HIGHLIGHTS:

- The State Bank of Pakistan ("SBP") decided to maintain the benchmark policy rate to 15% in their Monetary Policy Committee meeting earlier this week.
- In the Inter-bank market, the National currency value stood at a level of PKR 220/USD as of 27th of August 2022. In the past two weeks, the currency parity appreciated against the greenback gaining to PKR 213/USD. However, a delay in reaching the staff-level agreement with the International Monetary Fund ("IMF") may haunt Pakistan's domestic currency.
- Pakistan's Large-Scale Manufacturing ("LSM") growth stood at 11.5% during June 2022 vs. last year. Whereas, on a Month-on-Month comparison ("M-o-M"), the LSM grew by only 0.2% compared to the previous month of June 2022 (Base Year 2015-16),
- The cumulative inflows of deposits in the Roshan Digital Accounts ("RDA") reached $4.79 billion at the end of July 2022.
- As per the SBP, remittances sent by Overseas Pakistani workers decreased by 8.6% on a M-o-M basis to $2.52 billion in July 2022 from $2.76 billion in June 2022.
- According to the official statistics, the Federal Board of Revenue ("FBR") exceeded its monthly tax revenue target of PKR 443 billion for the first month of FY23, and collected worth PKR 458 billion in July 2022 vs. PKR 417 billion in July 2021. This reflects a growth of almost 10% Year-on-Year ("YoY" or "Y-o-Y")).
- The Net foreign currency reserves held by the SBP stood at $7.81 billion as of 19th August 2022.
- The Broad Money (M2) stock from 1st of July 2021 to 12th August 2022 has contracting by PKR 685 billion as compared to contraction of PKR 589 billion last year in same period.
- According to the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 24.9% on a YoY basis in July 2022 vs. 8.40% last year.
- As per the PBS, Pakistan's Exports declined by 22.74% to $2.25 billion in July 2022 vs. $2.92 billion in June 2022 on a M-o-M basis.
- Pakistan's net FDI has depreciated by 43% or $45 million to $59 million provisionally during July 2022, as compared to $104 million during July 2021.
- As per the SBP, the total Foreign Investment declined by $1.06 billion to $45 million on a Y-o-Y basis in July 2022 as against the amount of $1.10 billion in July 2021.
- The country has posted a Current account deficit ("CAD") of $1.210 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)	June	↑	11.50%	4.10%
Central Government Debt	June	↑	PKR 47.78 Trillion	PKR 38.70 Trillion
Credit to Private Sector	Jul – 12th Aug	↑	PKR 185 Billion	PKR 152 Billion
Roshan Digital Account	July	↓	US$ 188 Million	US$ 307 Million
Worker's Remittances	July	↓	US $2,524 Million	US $2,707 Million
Currency in Circulation	As of 12th August	↑	PKR 7.97 Trillion	PKR 7.22 Trillion
Net Government Sector borrowing	Jul – 12th Aug	↓	PKR 77 Billion	PKR 348 Billion
National CPI (Base Year 2015-16)	July	↑	24.90%	8.40%
FBR Tax Collection	July	↑	PKR 458 Billion	PKR 417 Billion
Foreign Exchange Reserves with SBP	As of 19th August	↓	$7.81 Billion	$17.58 Billion
Foreign Direct Investments	July	↓	$59 Million	$104 Million
Trade Deficit in Goods	July	↓	US$ (2.74) Billion	US$ (3.23) Billion
Current Account Deficit	July	↑	$(1,210) Million	$(851) Million

1. LARGE SCALE MANUFACTURING:

According to the PBS, Pakistan's LSM sector showed an 11.5% growth in June 2022 on a Y-o-Y basis vs. June 2021 as per the new base year 2015-16. While, on a M-o-M basis, the overall output increased by only 0.2% compared to the month of May 2022. During the Jul-June 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 7.7%.

Out of 22 major industries, 19 industries posted a surge in production during the Jul-June period of FY22 as compared to FY21. 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, beverages, furniture industry, other sports industries, non-metallic mineral products and Computer and optical products. However, the output in Rubber products, other transport equipment, and fabricated metal has decreased during Jul-June FY22 period under review, compared to the preceding year FY21, data from the PBS has revealed.

