# PAKONOMICS
## OCTOBER 2021

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## HIGHLIGHTS:

- The State Bank of Pakistan ("SBP") has decided to increase the benchmark policy rate to 8.75% from 7.25% in its Monetary Policy Committee ("MPC") meeting, for the next two months. The rise in the policy rate comes on the back of the demands of the International Monetary fund ("IMF"). However, this decision of a contractionary monetary policy will not be favorable in achieving the 4.8% growth rate target projected by the Planning Commission of Pakistan for the ongoing Fiscal Year.
- Moreover, the IMF and the Government of Pakistan have reached a staff-level agreement, whereby, the IMF will consider the approval of pending tranche (of the current IMF programme that Pakistan is engaged in with the IMF) worth USD 1 billion , as the approval of the Executive Board of the IMF had been formally linked with the implementation of the pre-conditions.
- In the Inter-bank market, the PKR continues its declining trend against the US dollar, reaching a lower level of 175.45 rupees against one US dollar on 26th November, as per the exchange rate of the SBP.
- Growth of the Large-Scale Manufacturing ("LSM") sector in stood at 1.19% during September 2021 vs. 7.68% the previous year. In the third month of FY22, the growth in the LSM sector declined by 0.72% compared to the previous month of August 2021, when assessed on a Month-on-Month basis ("M-o-M").
- The cumulative inflows of deposits in the Roshan Digital Accounts ("RDA") reached $2.68 billion at the end of October 2021.
- As per the SBP, remittances sent by Overseas Pakistani workers declined by only 5.70% on a M-o-M basis to $2.52 billion in October 2021 from $2.67 billion in September 2021.
- According to official statistics released by the Federal Board of Revenue ("FBR"), they have collected tax revenue worth PKR 1,841 billion in Jul-Oct FY22 vs. PKR 1,347 billion in the previous year. This reflects a growth of almost 37% or PKR 494 billion in the tax revenue collection in Jul-Oct FY22 vs. the same period last year.
- The foreign currency reserves held by the SBP stood at $16.25 billion as of 19th November 2021. They have declined by $691 million after external debt repayments.
- The Broad Money (M2) stock for the period 1st of July to 22nd October 2021, stood at negative PKR 409 billion vs. negative PKR 105 billion last year.
- Per the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 9.20% on a year-on-year ("Y-o-Y") basis in October 2021 vs. 8.90% in the previous year.
- Furthermore, as per the PBS, exports by Pakistan rose by 2.37% to $2.46 billion in October 2021 vs. $2.40 billion in September 2021 on a M-o-M basis.
- During July-Sept FY22, Pakistan's net Foreign Direct Investment declined by 24% ($70 million) to a provisional amount of $223 million, as compared to $293 million in the same period last year.
- As per the SBP, the total Foreign Investment in the country during the period July to October FY 22 has increased to $424 million, as compared to $324 million last year.
- The country has posted a Current account deficit in the period Jul-Oct of FY22 which stood at $5.08 billion.

The outlook of the economy of Pakistan is as follows:

### ➢ ECONOMY AT A GLANCE

| Economic Indicators | Period | Status | Current Year | Last Year |
|---|---|---|---|---|
| LSM | September | ↓ | 1.19% | 7.68% |
| Total Debt and Liabilities | September | ↑ | PKR 50.48 Trillion | PKR 44.84 Trillion |
| Credit to Private Sector | Jul – 22nd Oct | ↑ | PKR 226 Billion | PKR (96) Billion |
| Roshan Digital Account | October | ↑ | US$ 266 Million | US$ 33 Million |
| Worker's Remittances | October | ↑ | US $2.52 Billion | US $2.28 Billion |
| Currency in Circulation | As of 22nd Oct | ↑ | PKR 7.13 Trillion | PKR 6.18 Trillion |
| Net Government Sector borrowing | Jul – 22nd Oct | ↓ | PKR (69) Billion | PKR 50 Billion |
| National CPI (Base Year 2015-16) | October | ↑ | 9.20% | 8.90% |
| FBR Tax Collection | Jul-Oct | ↑ | PKR 1,841 Billion | PKR 1,347 Billion |
| Foreign Exchange Reserves with SBP | As of 19th Nov | ↑ | $16.25 Billion | $12.06 Billion |
| Foreign Direct Investments | Jul-Oct | ↓ | $223 Million | $293 Million |
| Trade Deficit in Goods | Jul-Sept | ↑ | US$ (15.63) Billion | US$ (7.60) Billion |
| Current Account Deficit | Jul-Sept | ↑ | $(5,084) Million | $1313 Million |

## 1. LARGE SCALE MANUFACTURING:

According to the PBS, the LSM sector of Pakistan grew by 1.19% in September 2021 on a Y-o-Y basis vs. September 2020. The LSM index is still relatively low when compared to pre COVID levels. The overall output declined by 0.72% on a M-o-M basis. There are clear signs the large-scale industrial activity is nowhere near peaking, and that there is still the impact of partial lockdowns present in the statistics of the month of July. Hence, not much should be read into it.

