PAKONOMICS

June 2022

HIGHLIGHTS:

- Pakistan is entering the new fiscal year 2022-23 ("FY23") and closing the FY22 with disturbed economic momentum due to political instability and double-digit inflation.
- In the Inter-bank market, the National currency value stood at a level of PKR 239.94/USD as of 28th of July 2022 closing against the US dollar. In the past two weeks, the currency parity went down rapidly, despite assurances by the Government that a staff-level agreement reached with the International Monetary Fund ("IMF").
- Pakistan's Large-Scale Manufacturing ("LSM") growth stood at 21.4% during May 2022 vs. last year. Whereas, on a Month-on-Month comparison ("M-o-M"), the LSM growth shrunk by 1.30% compared to the previous month of April 2022 (Base Year 2015-16),
- The cumulative inflows of deposits in the Roshan Digital Accounts ("RDA") reached $4.61 billion at the end of June 2022.
- As per the State Bank of Pakistan ("SBP"), remittances sent by Overseas Pakistani workers increased by 18.37% on a M-o-M basis to $2.76 billion in June 2022 from $2.33 billion in May 2022.
- According to the official statistics, the Federal Board of Revenue ("FBR") exceeded its tax revenue target of PKR 6 trillion for FY22, and collected worth PKR 6.125 trillion vs. PKR 4.74 trillion in FY21. This reflects a growth of almost 29% or PKR 1.381 trillion in the tax revenue collection in FY22 vs. the FY21.
- The net foreign currency reserves held by the SBP stood at $9.33 billion as of 14th July 2022.
- The Broad Money (M2) stock from 1st of July 2021 to 24th June 2022 is PKR 2,533 billion as compared to PKR 2,606 billion last year in same period.
- According to the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 21.40% on a year-on-year ("Y-o-Y") basis in June 2022 vs. 9.70% last year.
- As per the Pakistan Bureau of Statistics ("PBS"), Pakistan's Exports rose by 11.12% to $2.92 billion in June 2022 vs. $2.62 billion in May 2022 on a M-o-M basis.
- Pakistan's net FDI has appreciated by 2.6% or $47.3 million to $1.87 billion provisionally during FY22, as compared to $1.82 billion during FY21.
- As per the SBP, the total Foreign Investment of the country has decreased to $1.79 billion during July-June period of FY22, compared to $4.58 billion in the same period last year.
- The country has posted a Current account deficit ("CAD") of a staggering $17.406 billion in 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)	May	↓	21.4%	32.8%
Central Government Debt	May	↑	PKR 44.63 Trillion	PKR 37.99 Trillion
Credit to Private Sector	Jul – 24th June	↑	PKR 1,443 Billion	PKR 595 Billion
Roshan Digital Account	June	↓	US$ 250 Million	US$ 310 Million
Worker's Remittances	June	↑	US $2,761 Million	US $2,688 Million
Currency in Circulation	As of 24th June	↑	PKR 7.64 Trillion	PKR 7.00 Trillion
Net Government Sector borrowing	Jul – 24th June	↑	PKR 2,891 Billion	PKR 1,534 Billion
National CPI (Base Year 2015-16)	June	↑	21.4%	9.7%
FBR Tax Collection	Jul-June	↑	PKR 6.125 Trillion	PKR 4.744 Trillion
Foreign Exchange Reserves with SBP	As of 14th July	↓	$9.33 Billion	$18.05 Billion
Foreign Direct Investments	Jul-June	↑	$1.87 Billion	$1.82 Billion
Trade Deficit in Goods	Jul-June	↑	US$ (48.38) Billion	US$ (31.07) Billion
Current Account Deficit	Jul-June	↑	$(17,406) Million	$(2,820) Million

1. LARGE SCALE MANUFACTURING:

According to the PBS, Pakistan's LSM sector showed a 21.40% growth in May 2022 on a Y-o-Y basis vs. May 2021 as per the new base 2015-16. While, on a M-o-M basis, the overall output declined by 1.3% compared to the month of April 2022. During the Jul-May period of the Fiscal year 22, the growth of large industries stood at a rate of 11.70%, while growth as per the old base year of 2005-06 is reported at 7.1%.

