HIGHLIGHTS:

- As per the report of the International Monetary Fund ("IMF"), Pakistan's economy is projected to continue its recovery in the Financial Year 2021-22 ("FY22"), with the GDP growth projected at 4%. In addition, the inflation rate is expected to pick up at the end of the ongoing FY22 to 10.2% before gradually slowing down.
- International crude oil prices touched **the $102 a barrel mark** previous week, the highest in roughly 2014 amid a rise in tensions over invading of Ukraine by Russia.
- Pakistan's Large-Scale Manufacturing ("LSM") growth stood at a 6.40% during December 2021 vs. last year. Whereas, on a Month-on-Month comparison ("M-o-M"), the LSM growth stood at 10.50% compared to the previous month of November 2021 (Base Year 2015-16),
- The cumulative inflows of deposits in the Roshan Digital Accounts ("RDA") reached $3.38 billion at the end of January 2022.
- As per the State Bank of Pakistan ("SBP"), remittances sent by Overseas Pakistani workers decreased by 15% on a M-o-M basis to $2.14 billion in January 2022, from $2.52 billion in December 2021.
- According to the official statistics, the Federal Board of Revenue ("FBR") has collected tax revenue worth PKR 3.35 trillion in Jul-Jan FY22 vs. PKR 2.57 trillion last year. This reflects a growth of almost 30.38% or PKR 781 billion in the tax revenue collection in Jul-Jan FY22 vs. the same period last year.
- The foreign currency net reserves held by the SBP stood at $16.81 billion as of 18th February 2022.
- The Broad Money (M2) stock from 1st of July 2021 to 22nd January 2022 is PKR 173 billion as compared to PKR 529 billion last year in same period.
- According to the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 13.00% on a year-on-year ("Y-o-Y") basis in January 2022 vs. 5.70% last year.
- As per the PBS, Pakistan's Exports decreased by 5.28% to $2.61 billion in January 2022 vs. $2.76 billion in December 2021 on a M-o-M basis.
- During July-Jan FY22, Pakistan's net FDI has appreciated by 5.7% or $118.6 million to $1.16 billion as compared to $1.04 billion in the same period in the previous year.
- As per the SBP, the total Foreign Investment of the country has increased to $1.8 billion during Jul-Jan FY22 as compared to $659 million same months in the preceding year.
- The country posted a Current account deficit ("CAD") in the period Jul-Dec of FY22 of a a staggering $9.09 billion.

The outlook of the economy of Pakistan is as follows;

➢ ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	**December**	↓	**6.40%**	**8.1%**
Central Government Debt	**December**	↑	**PKR 41.56 Trillion**	**PKR 36.27 Trillion**
Credit to Private Sector	**Jul – 22nd January**	↑	**PKR 786 Billion**	**PKR 235 Billion**
Roshan Digital Account	**January**	↑	**US$ 222 Million**	**US$ 161 Million**
Worker's Remittances	**January**	↓	**US $2.14 Billion**	**US $2.27 Billion**
Currency in Circulation	**As of 22nd January**	↑	**PKR 7.12 Trillion**	**PKR 6.41 Trillion**
Net Government Sector borrowing	**Jul – 22nd January**	↓	**PKR 77,637 million**	**PKR 123,285 million**
National CPI (Base Year 2015-16)	**January**	↑	**13.00%**	**5.70%**
FBR Tax Collection	**Jul-Jan**	↑	**PKR 3.35 Trillion**	**PKR 2.57 Trillion**
Foreign Exchange Reserves with SBP	**As of 18th February**	↑	**$16.81 Billion**	**$12.90 Billion**
Foreign Direct Investments	**Jul-Jan**	↑	**$1.16 Billion**	**$1.04 Billion**
Trade Deficit in Goods	**Jul-Jan**	↑	**US$ (28.87) Billion**	**US$ (15.00) Billion**
Current Account Deficit	**Jul-Jan**	↑	**$(11,579) Million**	**$1,028 Million**

1. LARGE SCALE MANUFACTURING:

According to the PBS, Pakistan's LSM sector growth increased by 6.40% in December 2021 on a Y-o-Y basis vs. December 2020 as per the new methodology. During the first six months of ongoing fiscal year, the growth of large industries stood at a rate of 7.4% more than the double of old base year 2005-06 which reported at 3.4%. Similarly, on a M-o-M basis, the overall output rose by 10.50% over November 2021.

