HIGHLIGHTS:

- According to the National Accounts Committee ("NAC"), the GDP growth for the Fiscal Year 2021 ("FY21") has been revised from 3.94% to 5.37%. Moreover, as per Asad Umar's tweet, the Federal Minister for Planning, Development, Reforms and Special Initiatives, the growth is based on a strong industrial sector growth (Period April-June). Additionally, the NAC has also rebased the base year from 2005-06 to 2015-16, which jacked up the GDP growth to 5.57% in the FY21.
- The revival of the International Monetary Fund ("IMF") Programme: The Federal Government has passed a mini budget to the tune of PKR 375 billion, in which sales tax exemptions worth PKR 335 billion have been withdrawn. This mini budget is likely to further increase the cost of everything and is likely to make the cost of living more difficult. (You may download our comments on the Finance (Supplementary) Act 2022 from "tolaassociates.com")
- The economy of Pakistan has moved from the 4th place to the 3rd place amongst the economies which have been recognized as the most inflated economies globally, only behind Argentina and Turkey who had been reported to have an inflation rate of 51.2% and 36.1%, respectively.
- Growth of Pakistan's Large-Scale Manufacturing ("LSM") stood at a 1.91% during November 2021 vs. the last year. On a Month-on-Month basis, the LSM growth stood at 0.30% in the November 2021 compared to the previous month of October 2021.
- The cumulative inflows of the deposits in the Roshan Digital Accounts ("RDA") reached $3.16 billion at the end of Dec 2021.
- As per the State Bank of Pakistan ("SBP"), the remittances sent by Overseas Pakistani workers increased by 2.5% on a M-o-M basis from $2.46 billion in November 2021 to $2.52 billion in December 2021.
- According to the official statistics, the Federal Board of Revenue ("FBR") has collected tax revenue worth PKR 2,920 billion in Jul-Dec FY22 vs. PKR 2,204 billion last year. This reflects a growth of almost 32.49% or PKR 716 billion in the tax revenue collection in Jul-Dec FY22 vs. the same period last year.
- The foreign currency reserves held by the SBP stood at $17.04 billion as of 14th January 2021. They have declined by $562 million after external debt repayments.
- The Broad Money (M2) stock from 1st of July 2021 to 7th January 2022 is PKR 548 billion as compared to PKR 846 billion last year in the same period.
- The Consumer Price Index ("CPI") inflation has, as per the Pakistan Bureau of Statistics ("PBS"), surged by 12.30% on a year-on-year ("Y-o-Y") basis in December 2021 vs. 8.00% last year.
- As per the PBS, Pakistan's Exports decreased by 4.69% to $2.76 billion in December 2021 vs. $2.90 billion in October 2021 on a M-o-M basis.
- During July-Dec FY22, Pakistan's net FDI increased by 20% or $177 million to $1,057 million, as compared to $880 million in the same period in the previous year.
- Pakistan has posted a Current account deficit ("CAD") in the period Jul-Dec of FY22 of a staggering amount to the tune of $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	November	↓	0.30%	13.81%
Central Government Debt	November	↑	PKR 40.97 Trillion	PKR 35.82 Trillion
Credit to Private Sector	Jul – 7th January	↑	PKR 772.83 Billion	PKR 215.49 Billion
Roshan Digital Account	December	↑	US$ 244 Million	US$ 140 Million
Worker's Remittances	December	↑	US $2.52 Billion	US $2.44 Billion
Currency in Circulation	As of 7th January	↑	PKR 7.12 Trillion	PKR 6.38 Trillion
Net Government Sector borrowing	Jul – 7th January	↓	PKR 30,782 million	PKR 272,809 million
National CPI (Base Year 2015-16)	December	↑	12.30%	8.00%
FBR Tax Collection	Jul-Dec	↑	PKR 2,920 Billion	PKR 2,204 Billion
Foreign Exchange Reserves with SBP	As of 14th January	↑	$17.04 Billion	$13.02 Billion
Foreign Direct Investments	Jul-Dec	↑	$1,056 Million	$880 Million
Trade Deficit in Goods	Jul-Dec	↑	US$ (25.52) Billion	US$ (12.34) Billion
Current Account Deficit	Jul-Dec	↑	$(9,092) Million	$1,247 Million

1. LARGE SCALE MANUFACTURING:

As per the PBS, Pakistan's LSM sector marginally increased by 0.30% in November 2021 on a Y-o-Y basis vs. November 2020. This month, the index is modest in FY22, and thus far the low base effect had driven the LSM growth, as the quantum indices are still below pre COVID levels. It can clearly be seen that the base effect that had occurred due to COVID has been wiped out. Similarly, on a M-o-M basis, the overall output rose by 1.91% when compare to October 2021. As we had argued in our previous edition of Pakonomics, it seems that the large-scale industrial activity is nowhere near peaking.

