

### HIGHLIGHTS:

- As per the National Accounts committee (“NAC”), the provisional Gross Domestic Product (GDP) growth rate for the year 2021-22 (“FY22”) is estimated at 5.97%, followed by the revised estimate of 5.74% of GDP growth in the FY21.
- In the Inter-bank market, the National currency value stood at a historic level of PKR 199.35/USD as of 27<sup>th</sup> of May 2022 against the US dollar. In the past two weeks, the currency parity went down to a historic low level of PKR 202/USD, as per the exchange rate of the State Bank of Pakistan (“SBP”).
- The SBP decided to raise the policy rate by 150bps to 13.75% in its latest monetary policy meeting dated \_\_\_\_\_.
- Pakistan’s Large-Scale Manufacturing (“LSM”) growth stood at 26.60% during March 2022 vs. last year. Whereas, on a Month-on-Month comparison (“M-o-M”), the LSM growth stood at 8.20% compared to the previous month of February 2022 (Base Year 2015-16),
- The cumulative inflows of deposits in the Roshan Digital Accounts (“RDA”) reached \$4.167 billion at the end of April 2022.
- As per the SBP, remittances sent by Overseas Pakistani workers increased by 11.20% on a M-o-M basis to \$3.125 billion in April 2022, from \$2.82 billion in March 2022.
- According to the official statistics, the Federal Board of Revenue (“FBR”) has collected tax revenue worth PKR 4.86 trillion in Jul-April FY22 vs. PKR 3.778 trillion last year. This reflects a growth of almost 28.58% or PKR 1.08 trillion in the tax revenue collection in Jul-April FY22 vs. the same period last year.
- The net foreign currency reserves held by the SBP stood at \$10.08 billion as of 20<sup>th</sup> May 2022.
- The Broad Money (M2) stock from 1<sup>st</sup> of July 2021 to 13<sup>th</sup> May 2022 is PKR 1,512 billion as compared to PKR 1,576 billion last year in same period.
- According to the Pakistan Bureau of Statistics (“PBS”), the Consumer Price Index (“CPI”) inflation surged by 13.4% on a year-on-year (“Y-o-Y”) basis in April 2022 vs. 11.1% last year.
- As per the PBS, Pakistan’s Exports surged by 4.32% to \$2.90 billion in April 2022 vs. \$2.78 billion in March 2022 on a M-o-M basis.
- Pakistan’s net FDI has depreciated by 1.6% or \$24.4 million to \$1.46 billion provisionally during Jul-April FY22, as compared to \$1.48 billion during the same period in the preceding year
- As per the SBP, the total Foreign Investment of the country has decreased to \$1.57 billion during July-April FY22, compared to \$3.66 billion in the same period last year.
- The country has posted a Current account deficit (“CAD”) of a staggering \$13.78 billion in the period Jul-March of FY22.

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)	March	↑	26.60%	22.50%
Central Government Debt	March	↑	PKR 43.00 Trillion	PKR 36.84 Trillion
Credit to Private Sector	Jul – 14 <sup>th</sup> May	↑	PKR 1,345 Billion	PKR 420 Billion
Roshan Digital Account	April	↓	US\$ 245 Million	US\$ 249 Million
Worker’s Remittances	April	↑	US \$3,125 Million	US \$2,778 Million
Currency in Circulation	As of 13 <sup>th</sup> May	↑	PKR 7.92 Trillion	PKR 7.01 Trillion
Net Government Sector borrowing	Jul – 14 <sup>th</sup> May	↑	PKR 1,846 billion	PKR 621 billion
National CPI (Base Year 2015-16)	April	↑	13.40%	11.10%
FBR Tax Collection	Jul-April	↑	PKR 4.86 Trillion	PKR 3.78 Trillion
Foreign Exchange Reserves with SBP	As of 20 <sup>th</sup> May	↓	\$10.08 Billion	\$15.86 Billion
Foreign Direct Investments	Jul-April	↓	\$1.46 Billion	\$1.48 Billion
Trade Deficit in Goods	Jul-April	↑	US\$ (39.29) Billion	US\$ (23.82) Billion
Current Account Deficit	Jul-April	↑	\$(13,779) Million	\$(543) Million

