

HIGHLIGHTS:

- The State Bank of Pakistan (SBP) decided to maintain the policy rate at 9.75% in its monetary policy meeting. This is the second time that the benchmark policy rate remain unchanged after increasing it in last December 2021. “This decision reflected the Monetary policy committee’s view that the outlook for inflation has improved following the cuts in fuel prices and electricity tariffs announced last week as part of the government’s relief package”, says SBP.
- In the Inter-bank market, the National currency depreciates to a historic low level of 182.19 as of 28th of March 2022 against the US dollar, as per the exchange rate of the State Bank of Pakistan (“SBP”).
- Pakistan’s Large-Scale Manufacturing (“LSM”) growth stood at 8.40% during January 2022 vs. last year. Whereas, on a Month-on-Month comparison (“M-o-M”), the LSM growth stood at 4.20% compared to the previous month of December 2021 (Base Year 2015-16),
- The cumulative inflows of deposits in the Roshan Digital Accounts (“RDA”) reached \$3.63 billion at the end of February 2022.
- As per the State Bank of Pakistan (“SBP”), remittances sent by Overseas Pakistani workers increased by 2% on a M-o-M basis to \$2.2 billion in February 2022, from \$2.14 billion in January 2022.
- According to the official statistics, the Federal Board of Revenue (“FBR”) has collected tax revenue worth PKR 3.799 trillion in Jul-Feb FY22 vs. PKR 2.916 trillion last year. This reflects a growth of almost 30.3% or PKR 883 billion in the tax revenue collection in Jul-Feb FY22 vs. the same period last year.
- The foreign currency net reserves held by the SBP stood at \$14.96 billion as of 18th March 2022.
- The Broad Money (M2) stock from 1st of July 2021 to 25th February 2022 is PKR 124 billion as compared to PKR 960 billion last year in same period.
- According to the Pakistan Bureau of Statistics (“PBS”), the Consumer Price Index (“CPI”) inflation surged by 12.20% on a year-on-year (“Y-o-Y”) basis in February 2022 vs. 8.70% last year.
- As per the PBS, Pakistan’s Exports increased by 7.88% to \$2.82 billion in February 2022 vs. \$2.61 billion in January 2022 on a M-o-M basis.
- During July-Feb FY22, Pakistan’s net FDI has appreciated by 6.1% or \$72.4 million to \$1.26 billion as compared to \$1.18 billion in the same period in the previous year.
- As per the SBP, the total Foreign Investment of the country has increased to \$1.85 billion during Jul-Feb FY22 as compared to \$799 million same months in the preceding year.
- The country posted a Current account deficit (“CAD”) in the period Jul-Feb of FY22 of a staggering \$12.099 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)	January	↑	8.20%	3.60%
Central Government Debt	January	↑	PKR 42.39 Trillion	PKR 36.54 Trillion
Credit to Private Sector	Jul – 25 th February	↑	PKR 874 Billion	PKR 404 Billion
Roshan Digital Account	February	↑	US\$ 250 Million	US\$ 169 Million
Worker’s Remittances	February	↓	US \$2.19 Billion	US \$2.27 Billion
Currency in Circulation	As of 25 th February	↑	PKR 7.12 Trillion	PKR 6.45 Trillion
Net Government Sector borrowing	Jul – 25 th February	↓	PKR (118) billion	PKR 310 billion
National CPI (Base Year 2015-16)	February	↑	12.20%	8.70%
FBR Tax Collection	Jul-Feb	↑	PKR 3.799 Trillion	PKR 2.916 Trillion
Foreign Exchange Reserves with SBP	As of 18 th March	↑	\$14.96 Billion	\$13.29 Billion
Foreign Direct Investments	Jul-Feb	↑	\$1.26 Billion	\$1.18 Billion
Trade Deficit in Goods	Jul-Feb	↑	US\$ (31.94) Billion	US\$ (17.53) Billion
Current Account Deficit	Jul-Feb	↑	\$(12,099) Million	\$994 Million

1. LARGE SCALE MANUFACTURING:

According to the PBS, Pakistan's LSM sector growth increased by 8.2% in January 2022 on a Y-o-Y basis vs. January 2021 as per the new methodology. During the first seven months of ongoing fiscal year, the growth of large industries stood at a rate of 7.6% almost the double of old base year 2005-06 which reported at 3.9%. Similarly, on a M-o-M basis, the overall output rose by 4.2% over December 2021.