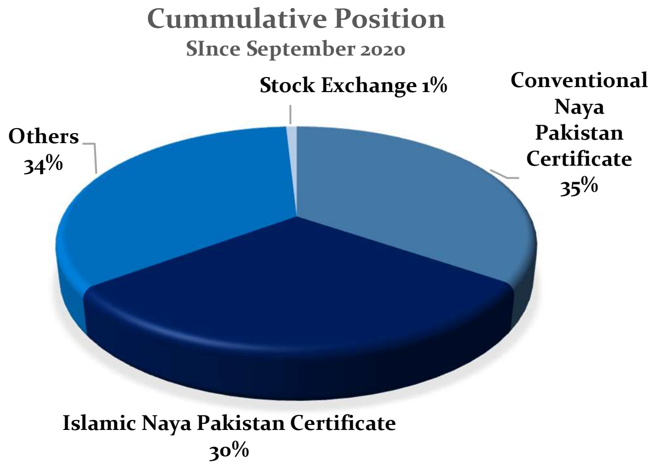
Out of 22 major industries, 18 industries posted a surge in production during the Jul-May period of FY22 as compared to last year. These include textile, Food, beverages, coke and petroleum products, Chemicals, wearing apparel, beverages, iron and steel products, automobiles, tobacco, paper and board, pharmaceutical, Electrical equipment, leather products, wood products, machinery equipment's, furniture industry, other sports industries, non-metallic mineral products and Computer and optical products. However, the output in Beverages, rubber products, other transport equipment, and fabricated metal has decreased during Jul-May FY22 of the ongoing year under review, compared to the preceding year, data from the PBS has revealed. Sector-wise, important groups such as sugar, cotton yarn, and cotton cloth rose by 39.1%, 0.5%, and 0.2%, respectively in the period of July-May FY22. Whereas, the cement industry declined by 4.4%.

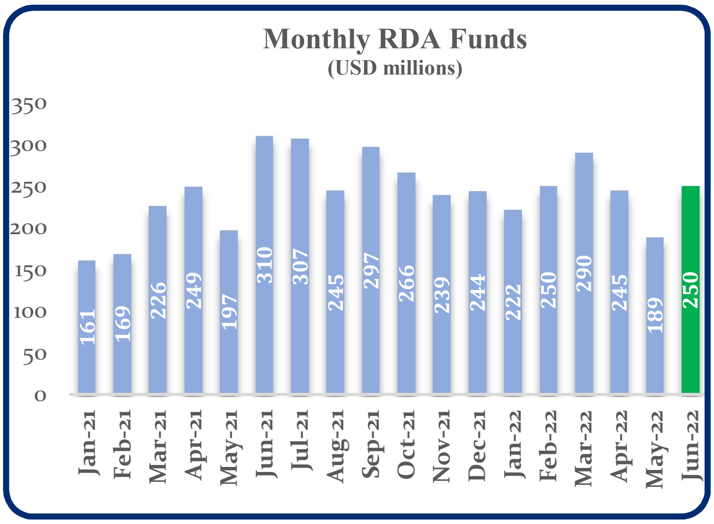
LSM (%)	Weight	May-22	April-22	May-21	July-May 2021-22	Y/Y growth Cumulative
Textile	**18.2**	8.2	7.7	53.8	**4.1**	**0.9**
Food	**10.7**	(4.1)	5.8	8.7	**9.8**	**1.7**
Coke & Petroleum Products	**6.7**	8.1	(5.1)	5.8	**1.7**	**0.1**
Chemicals	**6.5**	13.1	10.5	18.6	**9.0**	**0.7**
Wearing Apparel	**6.1**	158.5	106.2	32.5	**49.7**	**3.8**
Pharmaceuticals	**5.2**	45.9	35.3	14.1	**7.4**	**0.5**
Non-Metallic Minerals Products	**5.0**	10.4	(12.6)	48.5	**0.5**	**0.04**
Beverages	**3.8**	(13.7)	5.7	13.1	**(0.3)**	**(0.02)**
Iron and Steel Products	**3.4**	19.2	13.8	28.3	**16.5**	**0.7**
Automobiles	**3.1**	50.5	27.4	1,972	**52.7**	**1.5**
Tobacco	**2.1**	(3.0)	(3.0)	0.1	**12.9**	**0.3**
Electrical Equipment	**2.0**	16.1	8.7	163.1	**1.8**	**0.1**
Paper & Board	**1.6**	15.5	3.6	14.8	**8.9**	**0.2**
Leather Products	**1.2**	(6.7)	(2.6)	70.3	**0.6**	**0.0**
Other Transport Equipment	**0.7**	(6.6)	(11.5)	223.7	**(11.0)**	**(0.10)**
LSM Growth for May 2022 (Y/Y)						**21.40%**
LSM Growth of May 2022 vs. April 2022 (M/M)						**(1.30)%**
LSM Growth for July-May 2021-22 (Y/Y)						**11.70%**