## 1. LARGE SCALE MANUFACTURING:

According to the PBS, Pakistan's LSM sector showed a 26.60% growth in March 2022 on a Y-o-Y basis vs. March 2021 as per the new base 2015-16. During the nine months period of the ongoing fiscal year, the growth of large industries stood at a rate of 10.40%, while growth as per the old base year of 2005-06 is reported at 7.0%. Similarly, on a M-o-M basis, the overall output rose by only 8.20% over February 2022.

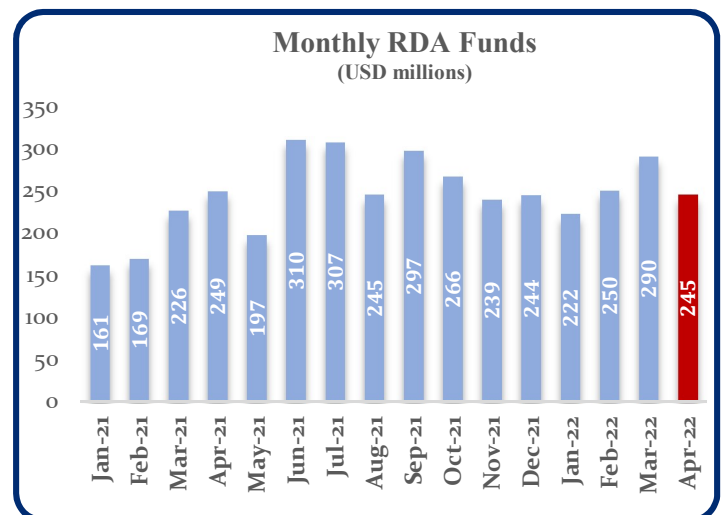
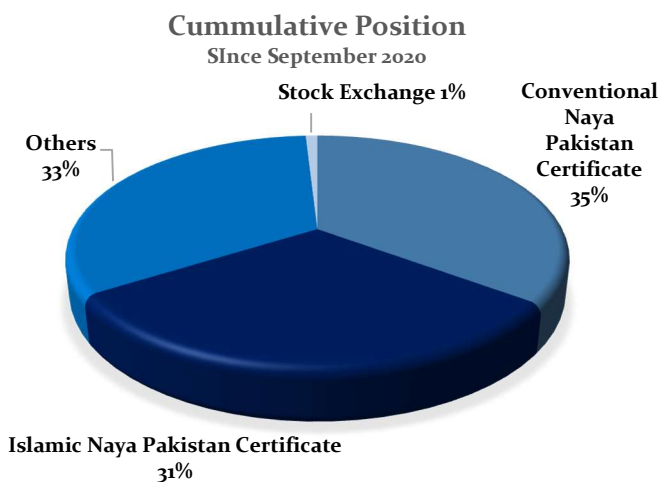
Out of 22 major industries, 17 industries posted a surge in production during the Jul-March period of FY22 as compared to last year. These include textile, Food, beverages, coke and petroleum products, Chemicals, wearing apparel, non-metallic mineral products, beverages, iron and steel products, automobiles, tobacco, paper and board, leather products, wood products, machinery equipment's, furniture industry, other sports industries, and Computer and optical products. However, the output in pharmaceutical, Electrical equipment, rubber products, other transport equipment, and fabricated metal has decreased during Jul-March FY22 of the ongoing year under review, compared to the preceding year, data from the PBS revealed. Sector-wise, other production industries, such as Cement output declined by 2.86% in the period of July-March FY22.