Out of the 15 industries that are part of the LSM segment, 11 industries posted a surge in production during the first five months of FY22. These include textile, Food, beverages and tobacco, coke and petroleum products, iron and steel products, automobiles, pharmaceuticals, paper and board, chemicals, leather products, engineering products, and wood products. However, the output in non-metallic mineral products, fertilizers, electronics, and rubber products has decreased during Jul-Nov 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 4.72% on a Y-o-Y basis in July-Nov FY22, whereas when it is compared to November 2020, it declined by a rate of 5.50% in November 2021. The 36 items under the Ministry of Industries and Production rose by 4.15%, in which Cement output declined by 0.88% in the period of July-Nov 2021.

LSM (%)	Weight	Nov-21	Oct-21	Nov-20	July-Nov 2021-22	Y/Y growth Cumulative
Textile	**20.92**	0.96	0.48	3.15	0.92	**0.26**
Food, Beverages & Tobacco	**12.4**	(7.76)	3.30	59.26	1.46	**0.24**
Coke & Petroleum Products	**5.5**	(5.50)	14.75	0.73	4.72	**0.27**
Non-Metallic Mineral Products	**5.4**	8.34	(6.33)	12.00	(0.66)	**(0.10)**
Iron & Steel Products	**5.4**	30.21	5.67	3.39	25.27	**0.97**
Automobiles	**4.6**	20.28	22.31	44.70	34.49	**1.83**
Fertilizers	**4.44**	(3.71)	(6.69)	9.19	(6.55)	**(0.44)**
Pharmaceuticals	**3.6**	(16.98)	(6.33)	7.67	1.46	**0.12**
Paper & Board	**2.3**	4.95	4.14	(2.66)	8.45	**0.32**
Electronics	**2**	(10.05)	(30.17)	2.35	(10.63)	**(0.32)**
Chemicals	**1.7**	14.15	(0.73)	9.02	7.44	**0.20**
Leather Products	**0.9**	(1.19)	0.61	(40.72)	8.23	**0.07**
Engineering Products	**0.4**	3.89	(5.53)	(27.06)	1.52	**0.00**
Rubber Products	**0.3**	(27.25)	(34.37)	7.25	(31.26)	**(0.17)**
Wood Products	**0.6**	385.39	13.23	(55.01)	200.46	**0.00**
LSM Growth for November 2021 (Y/Y)						**0.30%**
LSM Growth for Nov 2021 vs. Oct 2021(M/M)						**1.91%**
LSM Growth for July-Nov 2021 (Y/Y)						**3.26%**

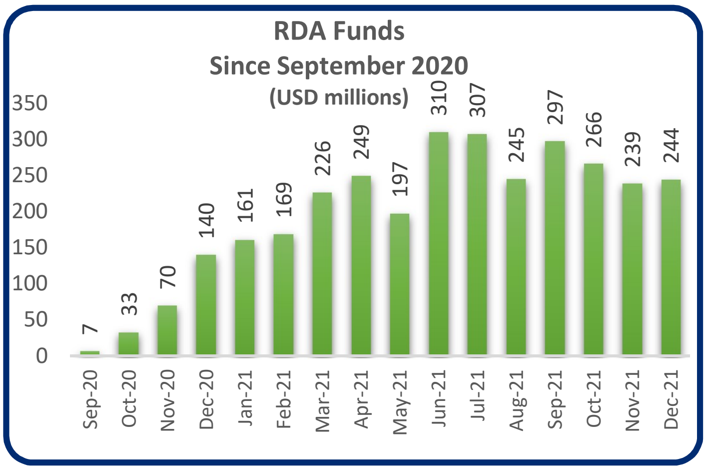
(Source: PBS)

2. ROSHAN DIGITAL ACCOUNT:

The cumulative inflows of deposits under the RDA reached $3.16 billion since its announcement in September 2020. Out of the $3.16 billion, over two-thirds, $2.15 billion or 68% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 322,463 accounts have been opened from 175 countries during the 16 months.

