# PAKONOMICS
## JULY 2021

Friday, August 27, 2021

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## HIGHLIGHTS:

- The State Bank of Pakistan (SBP) has decided to keep the benchmark policy rate unchanged at 7% in its Monetary Policy Committee (MPC) meeting for the next two months.
- Economy starts picking momentum so does the external sector vulnerabilities. The rupee has already come under pressure and shed its value by PKR 10 or 6.24% against the US dollar in just two months from June 1st till 20th August.
- Fiscal deficit estimated to 7.1% of Gross Domestic Product (GDP). Pakistan's budget deficit has been initially estimated at hovering around 7.5% of GDP against the revised target of 7% for the last FY 2020-21 mainly because of revenue shortfall and increased expenditure. However, SBP expects it will reduce to 6.3% for FY 2021-22.
- Pakistan's Large Scale Manufacturing (LSM) growth stood at 14.85% during FY 2020-21 vs. Last year. Likewise, on month-on-month basis; LSM growth surged by almost 4.36% in June 2021 compared to the previous month of May.
- The Roshan Digital Account's inflows of deposits stood at $2.004 billion till 13th of August 2021.
- According to the SBP, on month-on-month basis, Pakistan's Overseas Worker's Remittances increased by only 0.71% from $2.68 billion in June 2021 to $2.71 billion in July 2021.
- According to official statistics, FBR has collected tax revenue of PKR 413 million in first month of FY 2021-22 vs. PKR 303 million last year. This reflects FBR's tax revenue growth by 36% or PKR 110 million vs. last year.
- The foreign currency reserves held by the SBP, after accounting for debt repayments were recorded at $17.58 billion at the end period of 20th august. Decline by $47 million compared with $17.626 billion last week.
- The Broad Money (M2) stock since 1st of July to 6th August 2021 stood at a negative of PKR 576 billion vs. negative of PKR 181 billion last year.
- According to the Pakistan Bureau of Statistics ("PBS"), CPI inflation surged by 8.40% on a year-on-year basis in July 2021 vs. 9.30% last year.
- According to the PBS, country's exports plunged by 14.59% to $2.3 billion in July 2021 vs. $2.7 billion in June 2021 on a month-on-month basis.
- During first month of FY 2021-22, Pakistan's net FDI depreciated by 30.23% ($39million) to $90 million provisional as compared to $129 million last year.
- According to SBP, total Foreign Investment of the country has increased to $1,091 million during July 2021 compared to $2.4 million vs. last year in July 2020.
- The country posted a Current account deficit in the first month of FY 2021-22 which stood at $733 million.

The outlook of the economy of Pakistan is as follows;

### ➢ ECONOMY AT A GLANCE

| Economic Indicators | Period | Status | Current Year | Last Year |
|---|---|---|---|---|
| LSM | June | ↑ | 18.42% | (7.74%) |
| Total Debt and Liabilities | March | ↑ | 45.47 Trillion | 42.8 Trillion |
| Credit to Private Sector | Jul – 13th Aug | ↓ | PKR (152) Billion | PKR (125) Billion |
| Roshan Digital Account | Sept – 13th Aug | ↑ | US$ 2,004 Million | - |
| Worker's Remittances | July | ↓ | US $2.71 Billion | $2.76 Billion |
| Currency in Circulation | As of 13th Aug | ↑ | PKR 7.22 Trillion | PKR 6.40 Trillion |
| Net Government Sector borrowing | Jul – 13th Aug | ↓ | PKR (392) Billion | PKR (237) Billion |
| National CPI (Base Year 2015-16) | July | ↓ | 8.40% | 9.30% |
| FBR Tax Collection | July | ↑ | PKR 413 Million | PKR 303 million |
| Foreign Exchange Reserves with SBP | 20th Aug | ↑ | $17.58 Billion | $12.64 Billion |
| Foreign Direct Investments | July | ↓ | $90 million | $129 million |
| Trade Deficit in Goods | July | ↑ | US$ (3.10) Billion | US$ (1.67) Billion |
| Current Account Deficit | July | ↑ | $(773) Million | $532 Million |

### 1. LARGE SCALE MANUFACTURING:

According to "PBS", Pakistan's Large-Scale Manufacturing (LSM) grew by almost 18.42% in June 2021 on-year-on-year-basis. Likewise, on a month-on-month basis LSM growth stood at 4.36%, following the decline since January 2021. Overall growth in LSM stood at 14.85% during Fiscal year 2020-21 compared to a negative growth of 10.17% in the Fiscal year 2019-20.

