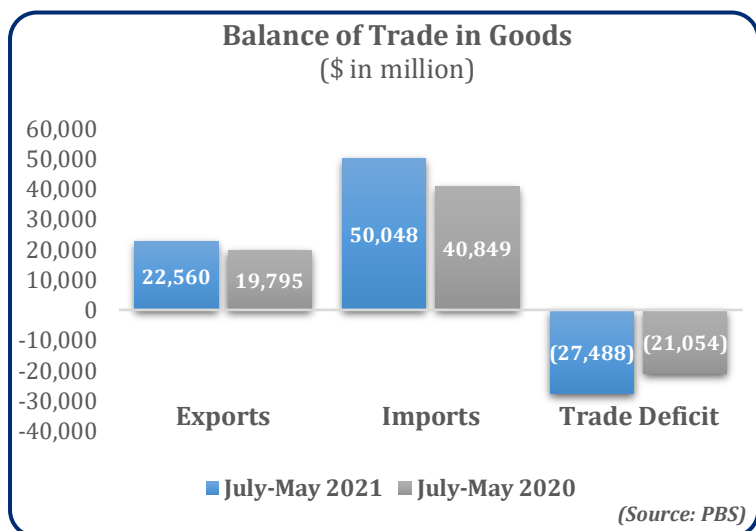


## 7. FOREIGN DIRECT INVESTMENT:

During July-May 2020-21, Pakistan's net FDI depreciated by 27.69% or \$671 million to \$1.75 billion as compared to \$2.42 billion last year. During May 2021, Pakistan's FDI stood at \$198.3 million provisional compared to \$121.4 million in May 2020 last year. According to SBP, total Foreign Investment of the country has increased by 107% to \$3.92 billion during July-May 2020-21 compared to \$1.89 billion last year.



## 8. BALANCE OF TRADE IN GOODS:



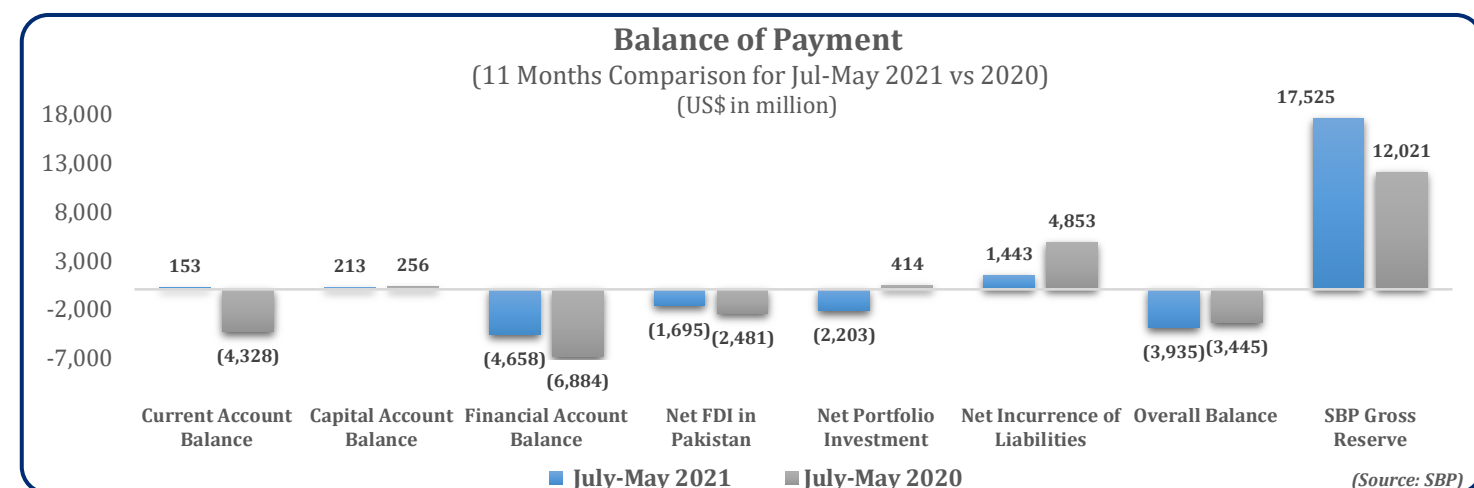
According to the PBS, country's exports have deteriorate by 25.46% to \$1.65 billion in May 2021 vs. \$2.21 billion in April 2021 on a month-on-month basis. Whereas, exports increased by 18% in May 2021 vs \$1.3 billion last year on a year-on-year basis. During July-May 2020-21, Pakistan's exports have appreciated by almost 14% to \$22.5 billion vs. \$19.79 billion last year.