Roshan Digital Account (USD in Millions)	Cumulative Position	Dec-21	Nov-21
	(Provisional)		
Funds Received	**3,160**	**244**	**239**
Naya Pakistan Certificates	**2,149**	**158**	**157**
Conventional	1,192	69	71
Islamic	957	89	86
Others	**979**	**83**	**80**
Stock Exchange	**32**	**3**	**2**

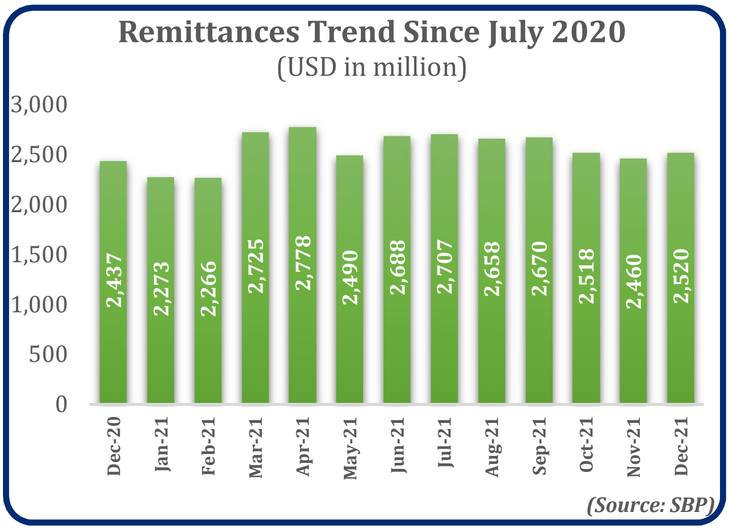
(Source: SBP)

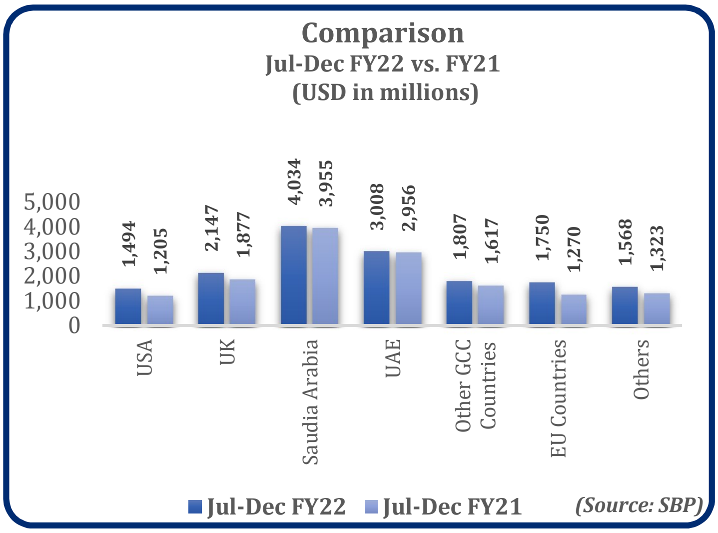


3. WORKER'S REMITTANCES:

According to the SBP, the remittances sent by Overseas Pakistani workers appreciated by 2.5% to $2.52 billion in December 2021 vs. $2.46 billion in November 2021. Likewise, in the first half of FY22, inflows surged by 11.29% to $15.8 billion compared to $14.20 billion received a year ago in the same period. This is the fifth time remittances are above the $2.5 billion mark in the Jul-Dec period of the ongoing FY22 - where inflows were recorded around $2 billion mark since last fiscal year – providing a relief to the alarming situation of the external sector, since it is used to offset the deterioration in the CAD. A descriptive analysis has revealed that remittances inflows during the month of December 2021 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.