LSM (%)	Weight	March-22	Feb-22	March-21	July-March 2021-22	Y/Y growth Cumulative
Textile	18.2	5.1	3.2	50.6	3.2	0.7
Food	10.7	85.0	1.5	(13.9)	11.7	2.2
Coke & Petroleum Products	6.7	8.1	6.8	76.5	2.0	0.1
Chemicals	6.5	17.0	18.8	13.8	7.8	0.6
Wearing Apparel	6.1	78.6	36.6	(5.4)	34	2.6
Pharmaceuticals	5.2	12.6	5.2	13.8	(0.4)	(0.0)
Non-Metallic Minerals Products	5.0	4.2	5.5	50.3	1.1	0.1
Beverages	3.8	(6.0)	(10.8)	17.2	0.7	0.0
Iron and Steel Products	3.4	11.2	15.5	22.1	16.5	0.7
Automobiles	3.1	25.8	38.1	167.7	54.1	1.5
Tobacco	2.1	(1.4)	4.1	34.1	16.7	0.4
Electrical Equipment	2.0	(1.5)	7.5	32.6	(1.1)	(0.0)
Paper & Board	1.6	11.6	7.0	2.6	8.5	0.2
Leather Products	1.2	(7.6)	(7.2)	(15.1)	1.5	0.0
Other Transport Equipment	0.7	(11.7)	6.0	75.3	(10.2)	(0.1)
LSM Growth for March 2022 (Y/Y)						26.60%
LSM Growth of March 2022 vs. Feb 2022 (M/M)						8.20%
LSM Growth for July-March 2021-22 (Y/Y)						10.40%

(Source: PBS)

## 2. Roshan Digital Account (“RDA”):

The cumulative inflows of deposits under the RDA reached \$4.167 billion since its announcement in September 2020. Out of the \$4.167 billion, over two-thirds, \$2.75 billion or 67.5% have been invested in the Naya Pakistan Certificates (“NPCs”). Some 403,750 accounts have been opened from 175 countries during the 20 months.

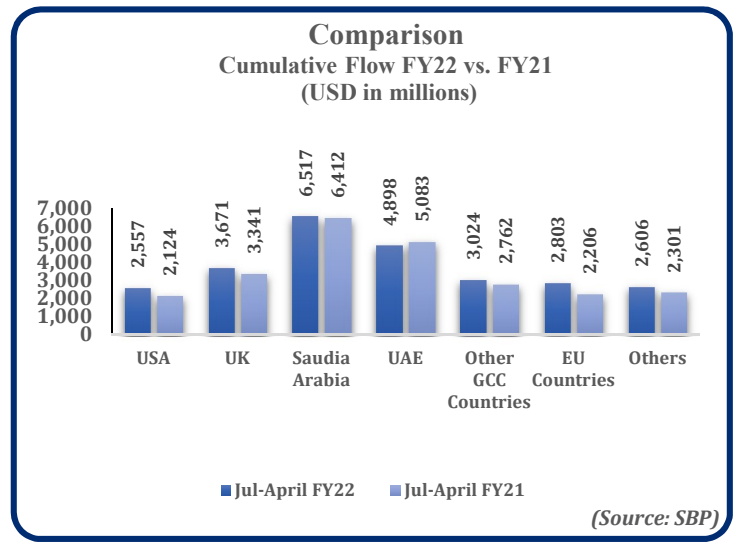
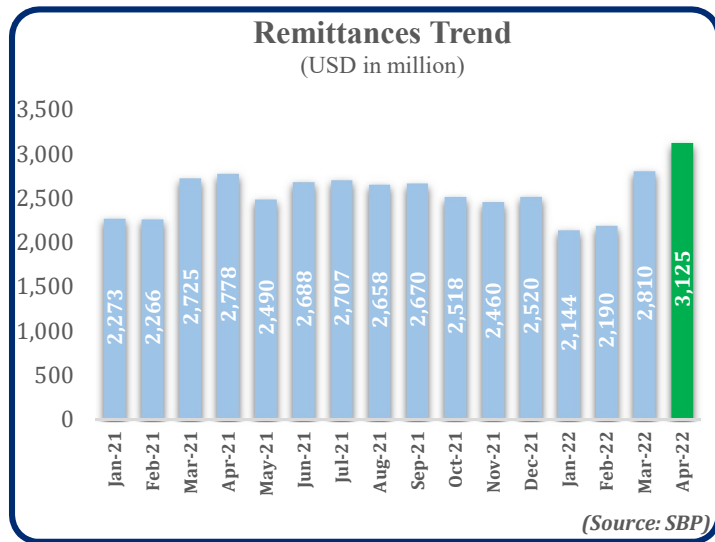