Out of 15 industries that are part of LSM segment, 10 posted a surge in production during last financial year under review. These include textile, food, beverages and tobacco, coke and petroleum products, pharmaceuticals, chemicals, non-metallic mineral products, automobiles, iron and steel products, fertilizer and paper and board. However, the output in electronics, leather products, engineering products, rubber products and wood products decreased during the year under review compared to the preceding year, data from PBS revealed.

To take a deep look inside the increased industrial output, which was once again on the rise on the back of domestic consumption instead of export-led growth. Our import payments and trade deficit (higher import payments compared to export earnings) kept surging on the back of the local consumption. According to "SBP" the 13.72% growth in export earnings in FY21 that increase remained largely limited to the textile sector, which alone attracted around 56% of the total export earnings of the country during the previous fiscal year.

| LSM (%) | Weight | June-21 | May-21 | June -20 | July-June 2020-21 | Y/Y growth Cumulative |
|---|---|---|---|---|---|---|
| **Textile** | **20.92** | 11.82 | 48.25 | (6.78) | 15.31 | **3.98** |
| **Food, Beverages & Tobacco** | **12.4** | 1.98 | 14.45 | 23.14 | 11.01 | **2.38** |
| **Coke & Petroleum Products** | **5.5** | 38.93 | 4.15 | (9.81) | 18.05 | **0.96** |
| **Non-Metallic Mineral Products** | **5.4** | 32.60 | 48.40 | 19.91 | 26.66 | **3.31** |
| **Iron & Steel Products** | **5.4** | 32.93 | 39.74 | (21.18) | 15.58 | **0.58** |
| **Automobiles** | **4.6** | 88.91 | 409.37 | (30.01) | 51.06 | **2.17** |
| **Fertilizers** | **4.44** | 9.95 | 13.27 | (7.98) | 7.23 | **0.47** |
| **Pharmaceuticals** | **3.6** | 10.82 | 15.18 | 23.64 | 12.03 | **1.01** |
| **Paper & Board** | **2.3** | 4.89 | 14.77 | (4.21) | 3.35 | **0.13** |
| **Electronics** | **2** | 10.58 | 283.09 | (63.02) | (4.43) | **(0.14)** |
| **Chemicals** | **1.7** | 24.53 | 28.94 | 5.32 | 19.19 | **0.48** |
| **Leather Products** | **0.9** | 24.35 | 64.77 | (44.01) | (26.45) | **(0.37)** |
| **Engineering Products** | **0.4** | 5.12 | 88.39 | (34.20) | (15.37) | **(0.03)** |
| **Rubber Products** | **0.3** | (25.39) | (25.42) | 1.56 | (14.99) | **(0.08)** |
| **Wood Products** | **0.6** | (53.73) | 126.52 | (41.55) | (39.35) | **0.00** |
| **LSM Growth for June 2021 (Y/Y)** | | | | | | **18.42%** |
| **LSM Growth for June 2021 vs. May 2021(M/M)** | | | | | | **4.36%** |
| **LSM Growth for July-June 2021 (Y/Y)** | | | | | | **14.85%** |

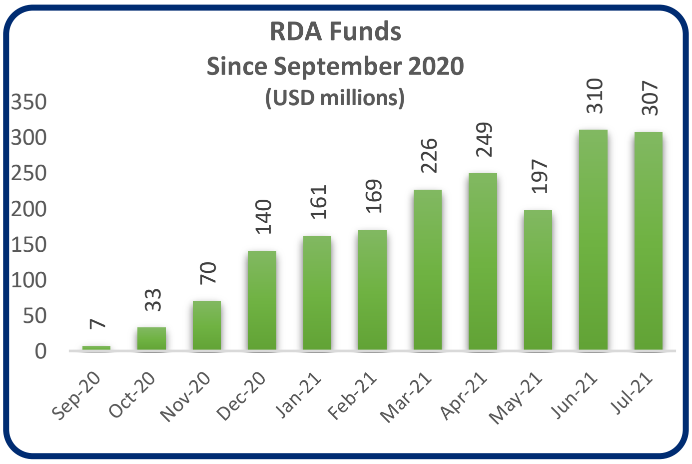
*(Source: PBS)*

## 2. ROSHAN DIGITAL ACCOUNT:

"Cumulative deposit inflows under the Roshan Digital Account (RDA) have crossed $2 billion in less than 12 months (till 13th of August)", State Bank of Pakistan said in a tweet. The RDA has been achievement of the SBP, encompassing 175 countries and 199,774 accounts till July 2021.