On the basis of the new base year, Major LSM coverage has increased from 15 industries to 22. Out of 22, 18 industries posted a surge in production during the Jul-Dec period of FY22 as compared to last year. These include textile, Food, beverages, coke and petroleum products, Chemicals, wearing apparel, non-metallic mineral products, beverages, iron and steel products, automobiles, tobacco, paper and board, leather products, wood products, machinery equipment's, furniture industry, and other sports industries. However, the output in pharmaceutical, fertilizers, electronics, and rubber products, other transport equipment, fabricated metal, and Computer and optical products has decreased during Jul-Dec of the ongoing year under review, compared to the preceding year, data from the PBS revealed.

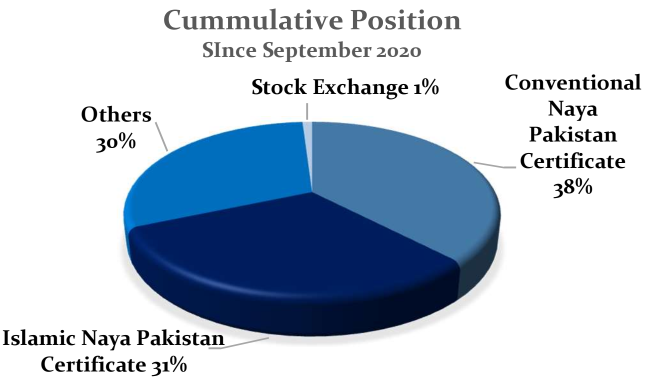
Sector-wise, production of 11 items under the Oil Companies Advisory Committee ("OCAC") increased by only 0.7% Y-o-Y in July-Dec FY22, whilst when it is compared to December 2020, it declined by a rate of 21.5% in December 2021. The 36 items under the Ministry of Industries and Production rose by 6.6%, in which Cement output declined by 0.9% in the period of July-Dec 2021.

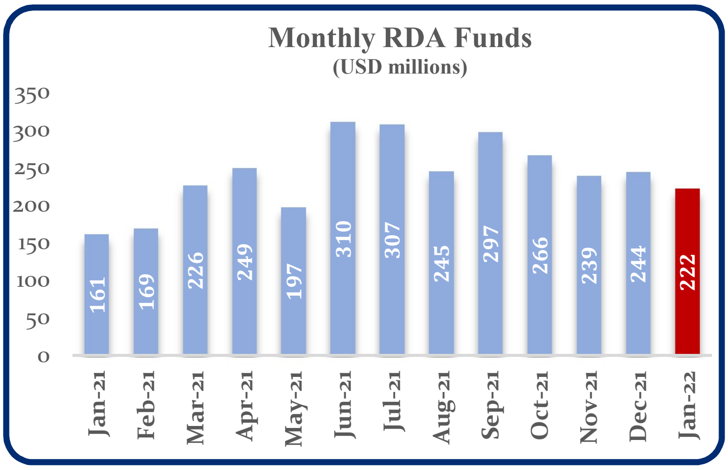
LSM (%)	Weight	Dec-21	Dec-20	July-Dec 2021-22	Y/Y growth Cumulative
Textile	**18.2**	(0.9)	10.3	**2.8**	**0.6**
Food	**10.7**	3.3	32.3	**1.3**	**0.2**
Coke & Petroleum Products	**6.7**	(21.6)	23.7	**0.7**	**0.1**
Chemicals	**6.5**	4.8	15.8	**2.6**	**0.2**
Wearing Apparel	**6.1**	17.3	(20.0)	**20.5**	**1.6**
Pharmaceuticals	**5.2**	(13.6)	11.2	**(4.9)**	**(0.3)**
Non-Metallic Minerals Products	**5.0**	6.0	10.4	**1.8**	**0.1**
Beverages	**3.8**	(0.3)	(15.3)	**4.3**	**0.2**
Iron and Steel Products	**3.4**	13.4	(3.2)	**18.4**	**0.8**
Automobiles	**3.1**	83.1	38.5	**69.4**	**1.8**
Tobacco	**2.1**	50.8	(6.1)	**50.8**	**0.5**
Electronics	**2.0**	56.1	(33.7)	**(1.3)**	**(0.1)**
Paper & Board	**1.6**	7.7	(4.7)	**8.3**	**0.2**
Leather Products	**1.2**	5.4	(39.9)	**6.8**	**0.0**
Other Transport Equipment	**0.7**	(9.1)	22.6	**(4.0)**	**0.0**
LSM Growth for December 2021 (Y/Y)					**6.40%**
LSM Growth for Dec 2021 vs. Nov 2021(M/M)					**10.50%**
LSM Growth for July-Dec 2021 (Y/Y)					**7.40%**