(Source: PBS)

2. Roshan Digital Account ("RDA"):

The cumulative inflows of deposits under the RDA reached $4.61 billion since its announcement in September 2020. Out of the $4.356 billion, around two-thirds, $2.98 billion or 65% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 429,364 accounts have been opened from 175 countries during the 22 months.



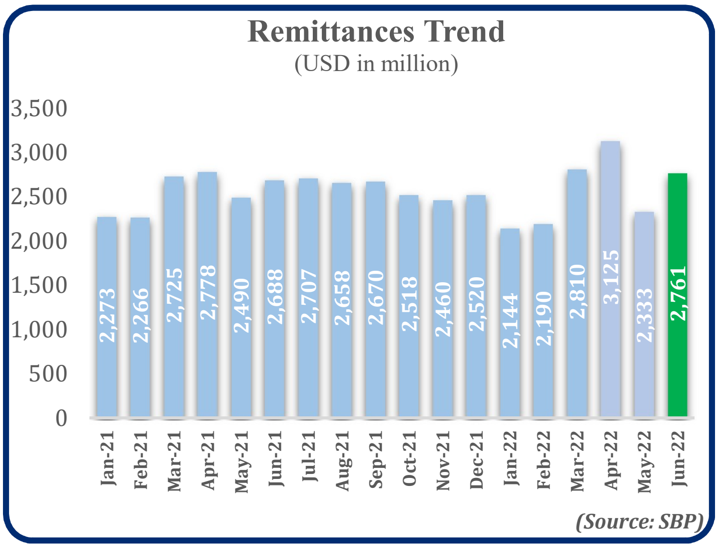


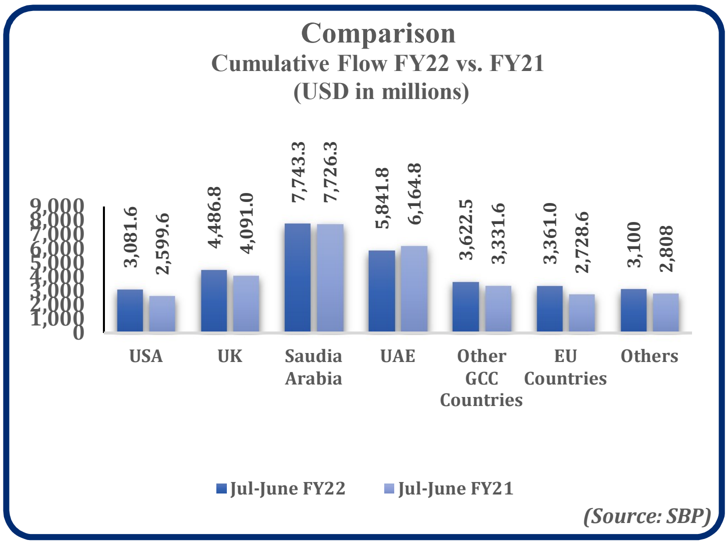
(Source: SBP)