(Source: SBP)

### 3. WORKER'S REMITTANCES:

According to the SBP, the remittances sent by Overseas Pakistani workers increased by 11.20% to \$3.125 billion in April 2022 vs. \$2.81 billion in February 2022 on a M-o-M basis. However, in Jul-April period of FY22, inflows surged by 7.63% to \$26.08 billion compared to \$24.23 billion received a year ago in the same period. Although pace of growth is much slower than the last FY21's period Jul-April, where it grew by almost 29%. Similarly, on a Y-o-Y basis, monthly flows rose by 11.91% as compared to April 2021.

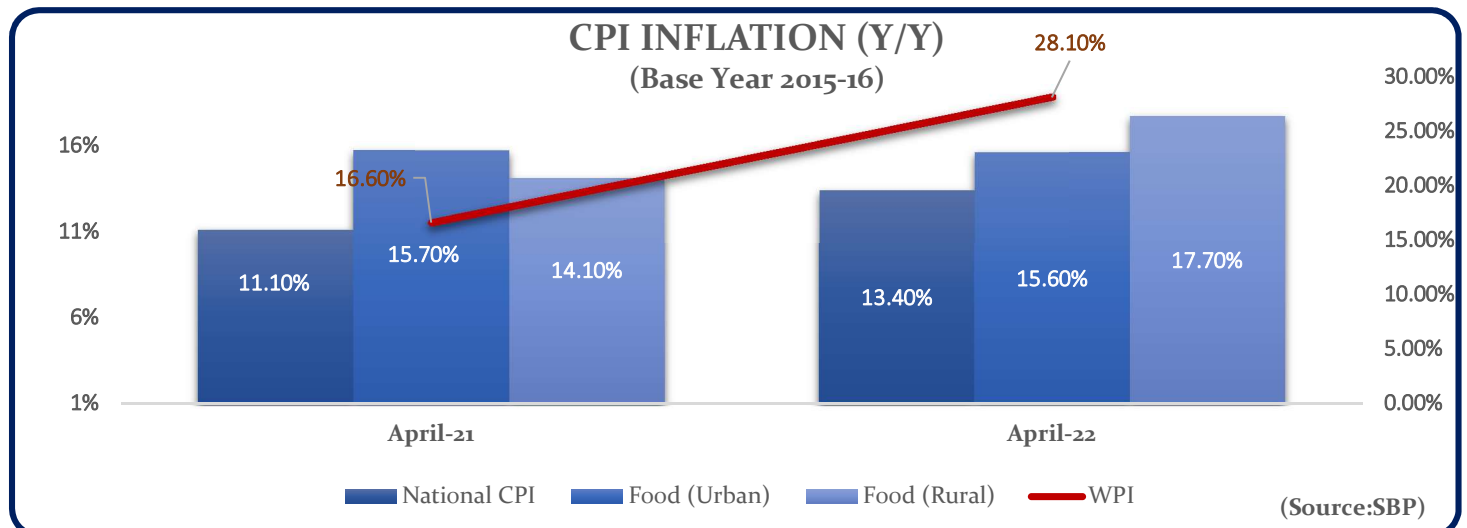
A descriptive analysis revealed that remittances inflows during the period of Jul-April 2022 were mainly coming from four major territories: Saudi Arabia, UAE, UK, and the USA. With 25% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflow from the Saudi Arabia have a low growth of 1.6% to \$6.5 billion in Jul-April FY22 vs. \$6.4 billion during the same period in FY21. An amount to the tune of \$2.56 billion, or a 9.81% share, was received from the US, showing a rise of 20.38% in Jul-April FY22 vs. the same period in the previous year. Worker remittances from the UK also increased by 9.89% and contributed almost 14.08% or 3.67 billion in Jul-April FY22. Likewise, remittance growth from UAE declined at a rate of 3.65%, while its share is \$4.90 billion or 18.78% in the total remittances.