(Source: PBS)

2. Roshan Digital Account ("RDA"):

The cumulative inflows of deposits under the RDA reached $3.38 billion since its announcement in September 2020. Out of the $3.38 billion, over two-thirds, $2.319 billion or 68.56% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 342,611 accounts have been opened from 175 countries during the 17 months.



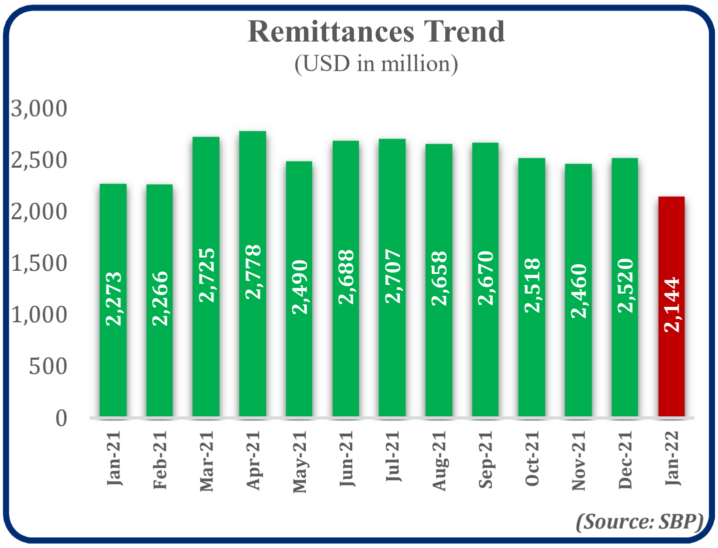


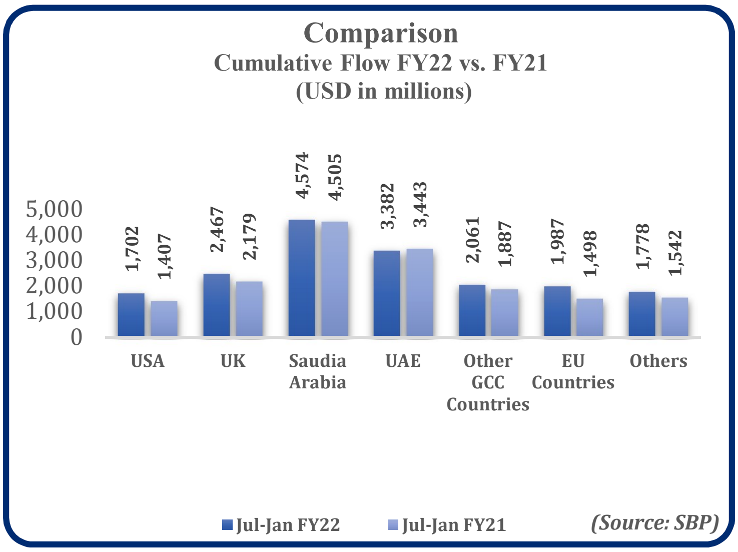
(Source: SBP)