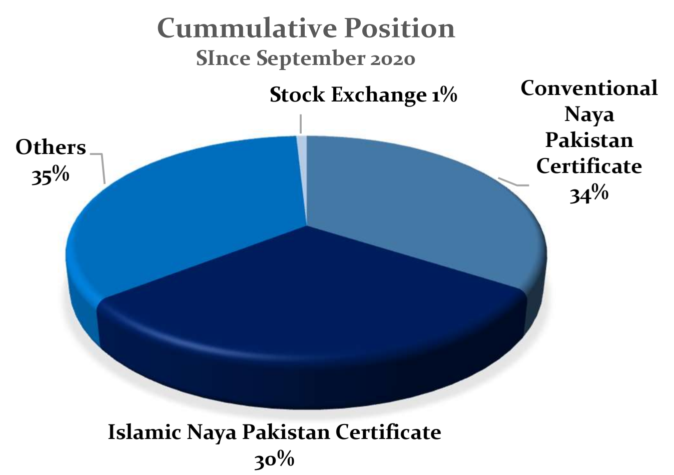
Sector-wise, important groups such as sugar, cotton yarn, and cotton cloth rose by 39.1%, 0.5%, and 0.2%, respectively in the period of July-June FY22. Whereas, the cement industry declined by 3.6%.

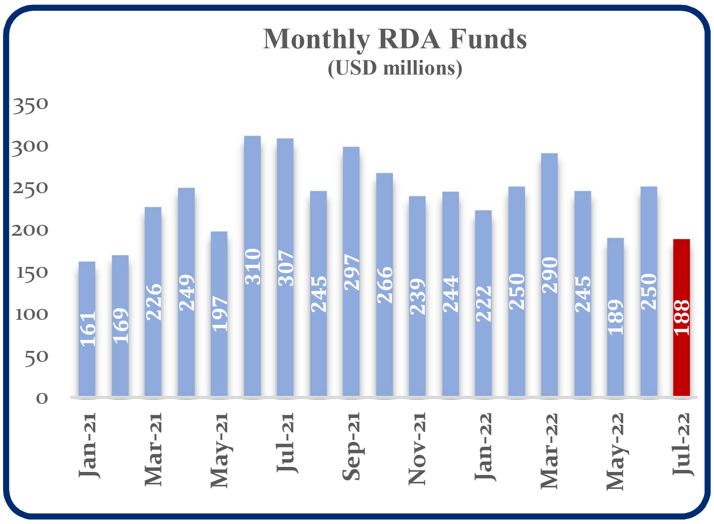
LSM (%)	Weight	June-22	May-22	June-21	July-June 2021-22	Y/Y growth Cumulative
Textile	**18.2**	(3.6)	8.2	17.8	**3.5**	**0.7**
Food	**10.7**	(11.4)	(4.1)	10.4	**8.4**	**1.4**
Coke & Petroleum Products	**6.7**	(9.2)	8.1	38.2	**0.7**	**0.05**
Chemicals	**6.5**	8.7	13.1	21.0	**9.0**	**0.7**
Wearing Apparel	**6.1**	47.1	158.5	55.1	**49.4**	**3.8**
Pharmaceuticals	**5.2**	86.3	45.9	6.0	**13.7**	**0.9**
Non-Metallic Minerals Products	**5.0**	6.3	10.4	33.8	**1.0**	**0.1**
Beverages	**3.8**	4.4	(13.7)	9.5	**0.5**	**0.03**
Iron and Steel Products	**3.4**	14.1	19.2	25.6	**16.3**	**0.7**
Automobiles	**3.1**	25.2	50.5	207.3	**49.4**	**1.4**
Tobacco	**2.1**	70.4	(3.0)	(42.0)	**15.9**	**0.4**
Electrical Equipment	**2.0**	10.8	16.1	13.0	**2.6**	**0.1**
Paper & Board	**1.6**	32.9	15.5	4.9	**10.6**	**0.2**
Leather Products	**1.2**	2.8	(6.7)	24.0	**0.8**	**0.01**
Other Transport Equipment	**0.7**	(13.6)	(6.6)	5.9	**(11.2)**	**(0.1)**
LSM Growth for June 2022 (Y/Y)						**11.50%**
LSM Growth of June 2022 vs. May 2022 (M/M)						**0.2%**
LSM Growth for July-June 2021-22 (Y/Y)						**11.70%**

(Source: PBS)

2. Roshan Digital Account ("RDA"):

The cumulative inflows of deposits under the RDA reached $4.79 billion since its announcement in September 2020. Out of the $4.79 billion, approximately two-thirds, $3.09 billion or 64% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 441,344 accounts have been opened from 175 countries during the 23 months.