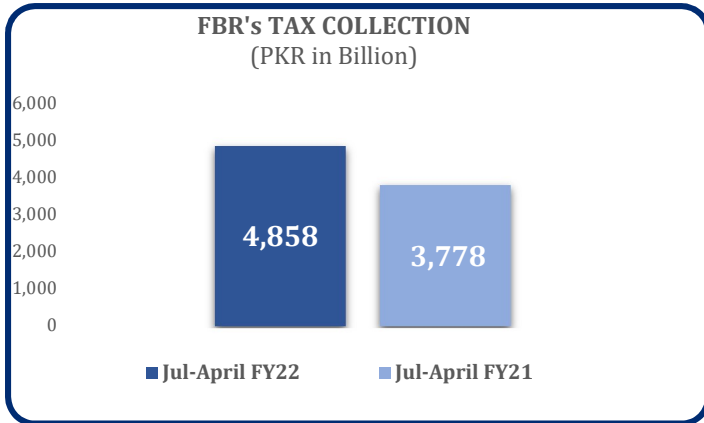
### 4. CONSUMER PRICE INDEX INFLATION:

The National CPI inflation was recorded at 13.4% in April 2022 on a Y-o-Y basis, which is the highest inflation recorded since January 2020. The pace of inflation might be persist in double digits in coming months due to political instability and the currency parity decline. In addition to that, the wholesale price index ("WPI") stood at 28.10% on a Y-o-Y basis. Similarly, on a monthly basis, the National CPI has recorded a rise of 1.6%. Moreover, Food inflation in urban and rural increased by 3.7% and 2.8%, respectively, comparing to March 2022.

During April 2022, the Core inflation, which is calculated on the basis of excluding energy and food items, rose by 9.1% and 10.9% in urban and rural areas, respectively.



## 5. FBR TAX REVENUE COLLECTION:

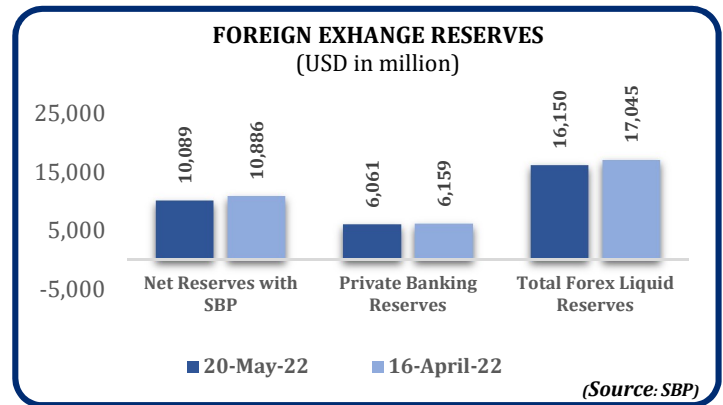


As per the official statistics published by the FBR, the FBR has provisionally collected tax revenue worth PKR 480 billion in April 2022 vs. PKR 384 billion in the same month last year, thereby announcing a rise of 24.9%. In the Jul-April period of FY22, FBR's tax revenue grew by 28.59% or PKR 1,080 billion vs. last year. Moreover, the FBR need to collect PKR 1.24 trillion to surpass its annual target of PKR 6.10 trillion. As per Mr. Shahbaz Rana's article titled "FBR collects Rs4.86tr in taxes" published on 30<sup>th</sup> April 2022 in the Express Tribune, from the total tax collection, PKR 3.11tr is collected from indirect sources having a share of 64%, similarly 2.5tr or 52% were collected at import stage. Whereas, the income tax collection is PKR 1.75 trillion.

## 6. FOREIGN EXCHANGE RESERVES:

The net reserves of the SBP stood at \$10.08 billion as of 20<sup>th</sup> May 2022, declining by 0.74% compared with \$10.16 billion on May 13<sup>th</sup>. The SBP cited no reason behind the decline in reserves.