On the basis of the new base year, Major LSM coverage has increased from 15 industries to 22. Out of 22, 19 industries posted a surge in production during the Jul-Jan 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, Electrical equipment, rubber products, other transport equipment, fabricated metal, and Computer and optical products has decreased during Jul-Jan FY22 of the ongoing year under review, compared to the preceding year, data from the PBS revealed.

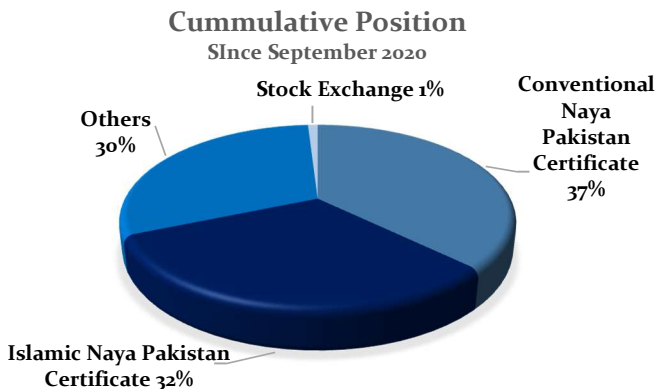
Sector-wise, production of 11 items under the Oil Companies Advisory Committee ("OCAC") decreased by 0.03% Y-o-Y in July-Jan FY22, whilst when it is compared to Jan 2021, no growth has been recorded in Jan 2022. The 36 items under the Ministry of Industries and Production rose by 3.3%, in which Cement output declined by 3.3% in the period of July-Jan FY22.

LSM (%)	Weight	Jan-22	Dec-21	Jan-21	July-Jan 2021-22	Y/Y growth Cumulative
Textile	18.2	0.0	(0.9)	5.0	2.9	0.6
Food	10.7	9.9	3.3	16.6	3.4	0.6
Coke & Petroleum Products	6.7	(1.0)	(21.6)	6.7	0.5	0.0
Chemicals	6.5	19.6	4.8	7.9	5.4	0.4
Wearing Apparel	6.1	7.4	17.3	(24.8)	18.3	1.4
Pharmaceuticals	5.2	5.8	(13.6)	5.8	(3.5)	(0.2)
Non-Metallic Minerals Products	5.0	(10.7)	6.0	29.2	0.0	0.0
Beverages	3.8	(11.8)	(0.3)	(0.6)	2.5	0.1
Iron and Steel Products	3.4	12.9	13.4	(9.4)	17.5	0.8
Automobiles	3.1	37.0	83.1	23.6	63.5	1.7
Tobacco	2.1	23.4	50.8	46.6	21.9	0.5
Electrical Equipment	2.0	9.0	56.1	(40.6)	(1.2)	0.0
Paper & Board	1.6	7.7	7.7	14.2	8.2	0.2
Leather Products	1.2	(3.9)	5.4	(35.4)	4.5	0.0
Other Transport Equipment	0.7	(3.3)	(9.1)	4.2	(3.0)	0.0
LSM Growth for January 2022 (Y/Y)						8.2%
LSM Growth for Jan 2022 vs. Dec 2021(M/M)						4.2%
LSM Growth for July-Jan 2021-22 (Y/Y)						7.60%

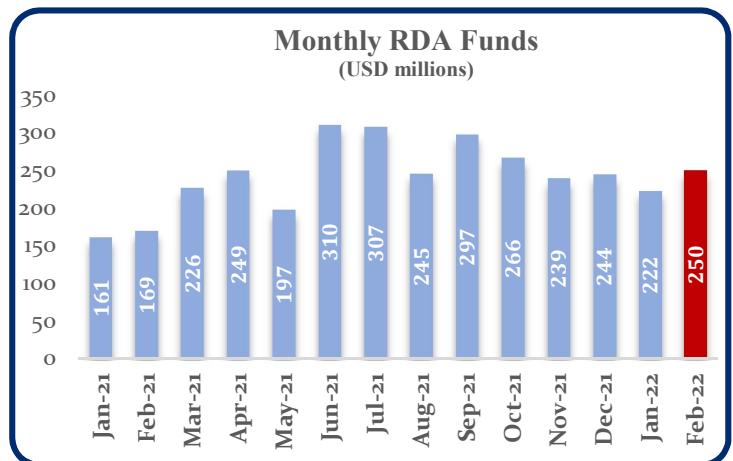
(Source: PBS)

2. Roshan Digital Account ("RDA"):

The cumulative inflows of deposits under the RDA reached \$3.63 billion since its announcement in September 2020. Out of the \$3.63 billion, over two-thirds, \$2.494 billion or 68.66% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 365,182 accounts have been opened from 175 countries during the 18 months.