3. WORKER'S REMITTANCES:

According to the SBP, the remittances sent by Overseas Pakistani workers increased by 18.37% to $2.76 billion in June 2022 vs. $2.33 billion in May 2022 on a M-o-M basis. However, in the Jul-June period of FY22, the inflows surged by 6.10% to $31.24 billion compared to $29.45 billion received a year ago in the same period. However, the pace of growth is much slower than the last FY21's whole period, where it grew by 27%. Furthermore, on a Y-o-Y basis, the monthly flows surged by only 1.73% as compared to June 2021.

A descriptive analysis has revealed that remittances inflows during the FY22 were coming mainly from four major territories: Saudi Arabia, UAE, UK, and the USA. With almost a 25% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflows from Saudi Arabia have a low growth of 0.2% to $7.74 billion in Jul-June FY22 vs. $7.72 billion during FY21. An amount to the tune of $3.08 billion, or a 9.87% share, was received from the US, showing a rise of 18.5% in FY22 vs. the FY21. Worker remittances from the UK also increased by almost 10% and contributed 14.36% or 4.49 billion in Jul-June FY22. Likewise, remittance growth from UAE declined at a rate of 5.2%, while its share is $5.84 billion or 18.70% in the total remittances.

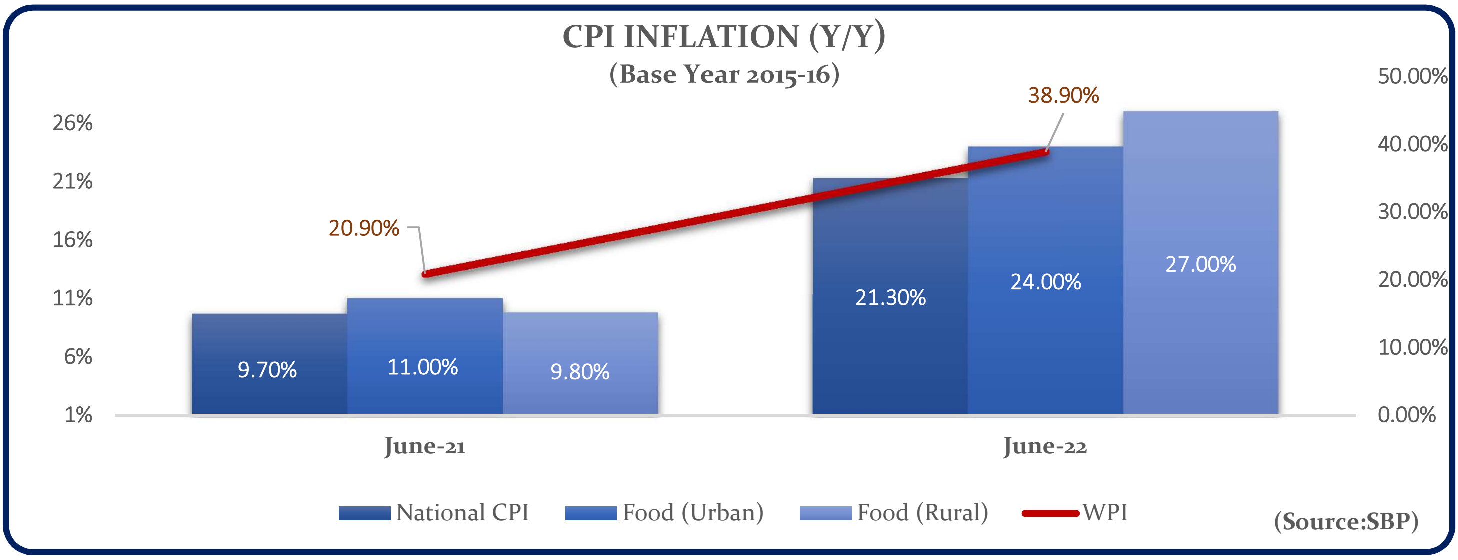




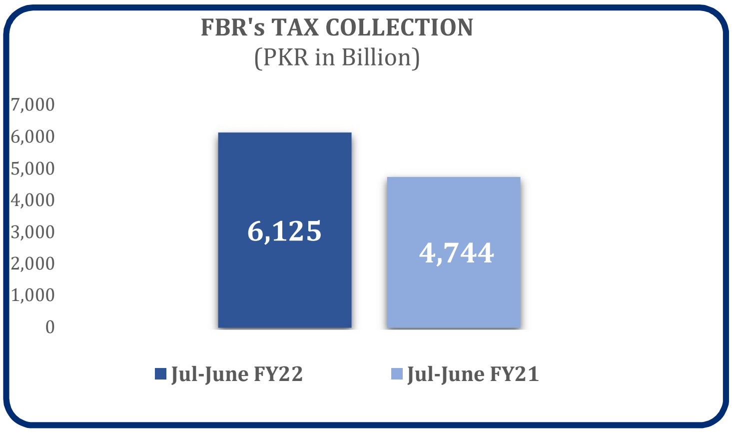
4. CONSUMER PRICE INDEX INFLATION:

The National CPI inflation skyrocketed to 21.3% in June 2022 on a Y-o-Y basis, which is the highest inflation in the last 13 years. The pace of inflation might stay in double-digits in the coming months due to the political instability and rampant currency devaluation. In addition to that, the wholesale price index ("WPI") stood at 38.9% on a Y-o-Y basis month wise comparison. Similarly, on a monthly basis, the National CPI has recorded a rise of 6.3%. Moreover, the Food inflation in urban and rural increased by 5.3% and 6.0%, respectively, comparing to May 2022.

During June 2022, the Core inflation, which is calculated on the basis of excluding energy and food items, rose by 11.5% and 13.6% in urban and rural areas, respectively.



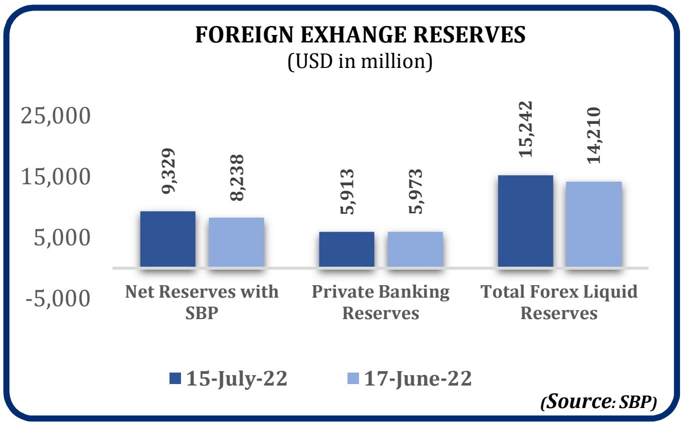
5. FBR TAX REVENUE COLLECTION:



As per the official statistics published by the FBR, the FBR has collected tax revenue worth PKR 763 billion in June 2022 vs. PKR 580 billion in the same month last year, thereby announcing a rise of 28.9%. In FY22, FBR's tax revenue grew by 29% or PKR 1,381 billion vs. last year. Moreover, the FBR surpassed its annual revised target of PKR 6.1 trillion by 25 billion rupee. As per Mr. Shahbaz Rana's article titled "FBR crosses Rs. 6.1tr tax target" published on 1st July 2022 in the Express Tribune, from the total tax collection, PKR 3.86tr is collected from indirect sources having a share of 63%, similarly 3.12tr were collected at import stage. Whereas, the income tax collection is PKR 2.26 trillion.