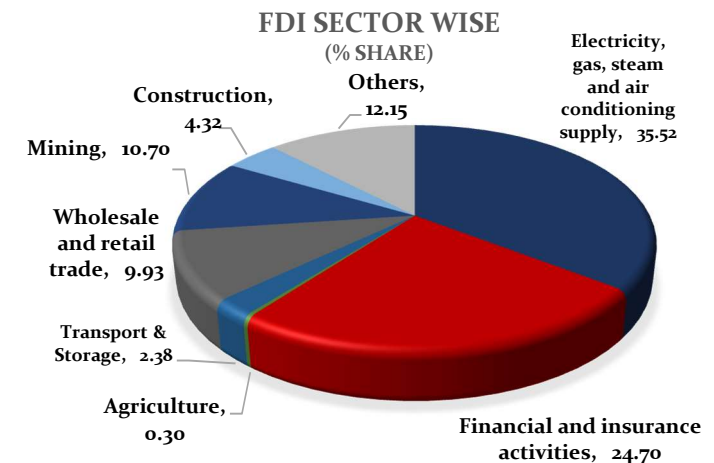
Since reaching the \$17.34 billion mark in the first week of Feb 2022 (on the back of the receipt of \$1.05 billion under the Extended Fund Facility programme of the IMF and Pakistan International Sukuk Bond issuance of \$1 Billion), the Net foreign exchange reserves are on the verge of declining.



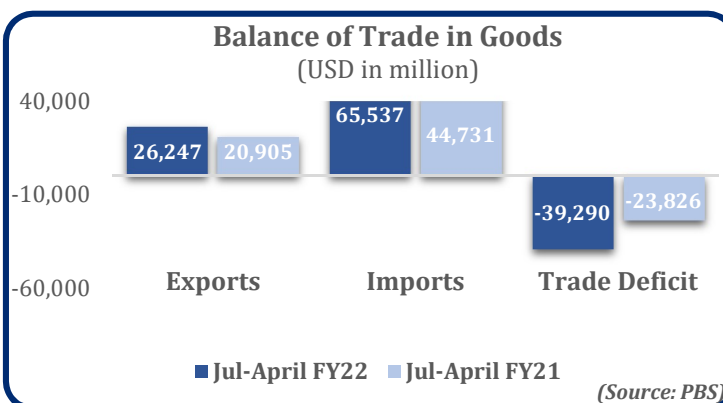
## 7. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has depreciated by 1.6% or \$24.4 million to \$1.46 billion provisionally during Jul-April FY22, as compared to \$1.48 billion during the same period in the preceding year. As per the SBP, the total Foreign Investment of the country has decreased to \$1.57 billion during July-April FY22, compared to \$3.66 billion in the same period last year. Whereas, the Foreign Investment declined by 2.09 billion to \$124 million on a Y-o-Y basis in April 2022 as against the amount of \$2.62 billion in April 2022.