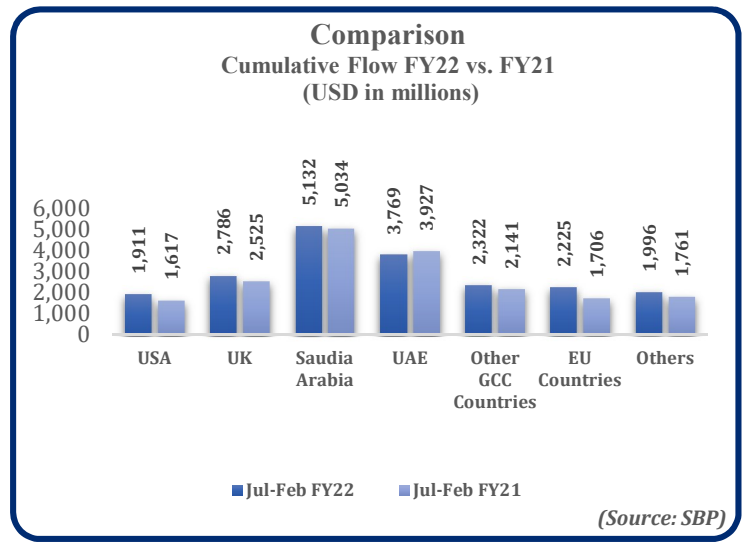
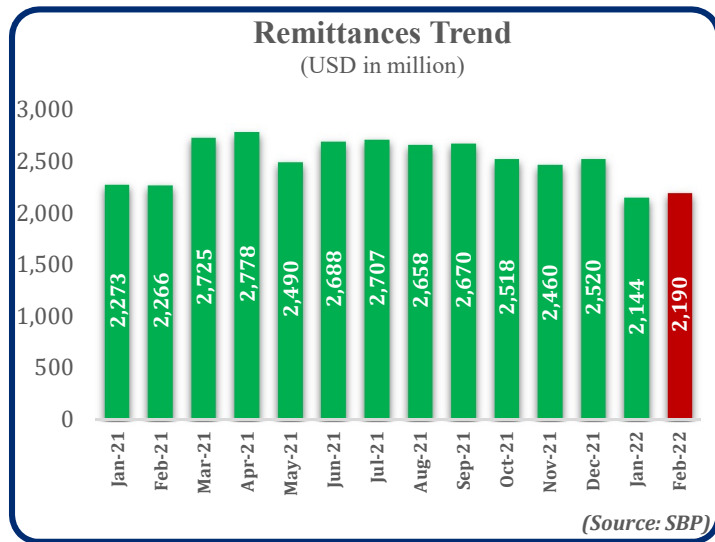
(Source: SBP)



3. WORKER'S REMITTANCES:

According to the SBP, the remittances sent by Overseas Pakistani workers increased by only 2% to \$2.2 billion in February 2022 vs. \$2.14 billion in January 2022. However, in Jul-Jan period of FY22, inflows surged by 7.65% to \$20.14 billion compared to \$18.7 billion received a year ago in the same period. 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 2.7% as compared to February 2021.