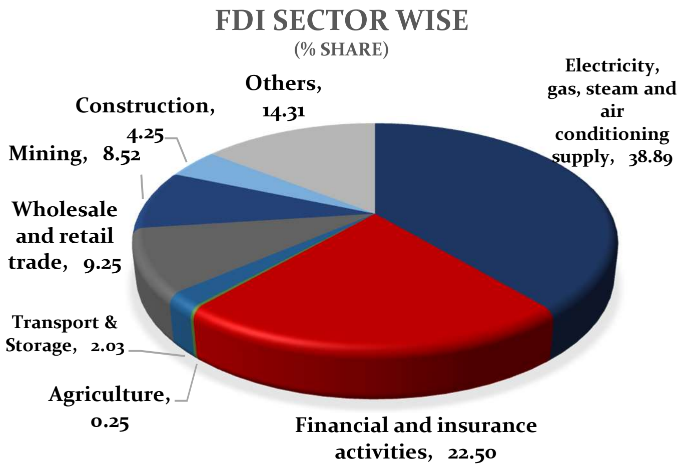
6. FOREIGN EXCHANGE RESERVES:

The net reserves of the SBP stood at $9.33 billion as of 14th July 2022, declining by 4.1% compared with $9.72 billion on 7th July 2022 The SBP cited "external debt repayment" as the reason behind the decline in reserves. Earlier this month, the SBP net reserves have risen by USD 2.1 billion to USD 10.31 billion on realization of the proceeding of China Development Bank loan. 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.

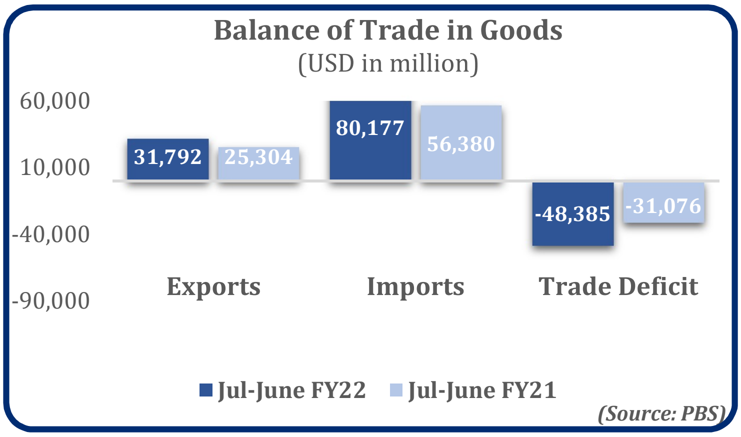


FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has appreciated by 2.6% or $47.3 million to $1.87 billion provisionally during FY22, as compared to $1.82 billion during FY21. As per the SBP, the total Foreign Investment of the country has decreased to $1.79 billion during July-June period of FY22, compared to $4.58 billion in the same period last year. Whereas, the Foreign Investment declined by $528 million to $202.6 million on a Y-o-Y basis in June 2022 as against the amount of $730.8 million in June 2021. This Pie chart shows the percentage share of flows in different sectors of the Economy in the FY22.



7. BALANCE OF TRADE IN GOODS:



As per the PBS, Pakistan's trade deficit widened by a whopping 56% to $48.38 billion during the FY22 vs. FY21 amidst higher import prices and devaluation of rupee. As far as Exports are concerned, the same increased by 25.64% to USD 31.79 billion in FY22 compared to USD 25.30 billion in FY21. On a monthly basis, the exports increased by a margin of 11.12% to $2.92 billion in June 2022 vs. $2.62 in May 2022. Addionally, the country's trade deficit rose by 19.5% to almost $5.0 billion during June 2022, compared to $4.15 billion in May 2022. Likewise on a Y-o-Y basis, the trade deficit is also higher by a margin of 37% vs. $3.62 billion in the same month of last FY21.