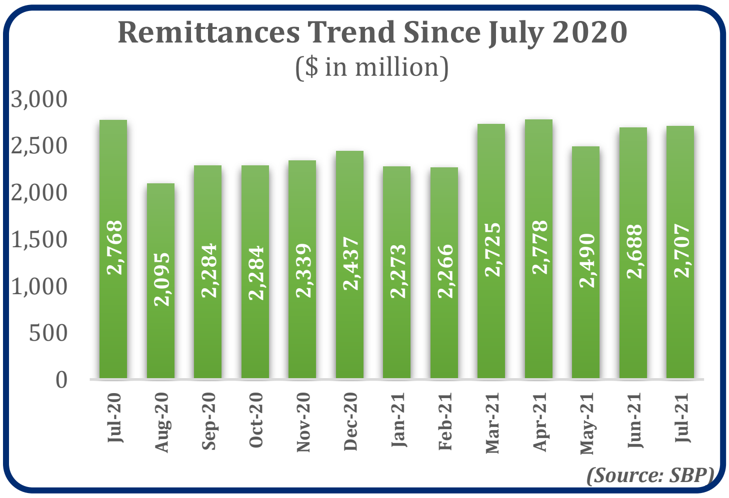
| Roshan Digital Account (USD in Millions) | Cumulative Position | Jul-21 | Jun-21 |
|---|---|---|---|
| | (Provisional) | | |
| **Funds Received** | **1,869** | **307** | **310** |
| **Naya Pakistan Certificates** | **1,278** | **228** | **233** |
| Conventional | 763 | 142 | 156 |
| Islamic | 515 | 86 | 77 |
| **Others** | **573** | **77** | **74** |
| **Stock Exchange** | **18** | **2** | **3** |