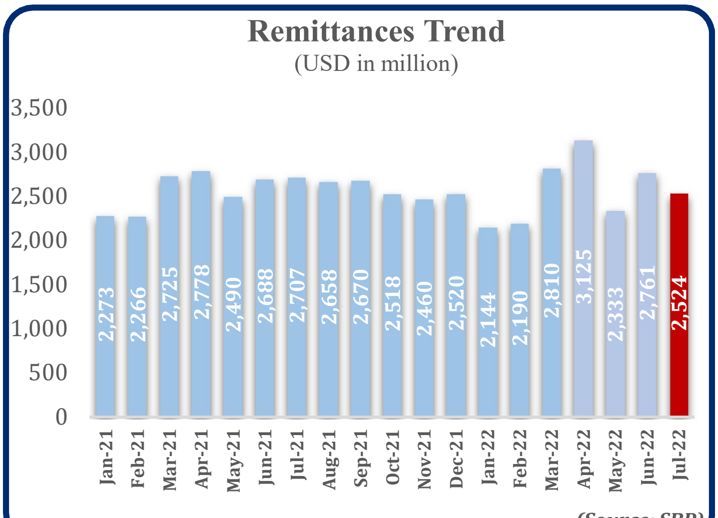


(Source: SBP)

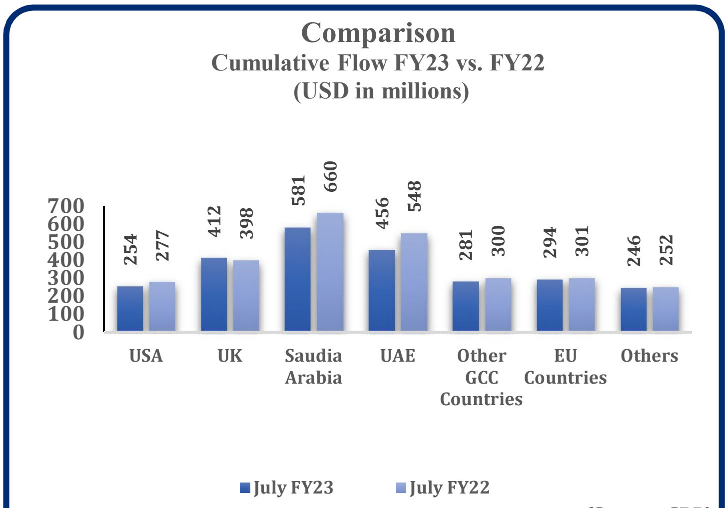
3. WORKER'S REMITTANCES:

According to the SBP, the remittances sent by Overseas Pakistani workers decreased by 8.6% to \$2.52 billion in July 2022 vs. \$2.76 billion in June 2022 on a M-o-M basis. Similarly, on a y-o-y comparison, the inflows went down by 7.76% when compared to \$2.74 billion received a year ago in the same month.

A descriptive analysis has revealed that remittances inflows during the first month of FY23 were coming mainly from four major territories: Saudi Arabia, UAE, UK, and the USA. With a 23% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflows from Saudi Arabia have a negative growth of almost 13% to \$580 million in July FY23 vs. \$822 million during same month of FY22. An amount to the tune of \$254 million, or a 10.1% share, was received from the US, showing a decline of 8.27% in July 2022 vs. July 2021. Worker remittances from the UK increased by 3.45% and contributed 16.31% or 412 million in July FY23 over July FY22. On the other hand, remittance growth from UAE declined at a rate of 16.7%, while its share is \$456 million or 18.1% in the total remittances.