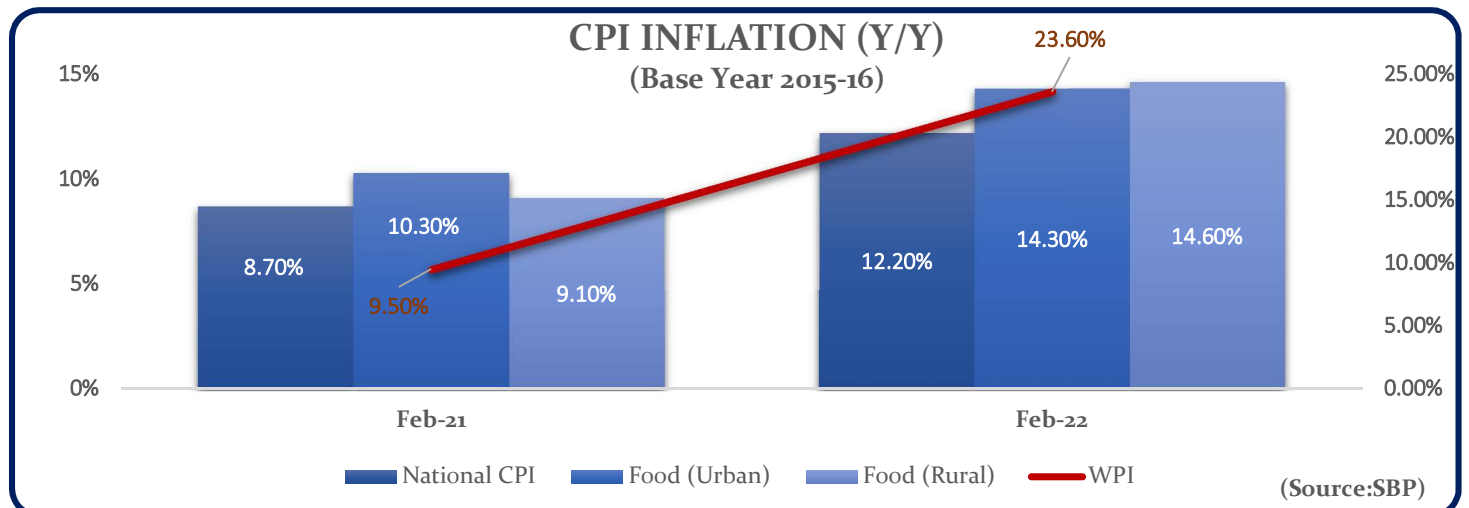
A descriptive analysis revealed that remittances inflows during the month of February 2022 were mainly coming from four major territories: Saudi Arabia, UAE, UK, and the USA. With more than 25% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflow from the Saudi Arabia have a low growth of 2% to \$5.13 billion in Jul-Feb FY22 vs. \$5.0 billion during the same period in FY21. An amount to the tune of \$1.9 billion, or a 9.5% share, was received from the US, showing a rise of 18% in Jul-Feb FY22 vs. the same period in the previous year. Worker remittances from the UK also increased by 10.3% and contributed almost 14% or 2.8 billion in Jul-Feb FY22. Likewise, remittance growth from UAE declined at a rate of 4%, while its share is \$3.8 billion or 18.7% in the total remittances.



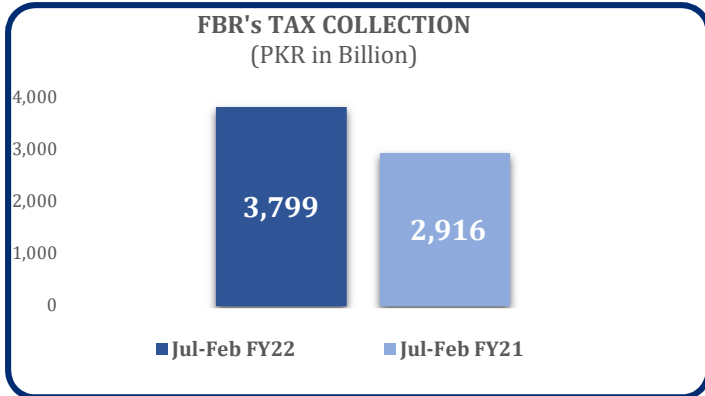
4. CONSUMER PRICE INDEX INFLATION:

The National CPI inflation was recorded at 12.2% in February 2022 on a Y-o-Y basis, strikingly higher as compared to the same month of FY21. The pace of inflation might be persist in double digits in coming months due to volatile situation in international oil market and currency parity decline. In addition to that, wholesale price index ("WPI") which stood at 23.6% on a Y-o-Y basis. Similarly, on a monthly basis, the National CPI has recorded a rise of 1.2%. Moreover, Food inflation in urban and rural increased by 2.2% and 2.6%, respectively, comparing January 2022.

During January 2022, Core inflation, which is calculated on the basis of excluding energy and food items, rose by 7.8% and 9.4% in urban and rural areas, respectively.