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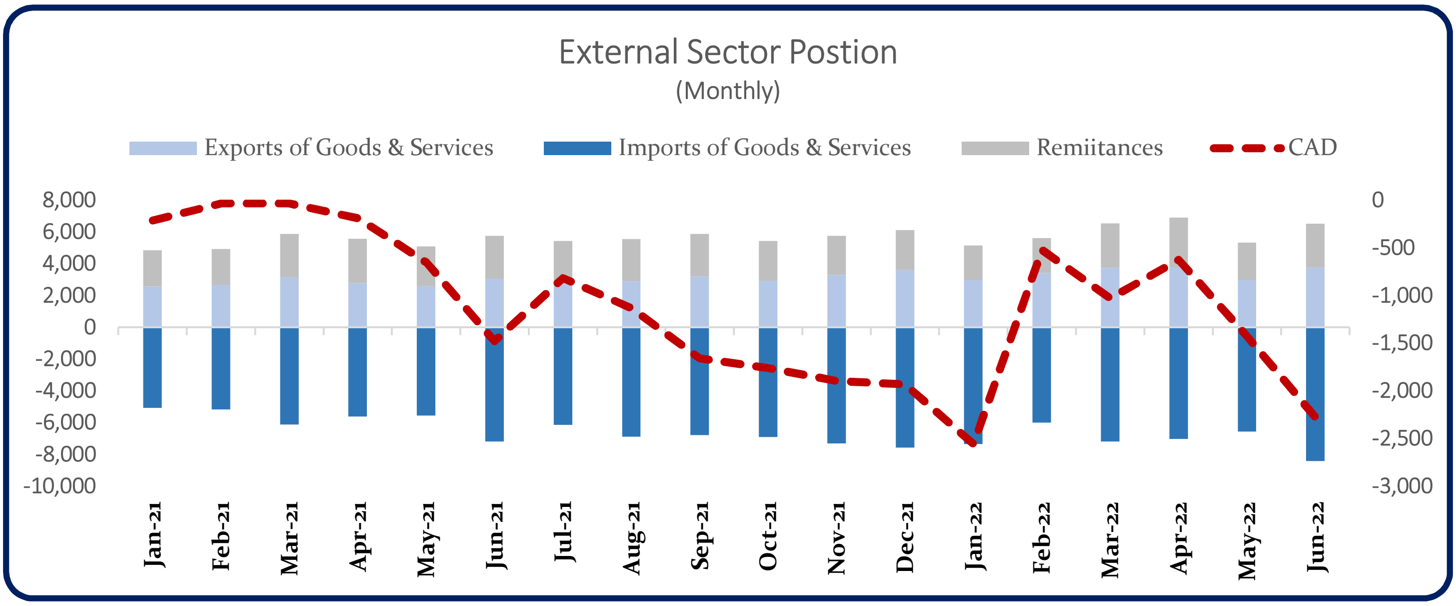
8. BALANCE OF PAYMENT:

Pakistan's CAD gap has widened by $2,275 million in June 2022 as compared to a deficit of $1,430 million in the last month of May 2022. On a Y-o-Y basis, the CAD rose by 39% compare to a deficit of $1,637 million in June 2021. In the FY22, the CAD soared to $17.40 billion, compared to a minor deficit of $2.82 billion in the FY21. We hope that for future, CAD may remain controllable on the back of tough measures and drop in international oil prices. That will ease some pressure on imports in FY23, which will make the position better for the new regime to settle the external sector position of Pakistan.