3. WORKER'S REMITTANCES:

According to the SBP, the remittances sent by Overseas Pakistani workers decreased by 15% to $2.14 billion in January 2022 vs. $2.52 billion in December 2021. However, in Jul-Jan period of FY22, inflows surged by 9% to almost $18 billion compared to $16.40 billion received a year ago in the same period. This is the Twentieth time remittances are above the $2 billion mark in the half pass of the ongoing FY22 – although pace of growth is much slower than the last FY21's period Jul-Jan, where it grew by 24%. Similarly, on a Y-o-Y basis, monthly flows plunged by 5% as compared to January 2021.

A descriptive analysis revealed that remittances inflows during the month of January 2022 were mainly coming from four major territories: Saudi Arabia, UAE, UK, and the USA. With more than 25% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflow from the Saudi Arabia have a low growth of 1.53% to $4.57 billion in Jul-Jan FY22 vs. $4.51 billion during the same period in FY21. An amount to the tune of $1.70 billion, or a 9.70% share, was received from the US, showing a rise of 21% in Jul-Jan FY22 vs. the same period in the previous year. Worker remittances from the UK also increased by 13.24% and contributed almost 15% or 2.47 billion in Jul-Jan FY22. Likewise, remittance growth from UAE declined at a rate of 1.77%, while its share is $3.38 billion or 17.43% in the total remittances.