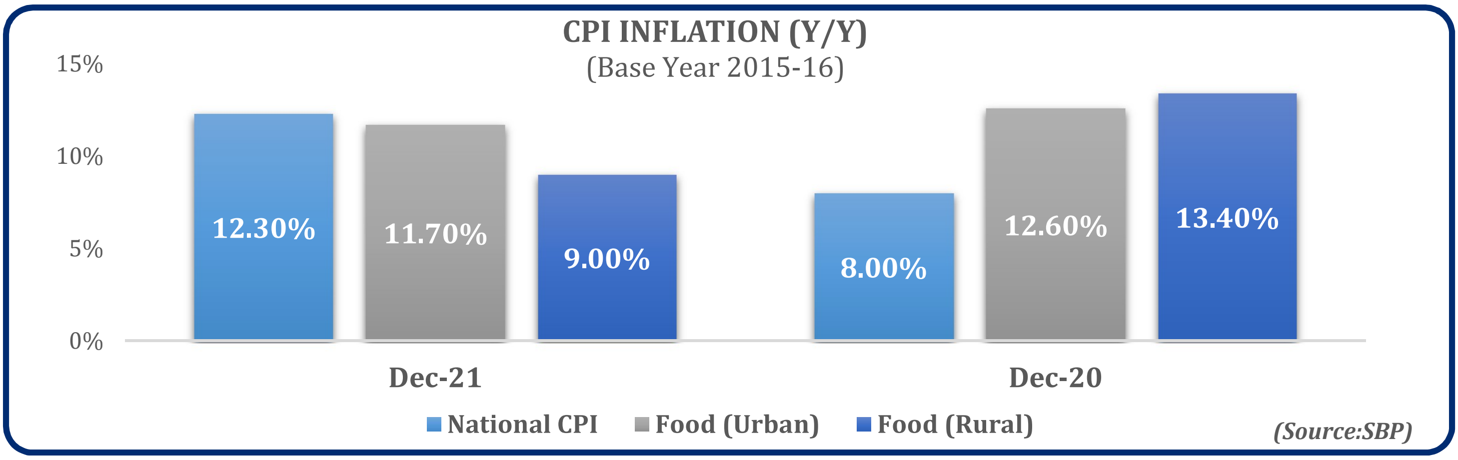
However, inflow from Saudi Arabia has a low growth of 2% to $4.03 billion in Jul-Dec FY22 vs. $3.95 billion during the same period in FY21. An amount to the tune of $1.49 billion, or a 9.45% share, was received from the US, showing a rise of 24% in Jul-Dec FY22 vs. the same period in the previous year. Worker remittances from the UK also increased by 14.37% and contributed 13.6% or 2.15 billion in Jul-Dec FY22. Likewise, remittance growth from UAE stood at 1.77% while its share is $3.01 billion or 19% in the total remittances.



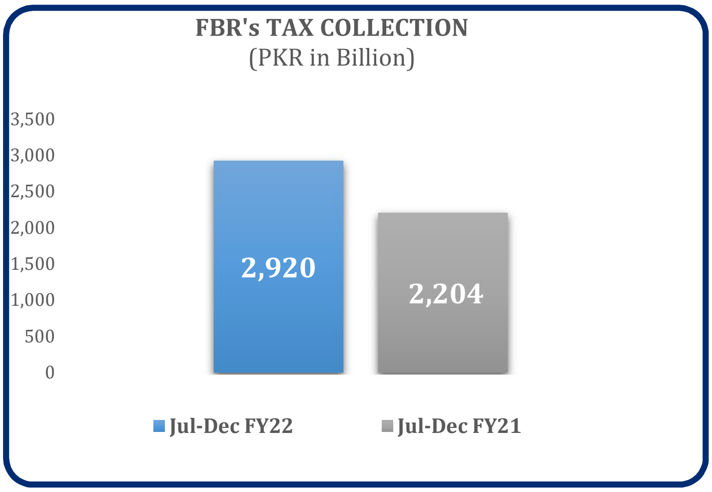


4. CONSUMER PRICE INDEX INFLATION:

The National CPI inflation was recorded at 12.30% in December 2021 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 the coming months due to an extraordinary rise in the Wholesale price index ("WPI") which stood at 26.2% on Y-o-Y basis. Ironically, on a monthly basis, the National CPI have a 0% of growth. Similarly, Food inflation, urban and rural both decreased by 2.3% and 3.3% respectively vs. November 2021. However, as per SBP statement in their latest MPC meeting, "Inflation remain elevated for the rest of the FY22, and it will close to the upper end of their revised inflation target for the FY22 which ranges to 9-11 percent.