Out of 15 industries that are part of the LSM segment, 12 posted a rise in production during the first quarter of FY22. These include textile, Food, beverages and tobacco, coke and petroleum products, non-metallic mineral products, iron and steel products, automobiles, pharmaceuticals, paper and board, chemicals, leather products, engineering products, and wood products. However, the output in fertilizers, electronics, and rubber products has contracted during the first quarter of the ongoing year under review, compared to the preceding year, data from the PBS revealed.

Sector-wise, production of 11 items under the Oil Companies Advisory Committee ("OCAC") rose by 4.75% on a Y-o-Y basis in July-Sept FY22. Whereas, when the comparison is made for the month of September 2021, on a Y-oY basis, the production of the aforementioned 11 items increased by 9.57%. Moreover, the 36 items under the Ministry of Industries and Production increased by 5.13%, in which Cement output also grew by 1.64% in the period of July-Sept 2021 because of a slight rise in demand of cement following the start of construction activities.

| LSM (%) | Weight | Sept-21 | Aug-21 | Sept-20 | July-Sept 2021-22 | Y/Y growth Cumulative |
|---|---|---|---|---|---|---|
| **Textile** | **20.92** | (0.19) | 1.62 | 2.87 | 0.80 | **0.23** |
| **Food, Beverages & Tobacco** | **12.4** | (3.17) | 13.04 | 11.54 | 3.39 | **0.54** |
| **Coke & Petroleum Products** | **5.5** | 9.57 | 8.83 | (3.77) | 4.75 | **0.28** |
| **Non-Metallic Mineral Products** | **5.4** | (2.53) | 22.73 | 20.66 | 1.44 | **0.20** |
| **Iron & Steel Products** | **5.4** | 12.68 | 17.36 | (3.20) | 13.77 | **0.53** |
| **Automobiles** | **4.6** | 23.72 | 68.01 | 27.55 | 42.64 | **2.18** |
| **Fertilizers** | **4.44** | (6.05) | (4.88) | 7.85 | (2.66) | **(0.18)** |
| **Pharmaceuticals** | **3.6** | (0.63) | 29.29 | 22.84 | 11.53 | **0.95** |
| **Paper & Board** | **2.3** | 18.21 | 30.32 | (0.09) | 13.12 | **0.49** |
| **Electronics** | **2** | (12.60) | (4.82) | (12.25) | (4.51) | **(0.15)** |
| **Chemicals** | **1.7** | (0.48) | 4.02 | 10.63 | 4.70 | **0.13** |
| **Leather Products** | **0.9** | 4.35 | 28.89 | (40.21) | 13.94 | **0.12** |
| **Engineering Products** | **0.4** | (2.59) | 4.39 | (32.98) | 3.17 | **0.01** |
| **Rubber Products** | **0.3** | (32.77) | (27.97) | 15.40 | (31.50) | **(0.17)** |
| **Wood Products** | **0.6** | (12.52) | 8.61 | (57.98) | 4.44 | **0.00** |
| **LSM Growth for September 2021 (Y/Y)** | | | | | | **1.19%** |
| **LSM Growth for Sept 2021 vs. Aug 2021(M/M)** | | | | | | **(0.72%)** |
| **LSM Growth for July-Sept 2021 (Y/Y)** | | | | | | **5.15%** |