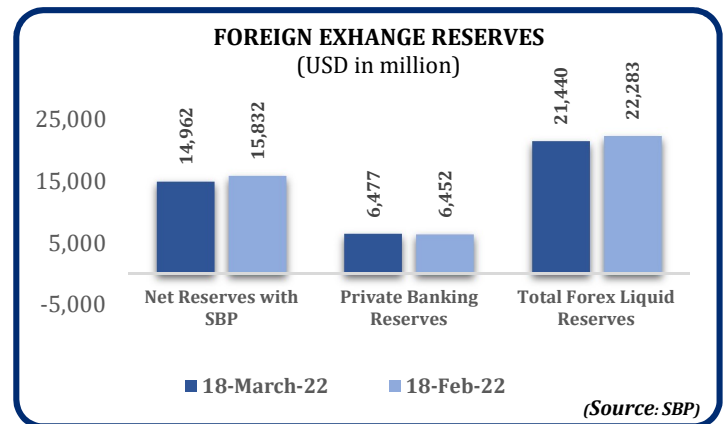
5. FBR TAX REVENUE COLLECTION:



As per the official statistics published by the FBR, the FBR has provisionally collected tax revenue worth PKR 443 billion in February 2022 vs. PKR 345 billion in the same month last year, thereby announcing a rise of 28%. In the Jul-Feb period of FY22, FBR's tax revenue grew by 30.3% or PKR 883 billion vs. last year. Moreover, the FBR surpassed its Jul-Feb target of PKR 3,531 billion by 7.6% reflecting an increase of PKR 268 billion. As per Mr. Shahbaz Rana's article titled "FBR beats Jul-Feb tax target" published on 1st March 2022 in the Express Tribune, from the total tax collection, PKR 2.48tr is collected from indirect sources having a share of 65%, whereas, the income tax collection is PKR 1.32 trillion.

6. FOREIGN EXCHANGE RESERVES:

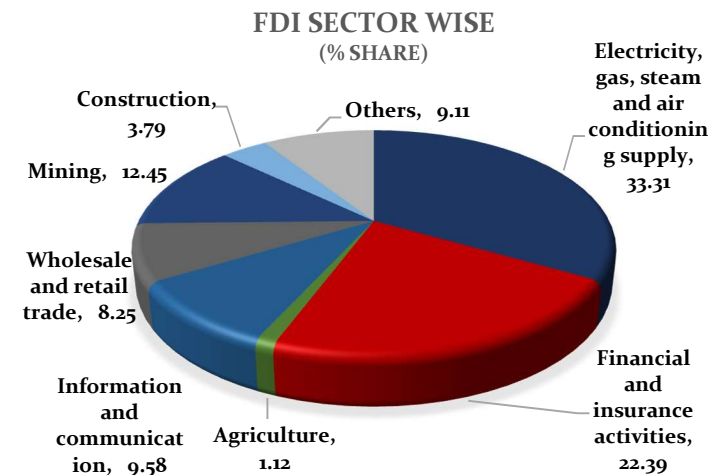
The net reserves of the SBP stood at \$14.96 billion as of 18th March 2022, down by 5.5% compared with \$15.83 billion on March 11th. As per SBP, "the decrease came due to external debt and other payments" (Sources: Express Tribune). Since, reaching \$17.34 billion mark in first week of Feb 2022 (on the back of the receipt of \$1,053 million under the Extended Fund Facility programme of the IMF and Pakistan International Sukuk Bond issuance of \$1,000 million) it is on the verge of declining.



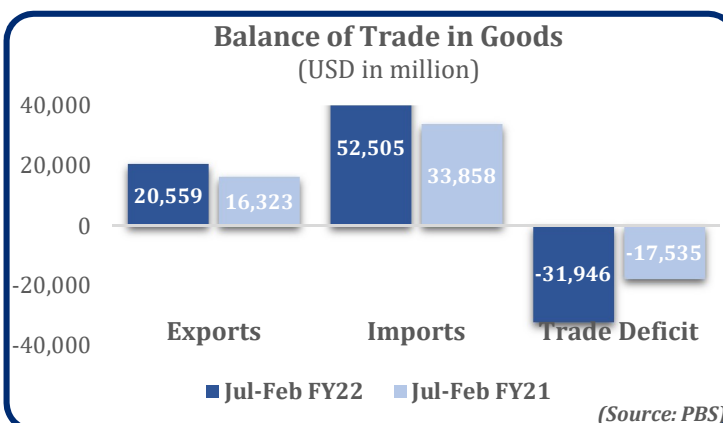
7. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has appreciated by 6.1% or \$72.4 million to \$1.26 billion provisionally during Jul-Feb FY22, as compared to \$1.18 billion during the same period in the preceding year. As per the SBP, the total Foreign Investment of the country has increased to \$1.85 billion during July-Feb FY22, compared to \$799 million in the same period last year. Whereas, the Foreign Investment declined by 78% to \$30.4 million on a Y-o-Y basis in February 2022 as against the amount of \$140 million in February 2021.