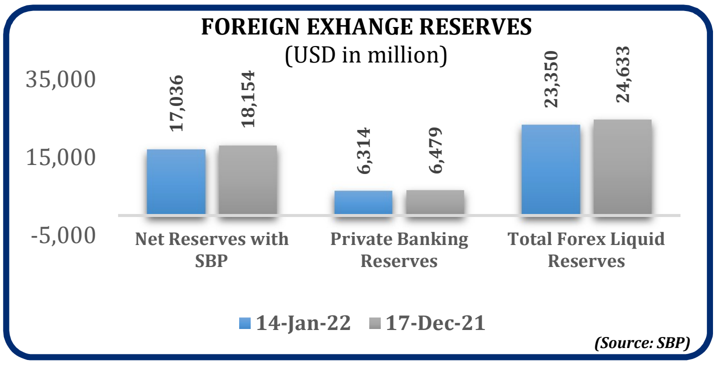
5. FBR TAX REVENUE COLLECTION:



As per the official statistics published by the FBR, the FBR has provisionally collected tax revenue worth PKR 600 billion in December 2021 vs. PKR 509 billion in the same month last year, thereby announcing a rise of 18%. In the first half of FY22, FBR's tax revenue grew by 32.49% or PKR 716 billion vs. last year. Moreover, the FBR surpassed its Jul-Dec target of PKR 2,633 billion by 11% reflecting an increase of PKR 287 billion. As per Mr. Shahbaz Rana's article titled "FBR exceeds first half tax collection target" published on 1st of January in the Express Tribune, out of the total tax collection, PKR 1.9 trillion is collected from indirect sources having a share of 65%, whereas, the income tax collection stood at PKR 1.02 trillion. It was also stated therein that 52% or PKR 1.52 trillion of total revenues were gathered at the import stage.

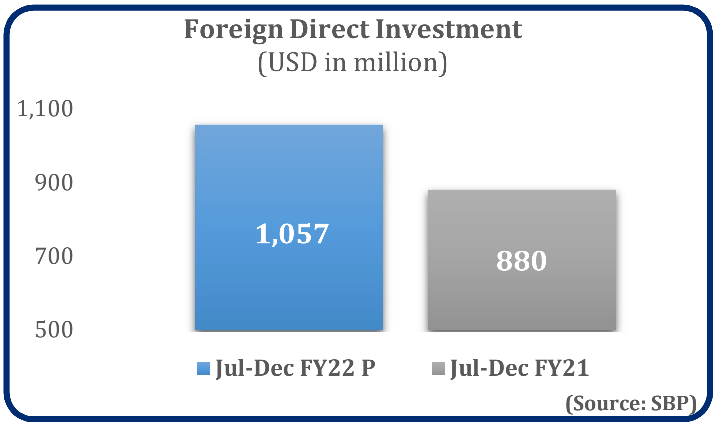
6. FOREIGN EXCHANGE RESERVES:

The net reserves of the SBP stood at $17.04 billion as of 14th January 2022, after accounting for the external debt repayment and other official payments. Pakistan's forex reserves have declined by $562.2 million or 3.19%, from $17.59 billion in the first week of the January 2021.