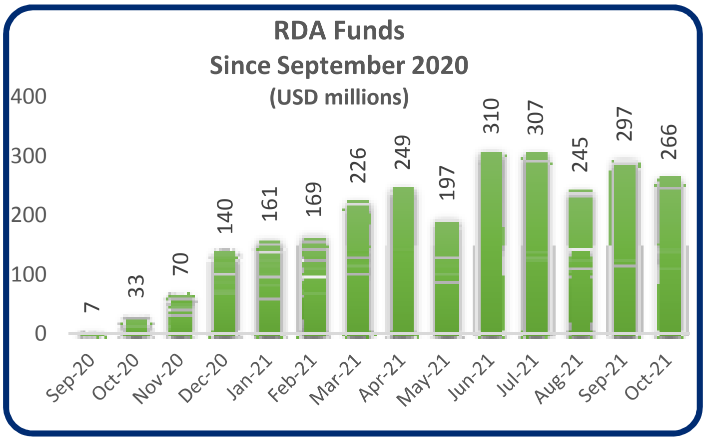
*(Source: PBS)*

## 2. ROSHAN DIGITAL ACCOUNT (RDA):

The cumulative inflows of deposits under the RDA amount to $2.68 billion since its announcement in September 2020. Out of the $2.68 billion, over two-thirds, $1.83 billion or 68% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 273,411 accounts have been opened from 175 countries during the 14 months.

| Roshan Digital Account (USD in Millions) | Cumulative Position | Oct-21 | Sept-21 |
|---|---|---|---|
| | (Provisional) | | |
| **Funds Received** | **2,677** | **266** | **297** |
| **Naya Pakistan Certificates** | **1,834** | **174** | **185** |
| Conventional | 1,052 | 90 | 93 |
| Islamic | 782 | 84 | 92 |
| **Others** | **843** | **90** | **108** |
| **Stock Exchange** | **27** | **2** | **4** |

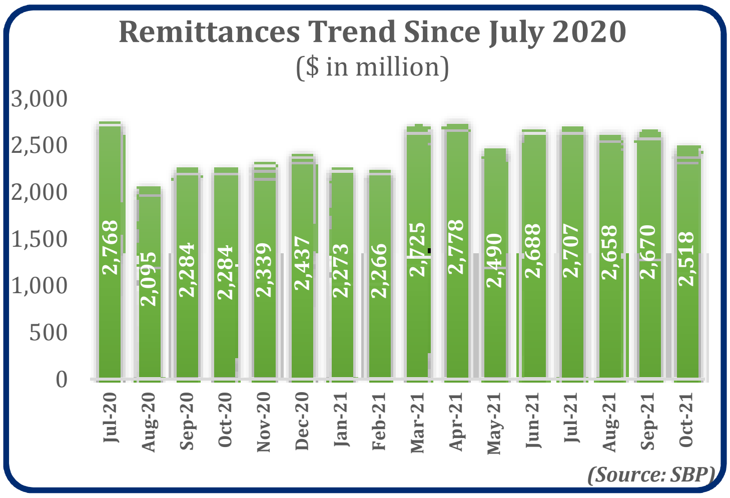
*(Source: SBP)*

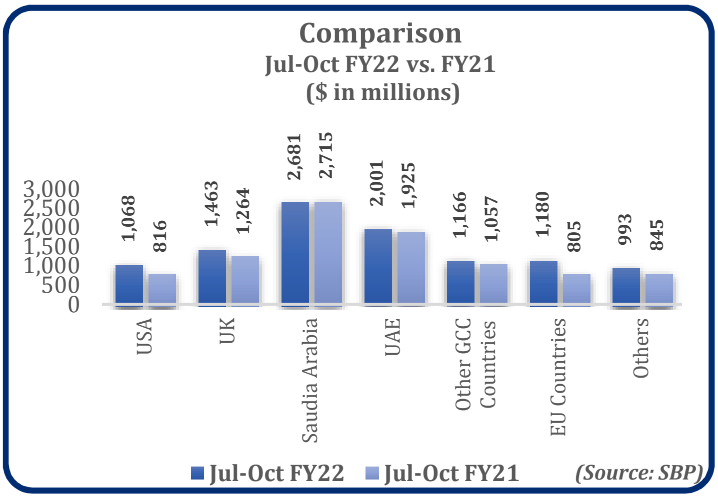


## 3. WORKER'S REMITTANCES:

The data released by the SBP shows that the remittances sent by Overseas Pakistani workers plummeted by 5.70% to $2.52 billion in October 2021 vs. $2.67 billion in September 2021. By contrast, in the first four months of FY22, the inflows of remittances sent by Overseas Pakistani workers surged by 12% to $10.55 billion compared to $9.43 billion received a year ago during the same period. This is the seventh straight successive month when inflows were recorded around $2.5 billion on an average. Moreover, it is the sixteenth consecutive month where these remittances have been above $2 billion. This has helped Pakistan in having the needed financial power to mitigate the deterioration in the CAD. A descriptive analysis has revealed that the inflow of remittances during the month of October 2021 were mainly coming from four major territories: The Kingdom of Saudi Arabia, the United Arab of Emirates, the United Kingdom, and the United States of America. With a 25% share in overall home remittances flows, Saudi Arabia remained a significant contributor towards the said remittances.