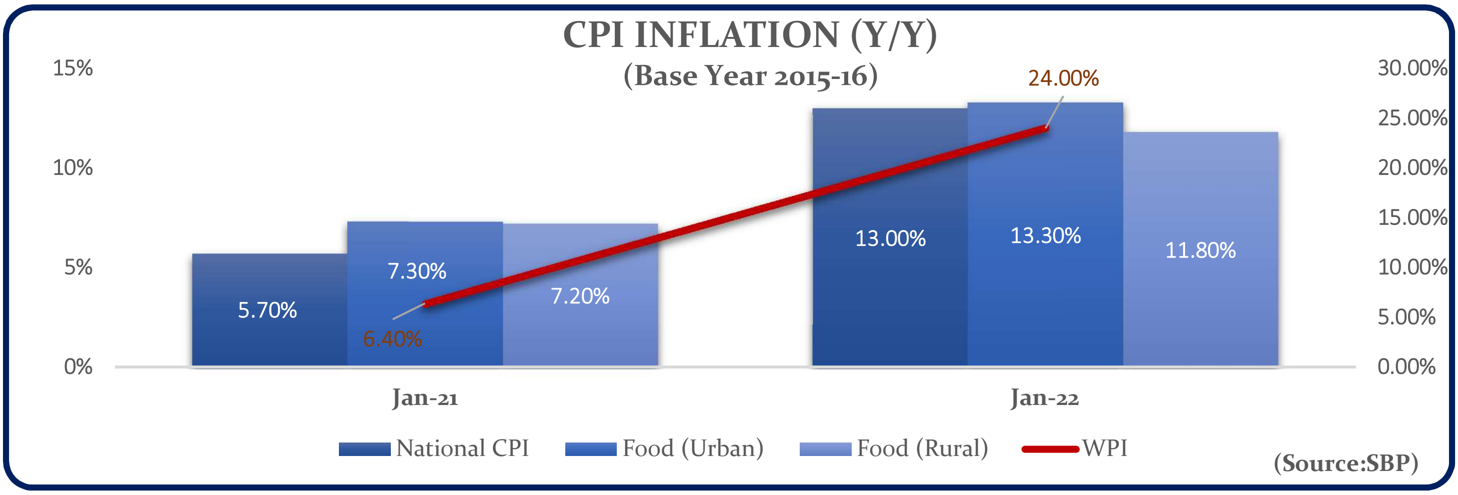




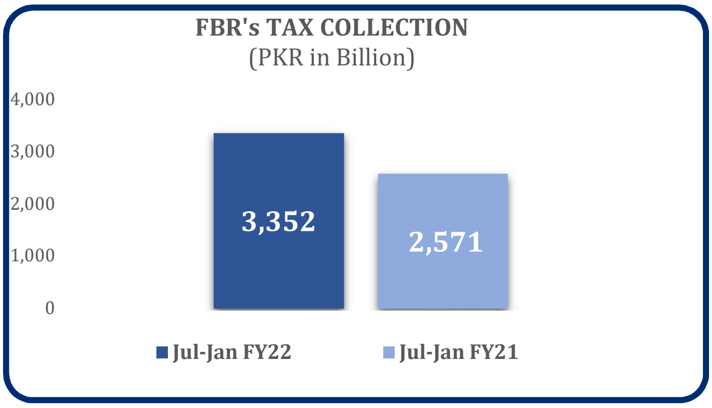
4. CONSUMER PRICE INDEX INFLATION:

The National CPI inflation was recorded at 13.0% in January 2022 on a Y-o-Y basis, strikingly higher as compared to the same month of FY21. Whereas, the pace of inflation will be continuing its rising trend in coming months due to an extraordinary rise in the Wholesale price index ("WPI") which stood at 24.0% on a Y-o-Y basis. In contrast, on a monthly basis, the National CPI has a low growth of 0.4%. Moreover, Food inflation in urban decreased by 0.8%, whereas in rural it risen by 0.4% vs. December 2021. The rising trend of monthly CPI has essentially been fueled by the rising International commodity prices, currency parity, and electricity and petroleum product prices.

During January 2022,, Core inflation, which is calculated on the basis of excluding energy and food items, rose by 8.2% and 9% in urban and rural areas, respectively.



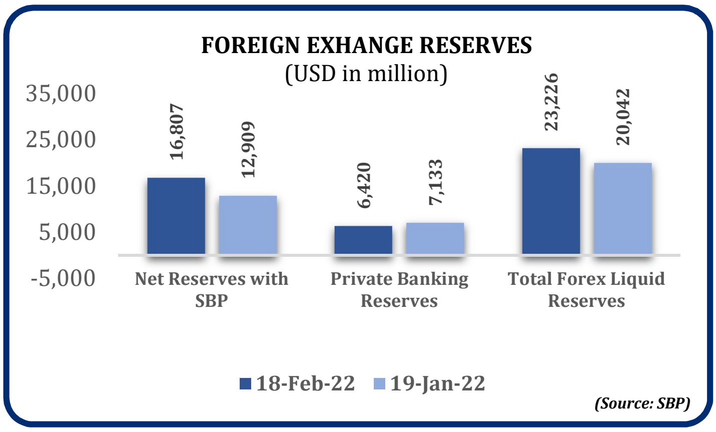
5. FBR TAX REVENUE COLLECTION:



As per the official statistics published by the FBR, the FBR has provisionally collected tax revenue worth PKR 430 billion in January 2022 vs. PKR 367 billion in the same month last year, thereby announcing a rise of 17%. In the first half of FY22, FBR's tax revenue grew by 30% or PKR 781 billion vs. last year. Moreover, the FBR surpassed its Jul-Jan target of PKR 3,090 billion by 8.5% reflecting an increase of PKR 262 billion. As per Mr. Shahbaz Rana's article titled "Beating target, FBR collects Rs3.35tr" published on 30th January 2022 in the Express Tribune, from the total tax collection, PKR 2.2tr is collected from indirect sources having a share of 65%, whereas, the income tax collection is PKR 1.18 trillion.