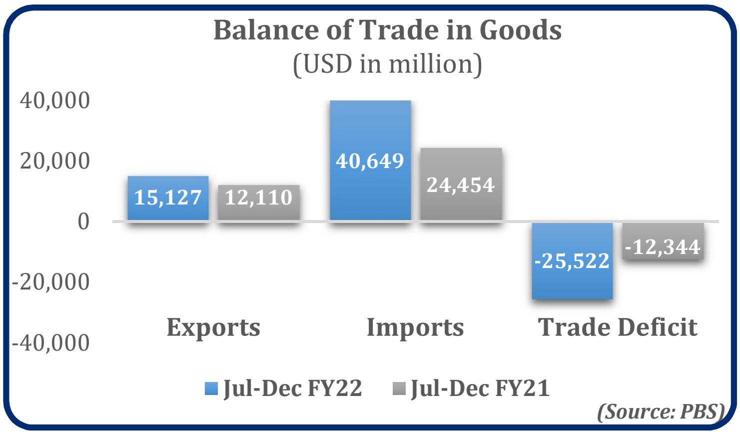


7. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has appreciated by 20% or $177 million to $1,057 billion provisionally during Jul-Dec FY22, as compared to $880 million during the same period in the preceding year. The share of the sector in the FDI segment for the period Jul-Dec FY22 are as follows: (a) Electricity, gas, steam and air conditioning supply share stood at 33.5%; and (b) While Financial and insurance activities share stood at 20%. According to the SBP, the total Foreign Investment of the country has increased to $651 million during July-Dec FY22, compared to $442 million in the same period last year. While the Foreign Investment plunged by 14.45% to $156 million on a Y-o-Y basis in Dec 2021 as against the amount of $178 million in Dec 2020.



8. BALANCE OF TRADE IN GOODS:



As per the PBS, Pakistan's trade deficit widened by a staggering 106.76% to $25.52 billion during the period Jul-Dec FY22 vs. Jul-Dec FY21 with a huge rise in imports. Exports despite looking slightly promising in the last month, declined as it recorded at $2.76 billion, and declined by a margin of 4.69% vs. November 2021 on a M-o-M basis. With that, the country's trade deficit rose by 2%, to almost $5 billion during December 2021, compared to $4.99 billion in November 2021. While on a Y-o-Y basis, it has appreciated by a mammoth 87% vs. $2.62 billion in the same month of last FY21.

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9. BALANCE OF PAYMENT:

Pakistan's CAD remained elevated at $9.09 billion in the Jul-Dec 2021 period (semiannually of FY22), compared to a surplus of $1.24 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. Moreover, the CAD in December alone stood at $1.932 billion, recording an increase of 2% on a M-o-M basis. Whereas, for the cumulative period Jul-Dec FY22, the CAD stood 5.7% of GDP. Despite being heavily financed by borrowing which is ultimately being reflected in a 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-Dec FY22 P	July-Dec FY21
Current account Balance	(9,092)	1,247
Capital Account Balance	119	132
Financial Account Balance	(10,056)	(309)
Net FDI in Pakistan	(976)	(827)
Net Portfolio investment	374	443
Net incurrence of Liabilities	9,892	1,500
Overall Balance	(788)	(1,282)
SBP Gross Reserve	17,837	13,581
		(Source: SBP)

OUTLOOK:

- It seems that the Pakistan's Economic future remains unsettled, despite having a significant rise in the GDP of FY21. Pakistan is undoubtedly confronted with worrying economic problems as noticeably viewed in various macroeconomic indicators.
- The external sector situation is hardly getting better, with a high level of CAD and having low foreign reserve being unfeasible, similar to the FY18, where CAD amounted to $19 billion. However, in FY18 GDP growth was 6.1% (Base 2015-16) and CPI was 4.69%. Whereas, in contrast the GDP growth for FY22 is predicted as 4.8% and Inflation forecasted to be in range of 9-11%, and that the high level of inflation, unemployment and poverty are showing the relatively worsened state of economy.
- For the revival of $6 billion IMF Programme, Pakistan is following IMF designed fiscal tightening policies which will eventually be helpful for Pakistan in the upcoming board meeting which will be held in the next month on 2nd of February.
- To tackle the severe economic problems, the current regime needs to look at economic stabilization policies to fix fundamental problems that have been making the Pakistani economy a permanent borrower. Moreover, a well thought out monetary and fiscal policy is the need of the hour to restrict a soaring trade deficit, and with that the Government needs to focus on increasing exports and working on import substitution goods.
- In the coming months, we expect inflation rate to rise further, and it might persist for the rest of the FY22 until and unless the Government uses any administrative measure to curtail it down.
- 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. As stated earlier, the CAD surged by $1.932 billion only in December 2021. If the rate of CAD continues at this way, it will end up in the range of $15-16 billion at the end of FY22. Similarly, the projected growth rate of 4.8% seems unlikely to be achieved, given the high in policy rate and poor performance of the LSM sector. Moreover, the World Bank has forecasted Pakistan's economic growth pace at a rate of 3.4% for the FY22.
- Looking ahead, the outlook of economy seems in jeopardy coupled with a low growth rate in LSM, high inflation and high unemployment. These factors suggest that Pakistan is moving towards the phase of Stagflation amid high threats from new COVID variant Omicron.