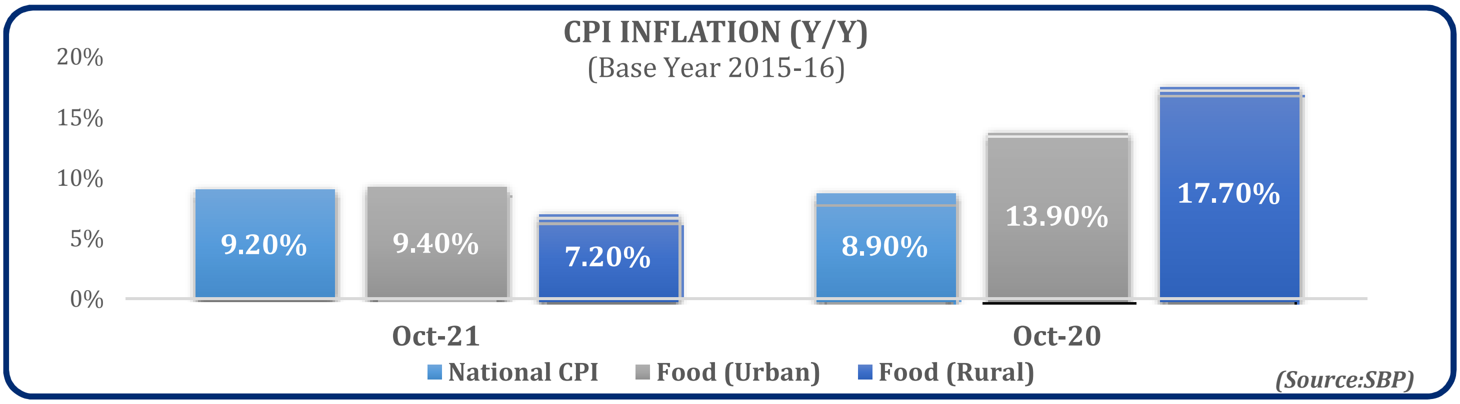
However, inflow from Saudi Arabia declined by 1.25% to $2.68 billion in Jul-Oct FY22 as against $2.71 billion during the same period in FY21. Furthermore, $1.068 billion or a 10% share (in the said remittances) arrived from the US, showing a rise of 31% in Jul-Oct FY22 compared to the same period last year. Worker remittances from the UK also increased by 15.7% and contributed almost 14% or 1.463 billion in Jul-Oct FY22. Likewise, from UAE the remittance growth stood at 4%, while its share in the total remittances is $2.0 billion or 19%. The robust growth in home remittances at the same momentum may lift the economy to cross the projected tally for remittances of $31.257 billion for FY22. It seems that the initiative of Economic Coordination Committee ("ECC") might be working in which they announced a subsidy of PKR 13.10 billion to uplift remittances. Despite that, the resumption of International flights might be a big blow for remittances in the coming months.



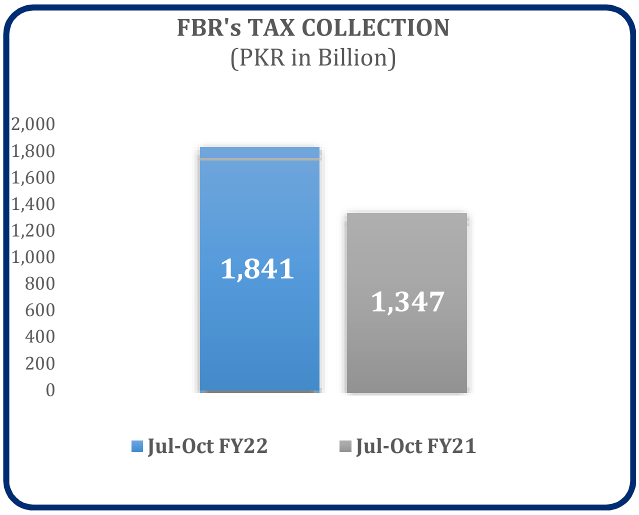




## 4. CONSUMER PRICE INDEX INFLATION:

The National CPI inflation was recorded at 9.2% in October 2021, on a Y-o-Y basis, strikingly similar to the same month of FY21. However, the actual pace of inflation will be marginally observed in the next month due to an extraordinary rise in the Wholesale price index ("WPI") which stood at 21.2% on a Y-o-Y basis. On a monthly basis, the National CPI grew by 1.9%. Similarly, Food inflation, both urban and rural, rose by 1.5% and 2.6% respectively when compared to September 2021. The increase in inflation is essentially due to the depreciation of the PKR, that has driven up the cost of every commodity including wheat, sugar, cooking oil, crude oil, and the raw material for industries.