(Source: SBP)

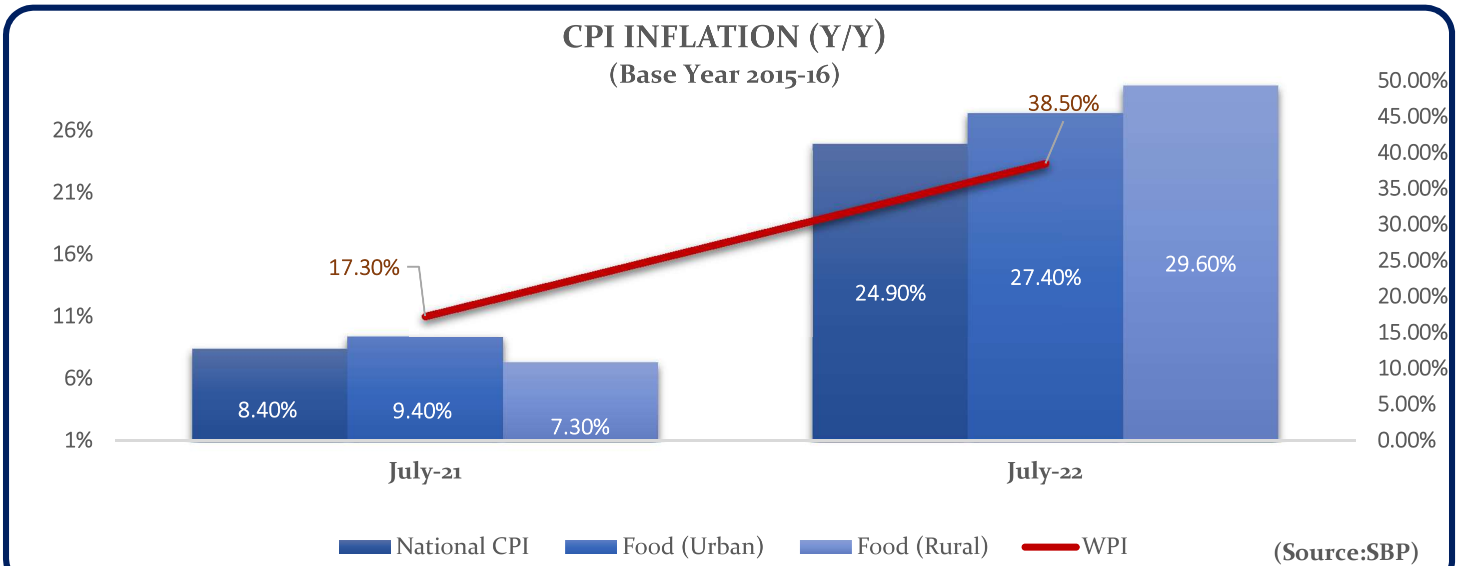


(Source: SBP)

4. CONSUMER PRICE INDEX INFLATION:

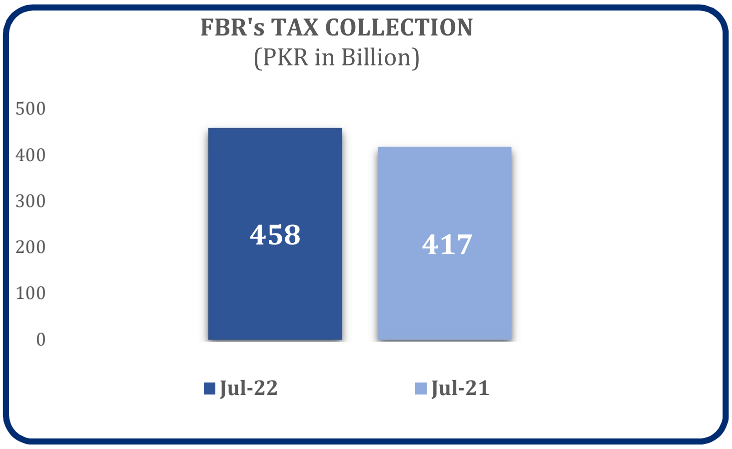
The National CPI inflation skyrocketed to almost 25% in July 2022 on a Y-o-Y basis, which is the highest inflation in the last 13 years. The pace of inflation might stay in double-digits in the coming months due to the political instability and rampant currency devaluation. In addition to that, the wholesale price index ("WPI") stood at 38.5% on a Y-o-Y basis month wise comparison. Similarly, on a monthly basis, the National CPI has recorded a rise of 4.4%. Moreover, the Food inflation in urban and rural increased by 4.3% and 3.7%, 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 12.0% and 14.6% in urban and rural areas, respectively.