6. FOREIGN EXCHANGE RESERVES:

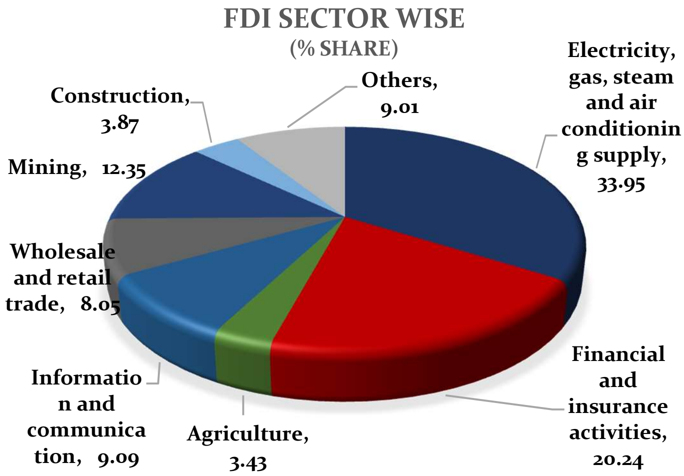
The net reserves of the SBP stood at $16.81 billion as of 18th February 2022, after accounting for the external debt repayment and other official payments. Earlier in the last week of January, SBP reserves declined to $15.73 billion, after external debt and other payments. Following that, Pakistan's forex reserves have increased by $1,609 million or 10.23% to $17.34 billion in the first week of the Feb 2022 on the back of the receipt of $1,053 million under the Extended Fund Facility (EFF) programme of the IMF and Pakistan International Sukuk Bond issuance of $1,000 million (source: Express tribune).



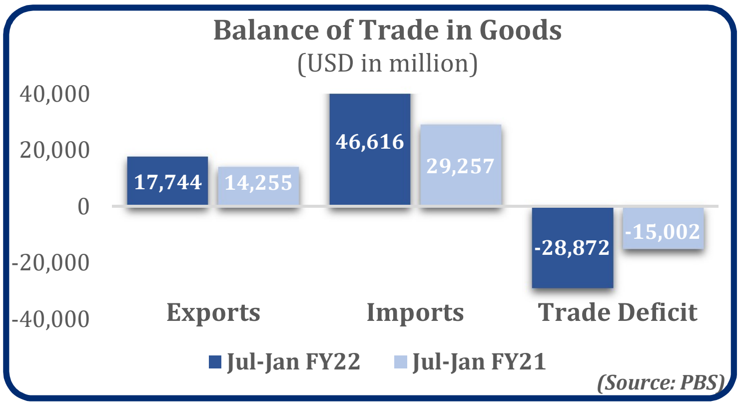
7. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has appreciated by 5.7% or $118.6 million to $1.16 billion provisionally during Jul-Jan FY22, as compared to $1.04 billion during the same period in the preceding year. As per the SBP, the total Foreign Investment of the country has increased to $1.8 billion during July-Jan FY22, compared to $659 million in the same period last year. Whereas, the Foreign Investment increased by 436% to $1.16 billion on a Y-o-Y basis in January 2022 as against the amount of $217.5 million in January 2021.

This Pie chart shows the percentage share of flows in different sectors of the Economy for the period Jul-Jan FY22