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



## 8. BALANCE OF TRADE IN GOODS:



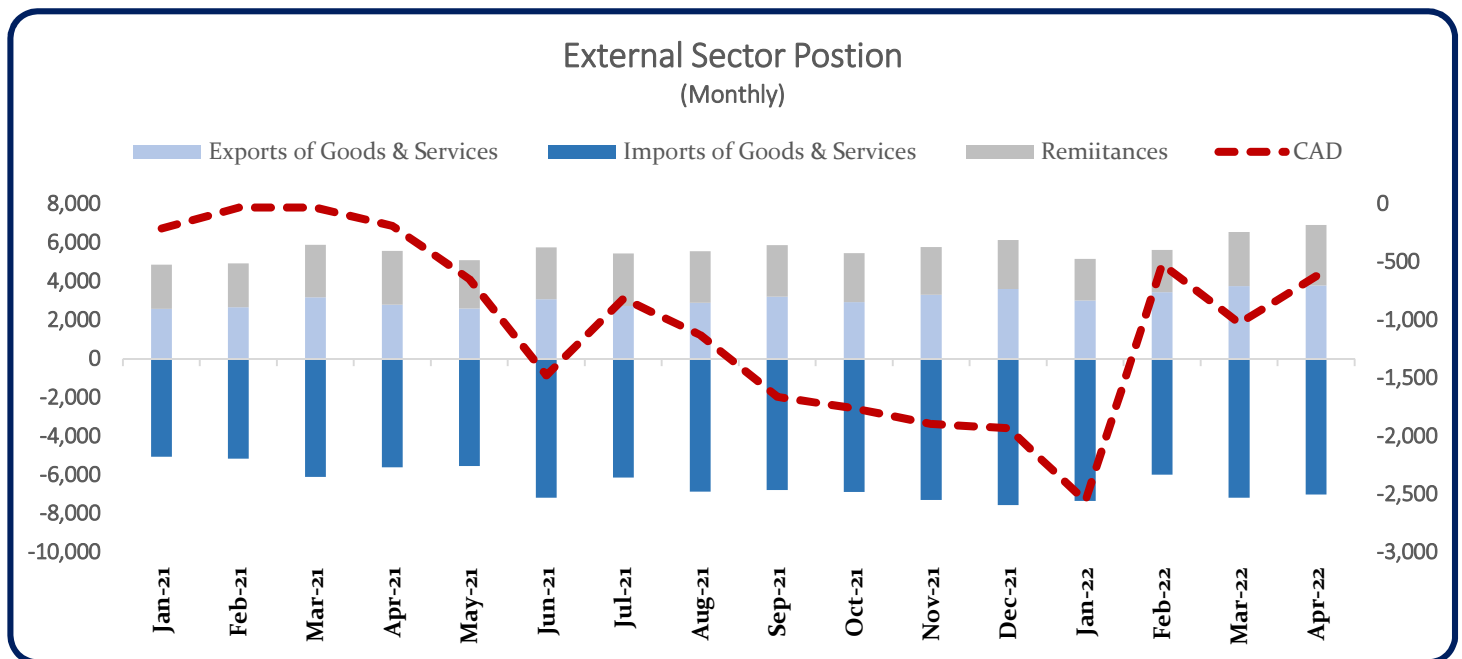
As per the PBS, Pakistan's trade deficit widened by a whopping 65% to \$39.92 billion during the period Jul-April FY22 vs. Jul-April FY21 amidst higher import price. As far as Exports are concerned, they rose by 25.6% to USD 26.25 billion in FY22 compare to USD 20.91 billion in FY21. Similarly, Exports increasing by a margin of 4.32% to \$2.90 billion in April 2022 vs. March 2022 on a M-o-M basis. Additionally, the country's trade deficit rose by 4.19% to \$3.78 billion during April 2022, compared to \$3.63 billion in March 2022. While on a Y-o-Y basis, it has still higher by a margin of 25% vs. \$3.02 billion in the same month of last FY21.

## 9. BALANCE OF PAYMENT:

Pakistan's CAD has narrowed to a sustainable level of \$623 million in April 2022 as compared to a deficit of \$1.05 billion in the last month of March 2022. On a Y-o-Y basis, the CAD rose by \$355 million compare to deficit of \$268 in April 2021. On a cumulative basis from July to April in the ongoing FY22, the CAD soared to \$13.78 billion, compared to a minor deficit of \$543 million in the same period last year. Moreover, it seems that for future, CAD may remain controllable due to the high measures had been taken to curb unnecessary imports, which will make position better for new regime to settle the external sector position of Pakistan in the coming months.