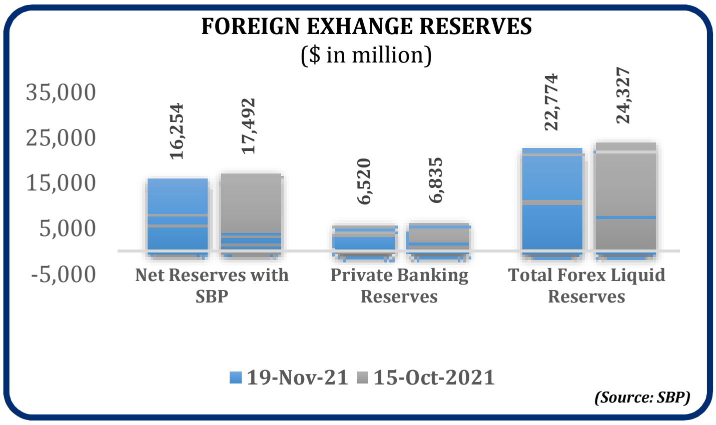

## 5. TAX REVENUE COLLECTION:




As per the FBR, the provisionally collected tax revenue in October 2021 is an amount to the tune of PKR 440 billion in October 2021 vs. PKR 337 billion in the same month last year. This amounts to a rise of 30.5% when compared to October 2020. In the first four months of FY22, FBR's tax revenue grew by almost 37% or PKR 494 billion vs. the previous year. Moreover, the FBR surpassed its first quarter target of PKR 1,608 billion by 14%, reflecting an increase of PKR 233 billion. As per Mr. Shahbaz Rana's article titled "Tax collection rises nearly Rs500b" published on 30th of October in the Express Tribune, out of the total tax collection, PKR 1.21 trillion is collected from indirect sources having a share of 66%, whereas, the income tax collection stood at PKR 622 billion. It was also stated therein that 52% or PKR 957 billion of total revenues were gathered at the import stage.

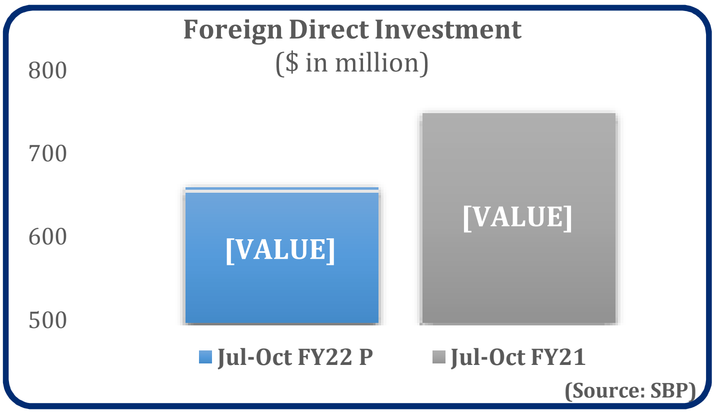
## 6. FOREIGN EXCHANGE RESERVES:

The SBP reserves amount to $16.25 billion as of 19th November 2021. On a weekly basis, the country's forex reserves have declined by $691 million or 4% from $16.94 billion in the previous week. The decrease came on the back of external debt repayments, as stated by the SBP. Earlier on 27th August 2021, the foreign exchange reserves held by the SBP had soared to an all-time high of $20.15 billion after Pakistan received a general allocation of worth $2.75 billion from the IMF.