(Source:SBP)

5. FBR TAX REVENUE COLLECTION:

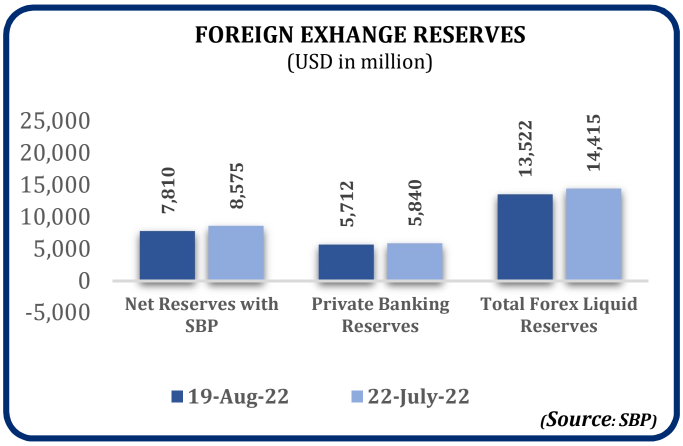


As per the official statistics published by the FBR, the FBR has collected tax revenue worth PKR 458 billion in July 2022 vs. PKR 417 billion in the same month last year, thereby announcing a rise of almost 10%. Moreover, the FBR surpassed its annual revised target of PKR 6.1 trillion by PKR 25 billion last year. As per Mr. Shahbaz Rana's article titled "Tax receipts rise at less than required pace" published on 30th July 2022 in the Express Tribune, there are two positive developments. First, the share of sales tax at import stage went down to 47.5% due to lesser import in July 2022, and overall PKR 216 billion were collected at import stage. Secondly, the share of the income tax collection is rise to 39%.

6. FOREIGN EXCHANGE RESERVES:

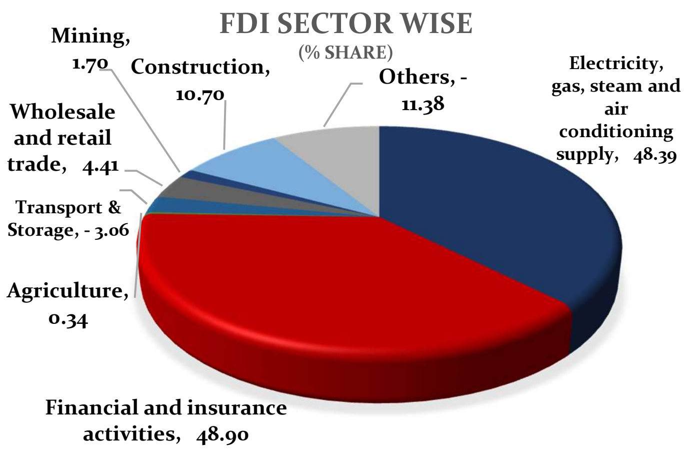
The net reserves of the SBP stood at $7.81 billion as of 19th August 2022, decreasing by 1.13% compared with $7.90 billion on 12th August 2022. However, when compared to July 2022 end week reserves were then $8.39 billion went down massively by 6.9%. The SBP cited "external debt repayment" as the reason 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.