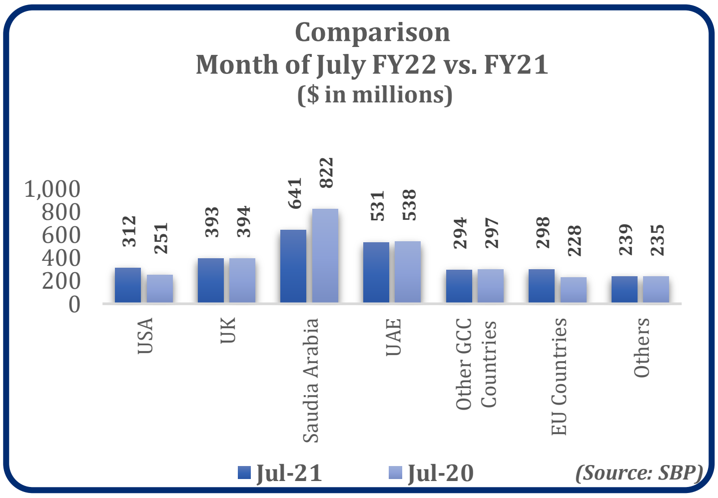
*(Source: SBP)*




## 3. WORKER'S REMITTANCES:

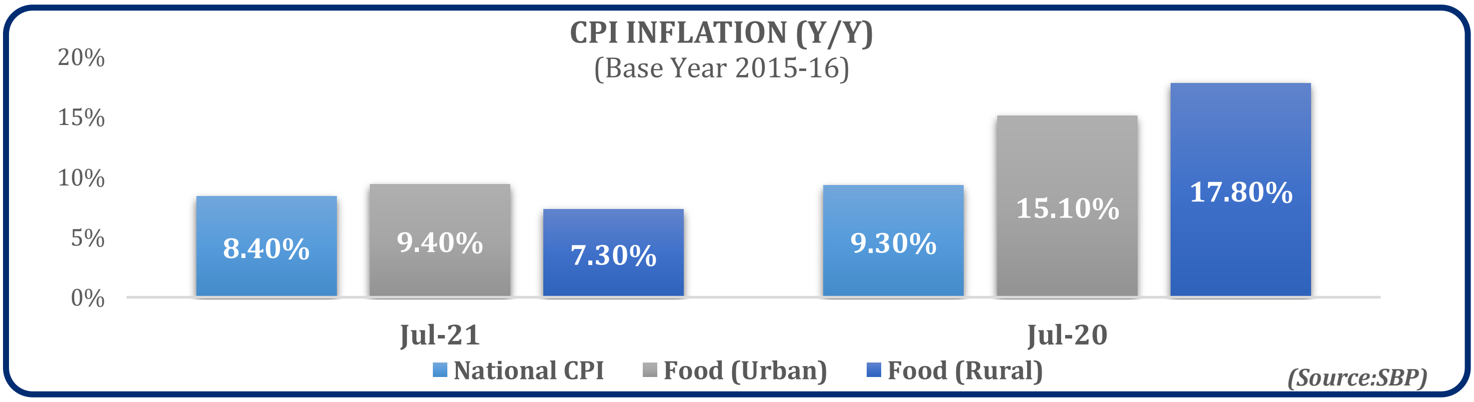
According to the SBP, Pakistan's Overseas Worker's Remittances surged by 0.71% to $2.71 billion in July 2021 vs. $2.69 billion in June 2021 on-month-on-month basis. However on YoY basis, dropped slightly by 2.1% compared to $ 2.76 Billion received a year ago in July 2020. "This marginal YoY decline was largely on account of Eid-ul-Azha, which, resulted in fewer working days in July 2021 compared to last year", SBP said in a statement on remittances. This was the sixth month in the past 13 months when the inflows of remittances sent home by overseas Pakistanis remained over $2.5 billion. Moreover, flows also continued their exceptional streak, remaining above $2 billion for a record 14th straight month making the much needed finances available to pay for increasing import which is a must to achieve the planned higher economic growth. Our descriptive analysis revealed that remittances inflows during July 2021 were mainly sourced from four major territories including Saudi Arabia, UAE, UK, and the USA. With 23.67% share in overall home remittances inflows, Saudi Arabia remained the largest contributor. However, Remittances inflow from Saudi Arabia plunged by 4% to $641 million in the first month of FY22 on MoM basis. Some $312 million arrived from the US, showing increase nearly 12%. Worker remittances from the UK also surged by 4.54%. While UAE remittance growth stood at a negative of 2.43%. Pakistan received remittances amounted to $393 million from the UK and $531 million from the UAE in July 2021.



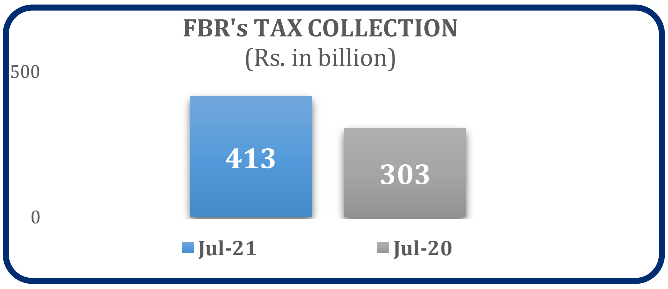




## 4. CONSUMER PRICE INDEX ("CPI") INFLATION:

National CPI inflation clocked at 8.4% in July 2021 on year-on-year basis. The overall number is falling. However, the monthly recording is higher than expected. It is the high base affect that is making the yearly number low. On monthly basis, the CPI grew by 1.34%. Similarly Food inflation, urban and rural both rose by 1.5% and 1.6% respectively vs. the month of June 2021. That growth needs to be abated. It is essentially; perishable food items that is driving the monthly extension. Apart from food (mainly linked to domestic supply chain), the upside risks to inflation are currency depreciation and possible passing of increasing oil prices to the consumers.