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



8. BALANCE OF TRADE IN GOODS:



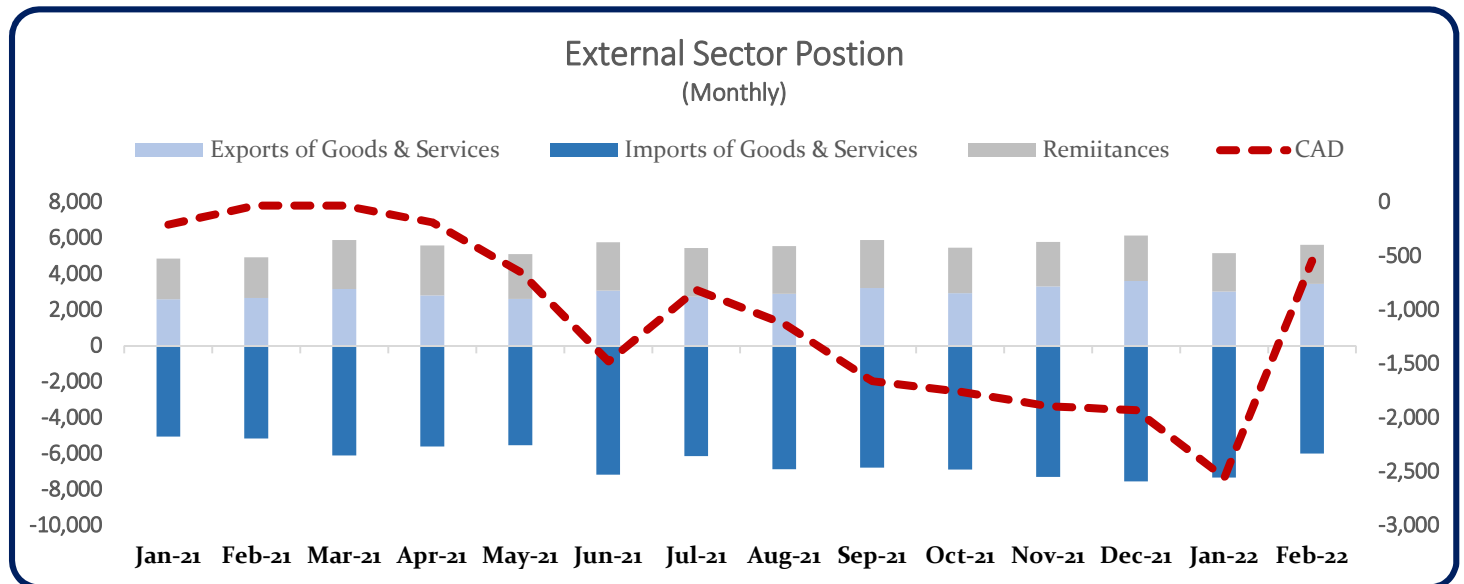
As per the PBS, Pakistan's trade deficit widened by a whopping 82% to \$31.94 billion during the period Jul-Feb FY22 vs. Jul-Feb FY21 amidst higher import price. As far as Exports concern, it is not looking promising, it have been stagnant to \$2.5-2.8 billion, thereby increasing by a margin of 7.88% to \$2.82 billion vs. January 2022 on a M-o-M basis (still low as compare to November 2021 export which is \$2.9 billion). However, the country's trade deficit narrowed by 9.8% to \$3.09 billion during February 2022, compared to \$3.42 billion in January 2021. While on a Y-o-Y basis, it has still higher by a margin of 22% vs. \$2.53 billion in the same month of last FY21.

9. BALANCE OF PAYMENT:

Pakistan's CAD has narrowed to \$545 million to a sustainable level in February 2022, this deficit said to be lowest in current FY due to sharp decline in the number of imports. On a month-on-month basis, it shrunk by 78% compare to deficit of \$2.53 in January 2022, which is highest ever CAD recorded in a month. While comparing Y-o-Y basis, deficit widened steeply when compared to a deficit of \$34 million in Feb 2021 last year. On a cumulative basis from July to January in the ongoing FY22, the CAD soared to \$12.09 billion, compared to a surplus of \$994 million in the same period last year. Moreover, it seems future for CAD remain uncertain due to high volatility of global commodity prices, which make position highly difficult to settle the external sector position of Pakistan in coming months.