(USD in millions)	FY22 P	FY21
Current account Balance	(17,406)	(2,820)
Capital Account Balance	206	224
Financial Account Balance	(11,085)	(8,768)
Net FDI in Pakistan	(1,620)	(1,648)
Net Portfolio investment	(54)	(2,774)
Net incurrence of Liabilities	12,025	5,691
Overall Balance	(6,316)	5,553
SBP Gross Reserve	10,066	17,486
		(Source: SBP)

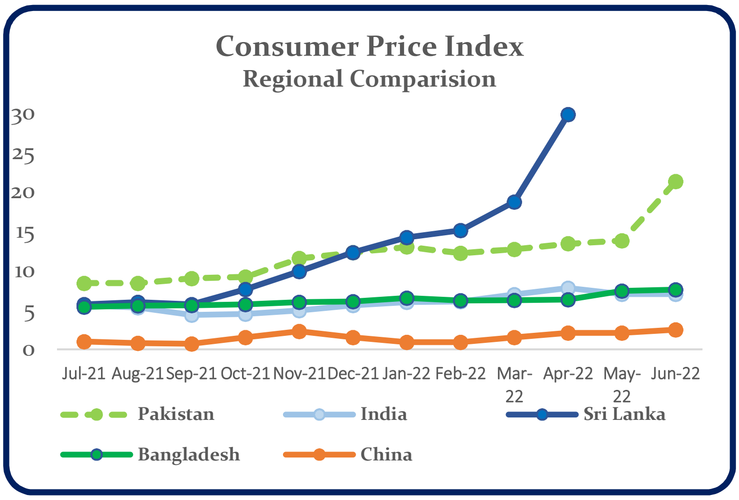


9. Regional Analysis:

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 and India also start facing depreciation and with that impact of rising inflation also gradually catching up their economy. In contrast, China have lower CPI and 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 that has its own efficient products.

Country	CPI (%)	Local Currency Units per USD (As of 28th July)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	21.3	239.9	(48.12)
India	7.0	79.8	(7.44)
Bangladesh	7.56	94.7	(12.12)
China	2.5	6.7	(4.44)
Sri Lanka	54.6	359.0	(80.40)

(Source: Trading Economics)



OUTLOOK:

- The acceleration in the rate of inflation is faster since the last six months. The main fundamental question is whether the rate of inflation gradually slow down or will it persist during the ongoing FY23. This might be largely dependent on the future path of the international commodity prices. A high rate of CPI might persist in the case of petroleum lubricants on the back of the Government's commitment of petroleum levy by March 2023. While on the other hand, rise in food inflation despite of high growth in major and minor crops needs to be evaluated by both, the Provincial and the Federal Government. Moreover, a price ceiling mechanism needs to implement to curb soaring food inflation.
- Annual plan targets for FY23 of GDP at 5.0%, inflation at 11.5%, and other key indicators seems unrealistic, given the ongoing fragile economic situation and political chaos. Given the poor state of the economy of Pakistan, notably the low level of foreign exchange reserves, the annual targets are likely to be exceptionally difficult to achieve.
- Pakistani rupee has taken a real beating in the last quarter of FY22. Apart from the political uncertainty, one of the underlying structural reason is the ballooned CAD, which has been recorded at $17.4 billion. This huge deficit in FY 2022 is mainly attributable to a hike in commodity prices following the global recovery from the pandemic and very recently due to supply disruption created by the Russia-Ukraine conflict. The basic necessity to avoid such rampant devaluation of the rupee in coming days and weeks is to restoration of IMF Programme and, restraint of a further expansion of a large CAD in FY23. This is an important way to ensure that the External financing clause are kept within the margin of accessibility of external inflows.
- There will be need for designing an effective policy, especially in monetary and fiscal policies. If the CAD is to be restricted to $9.02 billion in FY23, it's only by ensuring that the level of imports of goods does not exceed the sum of exports of goods and workers' remittances in 2022-23. Achievement of this target will assure that the CAD remains confined to the trade deficit.
- 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 polices 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.
- Overall, Pakistan economic targets for upcoming fiscal year has been formulated in a politically constrained environment while under pressure from the IMF. A number of problematic indicators have been identified above. Given the continuing negative developments in the Pakistan's economy, especially due to political uncertainty, the economic outlook seems unpredictable.