8. BALANCE OF TRADE IN GOODS:



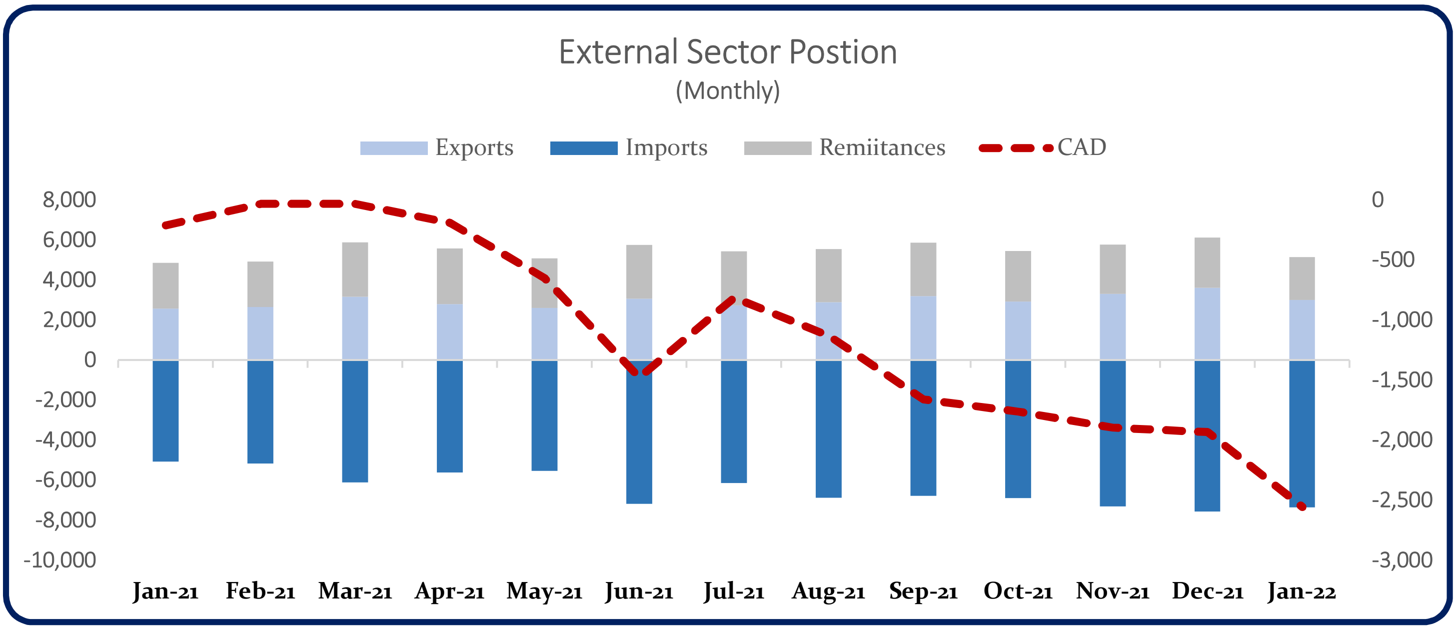
As per the PBS, Pakistan's trade deficit widened by a whopping 92% to $28.87 billion during the period Jul-Jan FY22 vs. Jul-Jan FY21 with a rise in imports. Exports, despite looking slightly promising in the month of Nov 2021, have declined since then and have been recorded at $2.62 billion, thereby declining by a margin of 5.28% vs. December 2021 on a M-o-M basis. However, the country's trade deficit narrowed by 28.68%, to $3.43 billion during January 2022, compared to $4.81 billion in December 2021. While on a Y-o-Y basis, it has still appreciated by 29% vs. $2.65 billion in the same month of last FY21.

TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

9. BALANCE OF PAYMENT:

Pakistan's CAD has elevated to an unprecedented level of $2.556 billion in January 2022 as compare to a deficit of $219 million in the same month last year. On a cumulative basis from July to January in the ongoing FY22, the CAD soared to $11.58 billion, compared to a surplus of $1.02 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 been widening. Moreover, it seems that a record high international fuel prices are set to worsen the external sector position of Pakistan. Despite being heavily financed by borrowing which is ultimately reflecting historic heights in the level of domestic and foreign debt, the CAD is deteriorating and has put pressure on the domestic currency.