(USD in millions)	July-Feb FY22 P	July-Feb FY21
Current account Balance	(12,099)	994
Capital Account Balance	148	163
Financial Account Balance	(12,090)	(508)
Net FDI in Pakistan	(1,190)	(1,120)
Net Portfolio investment	(611)	402
Net incurrence of Liabilities	11,853	1,411
Overall Balance	503	(764)
SBP Gross Reserve	17,795	14,446

(Source: SBP)

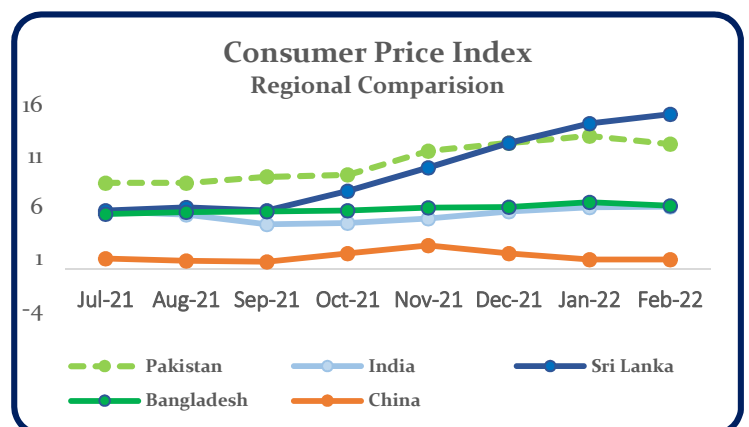


10. Regional Analysis:

On a Y-o-Y basis, the inflation impact in the region is mostly observed in Pakistan and Srilanka. Both the countries 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 does not quite visible in their country due to their stable currency parity. All five regional countries, probably import identical products and face similar prices, except for China who have their own efficient products. I also discussed Global Inflation outlook in my article, "Inflation Outlook" published in "The News". Read it by clicking <https://www.thenews.com.pk/magazine/money-matters/943182-inflation-outlook>.

Country	CPI (%)	Local Currency Units per USD (As of 28 th March)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	12.2	182.19	(17.33)
India	6.07	76.12	(5.00)
Bangladesh	6.17	86.20	(2.48)
China	0.9	6.38	2.58
Sri Lanka	15.10	290.0	(41.61)

(Source: Trading Economics)



OUTLOOK:

- Overall the external sector position of Pakistan is encouraging. However, the net reserves of SBP have continued to fall in March 2022 at a significant pace (down over \$1.25 Billion in 14 days). Thus, it poses a serious risk for the explosion of the balance of payment crisis at a time when the country is plunged into political turmoil.
- Along with that, the impact of recent sharp increase in global commodity prices is yet to fully reflect in import bills. CAD might not sustain at these levels in the long term, and we are expecting the rupee to remain under pressure amidst Pakistan's reliant on the import of crude oil (Brent) and liquefied natural gas (LNG).
- There is a risk of potential delays in the 7th IMF review because of the government relief package, which was against the IMF agreement. Furthermore, the IMF has handed Pakistan a list of proposals on high income tax in order to enact fiscal adjustments, which ultimately put more burden on salaried class.
- Owing to the above facts, Pakistan's economic outlook seems to be in jeopardy. Dealing with the sharp rise in financing gaps in the government's budget as well as soaring debt and inflation pushes economy towards a vulnerable position. Moreover, foreign exchange reserves have depleted, and with that, pressure mounted on the Pakistani rupee, and business confidence has eroded.
- Above all are the consequences that economy of Pakistan living beyond its mean. 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 as Sri Lankan economy. I also analyze Sri Lanka's Economic situation in my latest article, "Sri Lanka's struggle for survival" published in "The News". Read it by clicking <https://www.thenews.com.pk/magazine/money-matters/945087-sri-lankas-struggle-for-survival>.
- Tough policy measures is the need of the hour such as, *inter-alia* : (a) Well thought-out Exchange rate policy; (b) Effective Tax reforms to get rid of non-taxpayers; (c) Structural reforms in the commodity producing sectors; (d) Need to work in comparative trade policies to enhance National Export.

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