(USD in millions)	July-April FY22 P	July-April FY21
Current account Balance	(13,779)	(543)
Capital Account Balance	184	194
Financial Account Balance	(8,279)	(4,517)
Net FDI in Pakistan	(1,437)	(1,362)
Net Portfolio investment	(137)	(2,160)
Net incurrence of Liabilities	9,284	2,432
Overall Balance	5,820	(3,564)
SBP Gross Reserve	10,499	15,598

*(Source: SBP)*

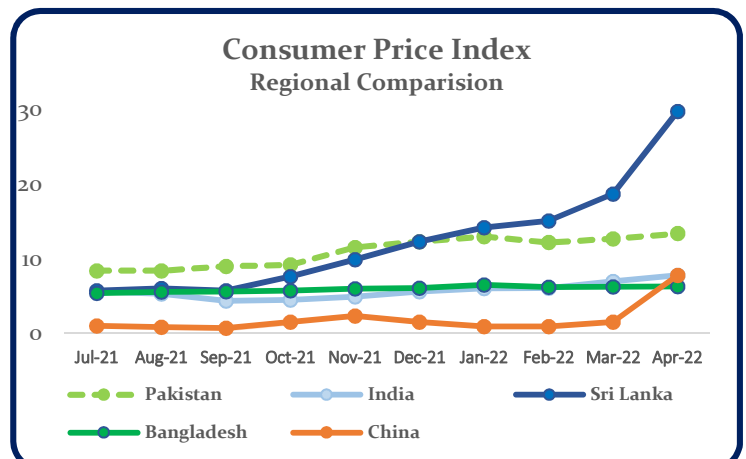


## 10. Regional Analysis:

On a Y-o-Y basis, the inflation impact in the region is mostly observed in Pakistan and Srilanka. Both the countries are facing rampant devaluation of their domestic currency which is ultimately one of the core reasons for higher inflation in Pakistan and Sri Lanka. On the other hand, Bangladesh, India and China have low CPI, the impact of volatility in prices is not quite visible in their country due to their stable currency parity. All five regional countries, mostly imported identical products and face similar prices, except for China who have their own efficient products.

Country	CPI (%)	Local Currency Units per USD (As of 27 <sup>th</sup> May)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	13.4	199.35	(29.32)
India	7.79	77.61	(7.09)
Bangladesh	6.29	87.72	(4.05)
China	2.1	6.75	(6.29)
Sri Lanka	29.8	355.74	(79.58)

*(Source: Trading Economics)*





## **OUTLOOK:**

- Owing to the above facts, Pakistan's economic outlook seems to be trapped in a vicious cycle. Dealing with the sharp rise in financing gaps in the Government's budget, as well as soaring debt and inflation, has pushed the economy towards a vulnerable position. Moreover, foreign exchange reserves have depleted, and with that, pressure has mounted on the Pakistani rupee, and business confidence has eroded which can be seen in the declining foreign investments share in the real sectors of the economy.
- The federal budget for FY23 is likely to be presented within the next two weeks. This will be a hard task for the Government, given the expected slowdown of GDP growth in upcoming FY23 and soaring inflationary pressure.
- The ongoing FY22 is likely to end up with a high deviation from the initial budget estimates, except for FBR tax revenue which will exceed the initial target of PKR 5.8 trillion. However, FBR may fall short of revised target of PKR 6.1 trillion by PKR 100 to 150 billion.
- For the revival of the \$8 billion IMF Programme which was stalled due to the deviation from commitments in policies by the previous government, now, Pakistan has to follow the 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 12<sup>th</sup> of June 2022.
- In this havoc like situation, Pakistan badly needs to streamline its taxation system to attain a likely tax target worth of 7.25 trillion rupee for the next fiscal year. The Government needs to correct the fractured system of taxation and should remedy the inequity of taxes in Pakistan.
- Above all are the consequences of the fact that the economy of Pakistan is living beyond its means. Pakistan might be moving towards a position whereby it may not be able to honor its external payment liabilities. Hence, we need to get rid of this economic dilemma as quickly as possible. If we do not control these alarming indicators, we might end up in the same situation like what Sri Lankan economy is facing today.
- Tough policy measures is the need of the hour such as, *inter-alia*: (a) Limit the size of primary deficit in the budget; (b) Effective Tax reforms to broaden the tax base; (c) Structural reforms in the commodity producing sectors; (d) Need to work on comparative trade policies to enhance National Export; (e) Reduce interest rate to boost Economic activity and limit the debt servicing; (f) Manage External sector properly to avoid rampant devaluation of domestic currency.

## **DISCLAIMER**

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