The trade gap has been widening since December 2020, the surge in trade deficit is mainly led by exponential growth in imports with comparative slow growth in export proceeds from the country. Despite having V-shaped growth in major sectors, government should consider to develop export base items that fulfils demand for high value added goods in Global market.

## 9. BALANCE OF PAYMENT:

Pakistan's Current Account deficit has increased by a large 236% from revised deficit of \$188 million in April 2021 to \$632 million in May 2021 on a month-on-month basis. According to SBP, "the current account posted a marginal deficit of \$632 million". On a cumulative basis, it remains in surplus of around \$153 million in Jul-May FY21 against a deficit of \$4,328 million in Jul-May FY20". Current Account deficit particularly rise due to decline in Export by 25.46% on going month of May 2021. The declining trend of 25.46% in growth of exports on month on month basis is particularly reason behind sharp rise in deficit for the month of May 2021. As worsening trade deficit will be the biggest contributor to the current account deficit. Whereas, rising oil prices will put more pressure on current account balance as oil imports constitute 18% of the total imports.

(\$ in million)	May 2021 (Provisional)	April 2021 (Revised)
<b>Current account Balance</b>	<b>(632)</b>	<b>(188)</b>
<b>Capital Account Balance</b>	<b>9</b>	<b>21</b>
<b>Financial Account Balance</b>	<b>(1,202)</b>	<b>(2,090)</b>
<b>Net FDI in Pakistan</b>	<b>(196)</b>	<b>(159)</b>
<b>Net Portfolio investment</b>	<b>(42)</b>	<b>(2,452)</b>
<b>Net incurrence of Liabilities</b>	<b>755</b>	<b>(927)</b>
<b>Overall Balance</b>	<b>(371)</b>	<b>(2,027)</b>
<b>SBP Gross Reserve</b>	<b>17,525</b>	<b>17,014</b>



## **10. OUTLOOK:**

- Minister of Finance and Economic Affairs said in post Budget press conference, "FBR's envisaged target of PKR 5.829 trillion a challenging task and the FBR could go up to adding PKR 550 billion with the help of nominal growth of 13% and the remaining PKR 500 billion will have to be collected by the tax machinery, in term of PKR 264 billion net taxes through policy measures and PKR 240 billion in shape of enforcement actions for achieving the desired target in the next fiscal year."
- Looking forward, the government expected the economy to grow at a pace of almost 5%, with the current account in surplus or at least in small manageable deficit of 0.7% of GDP, to achieve "growth with stability". Similarly government needs to curtail inflation as high inflation may force SBP to tighten the monetary policy, which may impeded growth.
- The exchange rate is feeling upward pressure on the back of rising imports and hike in international oil prices. Government should need to stable currency parity and rebound in export earnings is the need of hour.
- Continuous decline in FDI is a sign of concern as it's exceedingly difficult for a capital deficient economy to register sustained growth without injection of foreign capital. Pakistan needs to rule out from FATF grey list as early as possible as the government's ambition for the growth path can only be triumphant if foreign investors and institutions pour in foreign exchange in the shape of portfolio investment and foreign direct investment.
- Pakistan and the IMF have agreed to postpone the 6<sup>th</sup> economic review till September under the \$6 billion loan programme as they failed to reach staff level agreement on measures to fix the economy. By that time, if the IMF is satisfied that Pakistan has implemented the conditions swiftly, then programme will move forward.

### **DISCLAIMER**

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