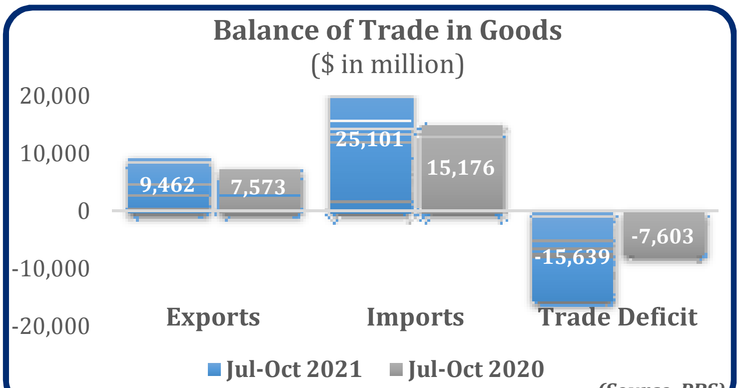



## 7. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI declined by 24% or $70 million to $223 million provisional in October 2021 as compared to $293 million same month last year. In Jul-Oct FY22, sector wise, the Net FDI share mostly includes in Agriculture sector, the share of which stood at 31%, while the share of Electricity, gas, steam and air conditioning supply stood at 26%. According to the SBP, the total Foreign Investment of the country has increased to $424 million during July-Oct FY22 compared to $324 million during the same period last year. While on a Y-o-Y basis, it has plunged by a massive 7375% to ($895) million in Oct 2021 vs. $12.3 million in Oct 2020.



## 8. BALANCE OF TRADE IN GOODS:



*(Source: PBS)*

As per the PBS, the country's Trade deficit widened by a mammoth 105.70% to $15.64 billion in the period Jul-Oct FY22 vs. Jul-Oct FY21 with a slight cut in imports. However, on a M-o-M basis, the exports have remained stagnant at $2.46 billion, as they have surged only by a margin of 2.4% vs. September 2021 on M-o-M basis. Similarly, the country's trade deficit declined by 5.63% to $3.92 billion during October 2021 compared to $4.15 billion vs. September 2021. While on a Y-o-Y basis, it has appreciated by 119% vs. $1.79 billion in the same month of the last fiscal year.

## 9. BALANCE OF PAYMENT:

Pakistan's Current Account Deficit ("CAD") remained elevated at $5.08 billion in the first four months of FY22 compared to a surplus of $1.31 billion in the same period last year. Despite the fact that the Government of Pakistan had intended to reduce the trade deficit, the CAD has exceeded from its projection given in the Annual Plan 2021-22 published by the Ministry of Planning Development. Moreovezr, the CAD in October alone stood at $1.66 billion increasing 47% on a M-o-M basis. Although, it is financed heavily by borrowing which is ultimately reflecting historic heights in the level of domestic and foreign debt. Recently, the Government took the decision to support the BOP by imposing a 100% cash margin on 114 items import, which will eventually relieve some pressure from the trade account.

| ($ in millions) | July-Oct FY22 P | July-Oct FY21 |
|---|---|---|
| Current account Balance | (5,084) | 1,313 |
| Capital Account Balance | 72 | 82 |
| Financial Account Balance | (5,545) | (1,286) |
| Net FDI in Pakistan | (621) | (702) |
| Net Portfolio investment | 174 | 460 |
| Net incurrence of Liabilities | 5,075 | (378) |
| Overall Balance | (67) | 220 |
| SBP Gross Reserve | 17,200 | 12,183 |
| | | *(Source: SBP)* |

## OUTLOOK:

- Increasing the policy rate by a massive 150 bps will eventually hike the rate of inflation given that borrowing will become more exorbitant for both the government and the private sector. Ultimately, manufacturers will raise product prices (adjusting the rise in borrowing cost) which will lead to more inflationary pressure in the months ahead.
- As a result of the IMF conditions, the advisor to the Prime Minister Mr. Shoukat Tarin on Finance and Revenue admitted that tough conditions of IMF will create more difficulties to the lower income group. However, he further added that it will be offset by the targeted subsidies.
- Objectively viewing the economy of Pakistan, the growth rate and CAD projected by the government do not seem to reflect the ground realities of the Pakistani economy. The CAD surged by $1.6 billion onely in October 2021 alone. If the rate of deficit continuous amongst these lines, then Pakistan's economy may possibly end up in a $15 billion current account deficit at the end of FY22. With that, the projected growth rate of 4.8% seems unlikely to be achieved, given the rise in policy rate and poor performance of LSM.
- Another matter of concern is the fact that the wholesale price index pr has risen by 21.2% in October 2021 compared on a Y-o-Y basis. It can be said that this rise in the WPI will also be adjusted in coming months in the retail prices, which will make the life of lower income group miserable.
- Looking ahead, the outlook of economy seems in jeopardy, as despite the assistance from Saudi Arabia the currency parity of Pakistan started to decline again. Moreover, since the output of LSM does not seem promising in achieving the target of 6.2%, this will eventually shatter the dream to achieve the targeted GDP growth.