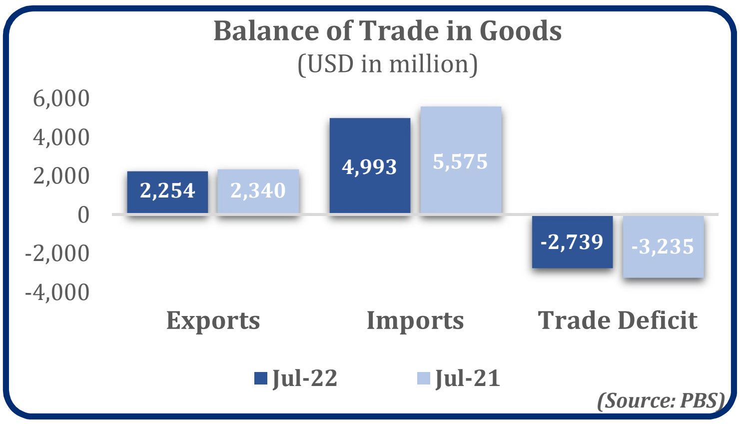


7. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has depreciated by 43% or $45 million to $59 million provisionally during July 2022, as compared to $104 million during July 2021. Whereas, the total Foreign Investment declined by $1.06 billion to $45 million on a Y-o-Y basis in July 2022 as against the amount of $1.10 billion in July 2021. This Pie chart shows the percentage share of flows in different sectors of the Economy in the July 2022.



8. BALANCE OF TRADE IN GOODS:

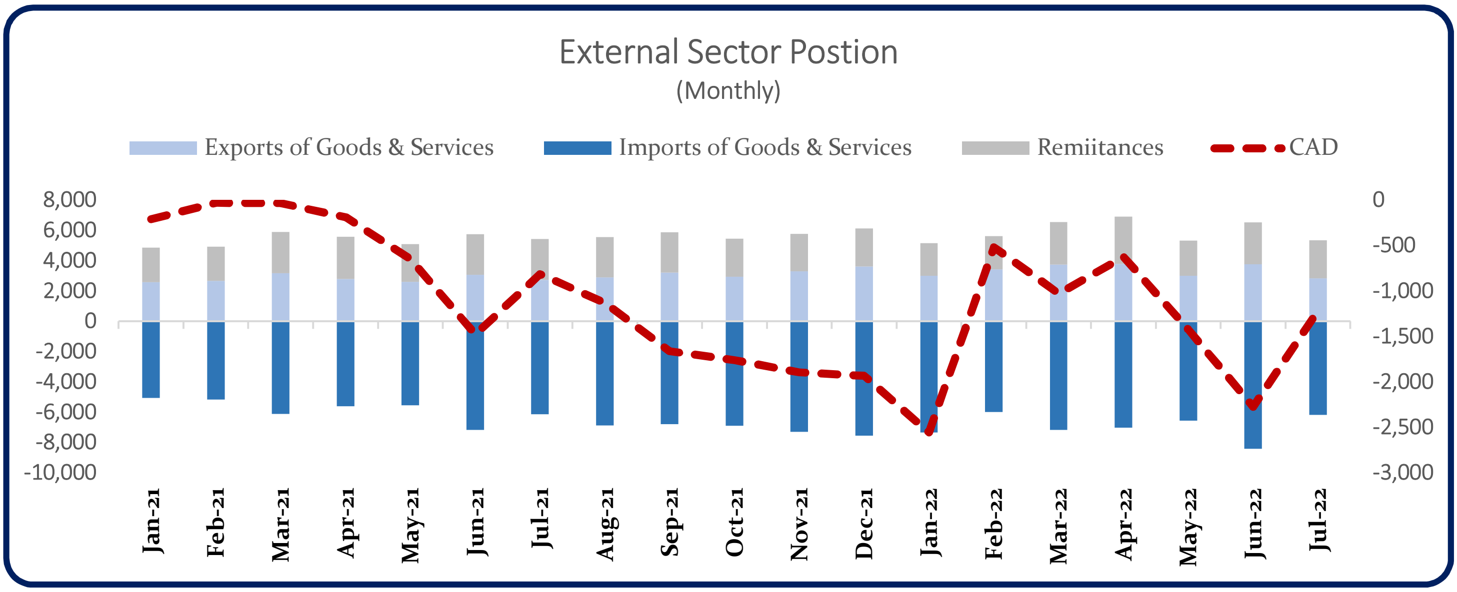


As per the PBS, Pakistan's trade deficit shrunk by a good margin of almost 15% to $2.73 billion during the first month of July 2022 of FY23 vs. July 2021 of FY22 amidst steep deduction in import bill. As far as Exports are concerned, it went down by 3.65% to USD 2.25 billion in FY23's month of July compared to USD 2.34 billion in same month of FY21. Similarly, on a monthly basis, the exports decreased by a margin of 22.74% from $2.92 billion in June 2022. Addionally, the country's trade deficit plunged by a massive margin of almost 45% to $2.73 in July 2022 from $4.96 in June 2022 on a month on month basis