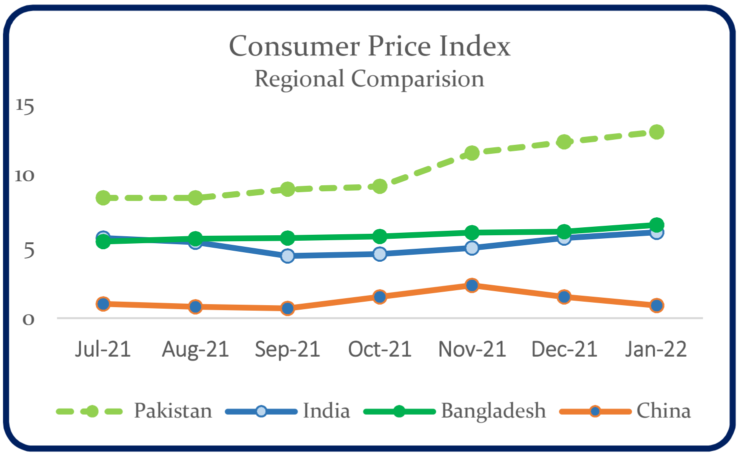
(USD in millions)	July-Jan FY22 P	July-Jan FY21
Current account Balance	**(11,579)**	**1,028**
Capital Account Balance	**139**	**153**
Financial Account Balance	**(11,559)**	**(180)**
Net FDI in Pakistan	**(1,078)**	**(989)**
Net Portfolio investment	**(671)**	**404**
Net incurrence of Liabilities	**10,807**	**1,184**
Overall Balance	**299**	**(717)**
SBP Gross Reserve	**16,714**	**13,196**
		(Source: SBP)



10. Regional Analysis:

On a Y-o-Y basis, Inflation in Pakistan is higher than in its regional counterparts. Inflation in the region could be due to high commodity prices and uncertainty amid the Ukrainian war. However, the inflation impact in the region is mostly observed in Pakistan and Srilanka. It may be noted that Srilanka is suffering from an internal economic crisis. Nevertheless, one of the core reasons for inflation in Pakistan is due to the devaluation of the Pakistani rupee, as when we compare it with all four regional countries that identical products in terms of their import and face similar prices, the inflation rate in higher in Pakistan. The pace of inflation will remain elevated amid the rise in global commodity prices.

Country	CPI (%)	Local Currency Units per USD (As of 26th Feb)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	13.0	176.40	(11.86)
India	6.00	75.30	(1.89)
Bangladesh	6.50	85.95	(1.60)
China	0.9	6.32	2.47



OUTLOOK:

- If we presume that the Remittances diminishing trend persists in the last five months of this ongoing fiscal year, this factor will create a severe dilemma for the Government's economic officials as Pakistan's external sector heavily relies on remittances, which is much larger than its total export earnings.
- Pakistan has undoubtedly been confronting worrying economic problems as noticeably viewed in various macroeconomic indicators. These are problems such as Trade Deficit being surpassed from its annual projection of $28.44 billion in FY22 (Planning Commission Report 2021-22). Moreover, the Government's external sector position is highly dependent on remittances; however, its declining trend makes the CAD position more vulnerable. A higher deficit means Pakistan has to pursue more loans, or reserves might decline given that Pakistan must have raised net reserves to $21.21 billion (IMF Country Report No. 22/27).
- The economy's outlook seems to be in jeopardy, troubled with a low growth rate in LSM, high inflation, and high unemployment, suggesting that Pakistan is moving towards the phase of Stagflation amid high threats during global uncertainty.
- Global oil prices have crossed the mark of **USD 100 per barrel**. Outstanding fuel prices may spur inflationary pressure on the domestic consumer in the coming months. It will adversely impact doing business as local business sector and households rely on diesel and petrol to remain afloat.
- Owing to the above fact, the question arises of how Pakistan can survive in the current situation. It is not the first time that Oil prices have shot up at that level. During the 2011-2013 juncture, oil price crossed even USD 108/barrel on average; however, the average currency was PKR 94 against one USD.
- The Monetary Policy Committee of SBP will meet **on the 8th of March** at SBP Karachi to decide the monetary policy. Amidst the rising global uncertainty, it is interesting to see how the SBP will determine its benchmark interest rate.
- To tackle the severe economic problem, the current regime needs to look at economic stabilization policies to fix fundamental issues that have made the Pakistani economy a permanent borrower. Moreover, well thought out monetary and fiscal policies are the need of the hour to restrict the soaring trade deficit, and with that the Government needs to focus on increasing exports and work on import substitution goods.