9. BALANCE OF PAYMENT:

In the beginning of new fiscal year, Pakistan's CAD gap has reduced to $1,210 million in July 2022 as compared to a deficit of $2,187 million in the last month of June 2022. On a Y-o-Y basis, the CAD rose by 42% compare to a deficit of $851 million in July 2021. In the last FY22, the CAD soared to $17.38 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 incumbent regime to settle the external sector position of Pakistan.

(USD in millions)	FY23 P	FY22
Current account Balance	(1,210)	(851)
Capital Account Balance	6	19
Financial Account Balance	805	(1,263)
Net FDI in Pakistan	(25)	(96)
Net Portfolio investment	12	(989)
Net incurrence of Liabilities	(1,143)	243
Overall Balance	1,776	(553)
SBP Gross Reserve	8,596	18,027
		(Source: SBP)

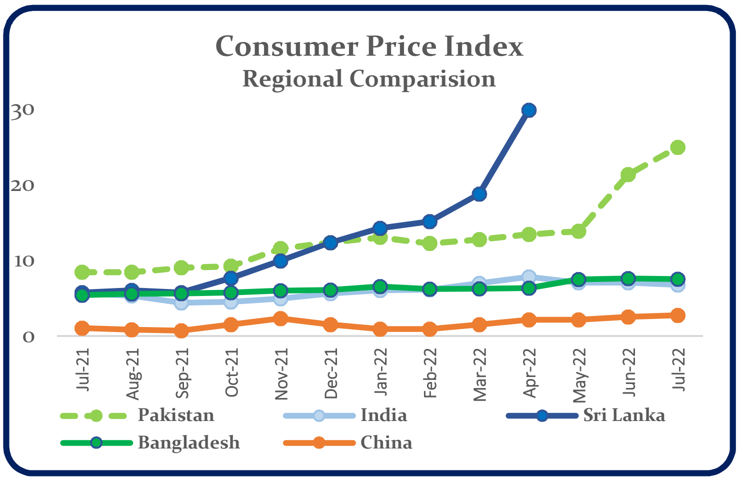


10. Regional Analysis:

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 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 27th Aug)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	24.9	220.30	(32.95)
India	6.71	79.96	(8.83)
Bangladesh	7.48	94.73	(11.57)
China	2.70	6.89	(6.68)
Sri Lanka	60.80	357.0	(78.50)

(Source: Trading Economics)



OUTLOOK:

- The acceleration in the rate of inflation is faster since the last six months. The main question is whether the rate of inflation will 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, a rise in food inflation might persist in ongoing fiscal year amidst flood situation in most of the rural parts of the country, and that must need to be evaluated by both, the Federal and the Provincial Governments.
- There is a need to design an effective policy to curb inflation. The month of July 2022 has had one of the highest ever rates of CPI, and its effect on the lower income class is even larger, with a much higher rate of inflation in food prices along with a jump in administered prices of petroleum products, electricity tariffs which also includes the fuel adjustment charges. Following that, the extremely harsh flood condition in rural areas, especially in Balochistan and Sindh, are bound to negatively impact on food supplies, in particular Fruits and vegetables in the near future.
- Annual plan targets for FY23 of GDP at 5.0%, inflation at 11.5%, and other key indicators seem 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.
- The following month of August has come up with a spate of good news. The gap in meeting the annual external financing requirements of FY23 is likely to be filled by financing and the IMF program should become functional once again before the end of August. The hard and sustained efforts by the new regime given the tough scenario needs to be fully appreciated.
- The SBP foreign reserves may increase and reach to the level of double digit billion mark in FY23, due to the additional funding Pakistan will have access to this fiscal year.. This would also depend on Pakistan adhering to the steps agreed with the IMF for the resumption of its programme.
- Tough policy measures such as the following, inter-alia, are the need of the hour;,: (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 Exports; (e) Reduce interest rate to boost Economic activity and limit debt servicing; (f) Manage External sector properly to avoid rampant devaluation of domestic currency.