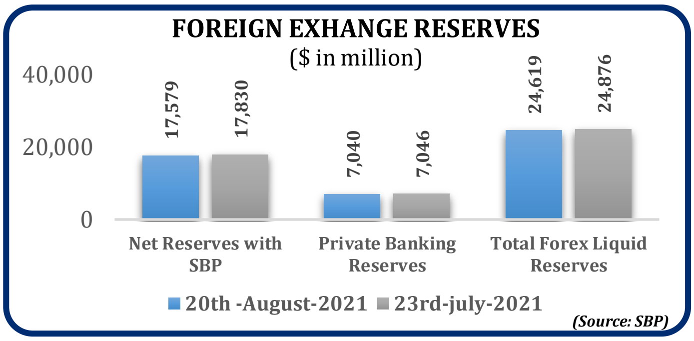

## 5. TAX REVENUE COLLECTION:




According to FBR's official statistics, FBR provisionally collected tax revenue of PKR 413 million in the first month of Fiscal year 2021-22 vs. PKR 303 million last year. FBR's tax revenue grew by 36% or PKR 110 million vs. last year. FBR surpasses its monthly tax revenue target by 71 million. Out of the Rs413 billion, FBR collected Rs210 billion at the import stage, which was equal to 51.3% of the total monthly collection.

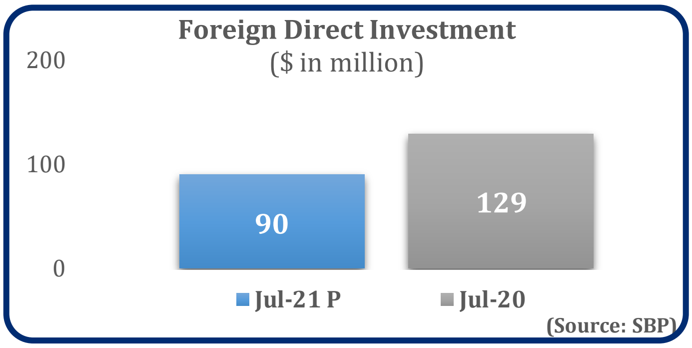
## 6. FOREIGN EXCHANGE RESERVES:

SBP reserves stood at $17.58 billion as of 13th August 2021. On a weekly basis, country's forex reserves had been declining by $47 million or 0.27% from $17.626 billion in the previous week due to debt repayments. Mixed trend has been recorded since 16th of July 2021. "SBP received IMF SDR allocation of $2,752 million, which will be reflected in the data to be published on September 2, 2021" says SBP.

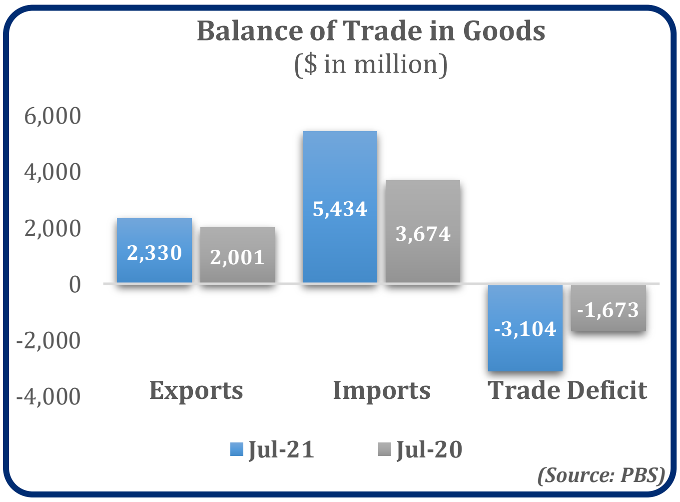



## 7. FOREIGN DIRECT INVESTMENT:

During the first month of Fiscal year 2021-22, Pakistan's net FDI depreciated by 30.23% or $39 million to $90 million provisional as compared to $129 million last year. Key reason behind the 30% drop in net direct investment was a 116% increase in outflows that reached $86.4 million last month. According to SBP, total Foreign Investment of the country has increased to $1,091 million during July 2021 compared to $2.4 million last year vs. July 2020.




## 8. BALANCE OF TRADE IN GOODS:




According to the PBS, country's exports plunged by 14.59% to $2.3 billion in July 2021 vs. $2.7 billion in June 2021 on a month-on-month basis. While on YoY basis, it appreciated by 16.44% vs. $2 billion last fiscal year.

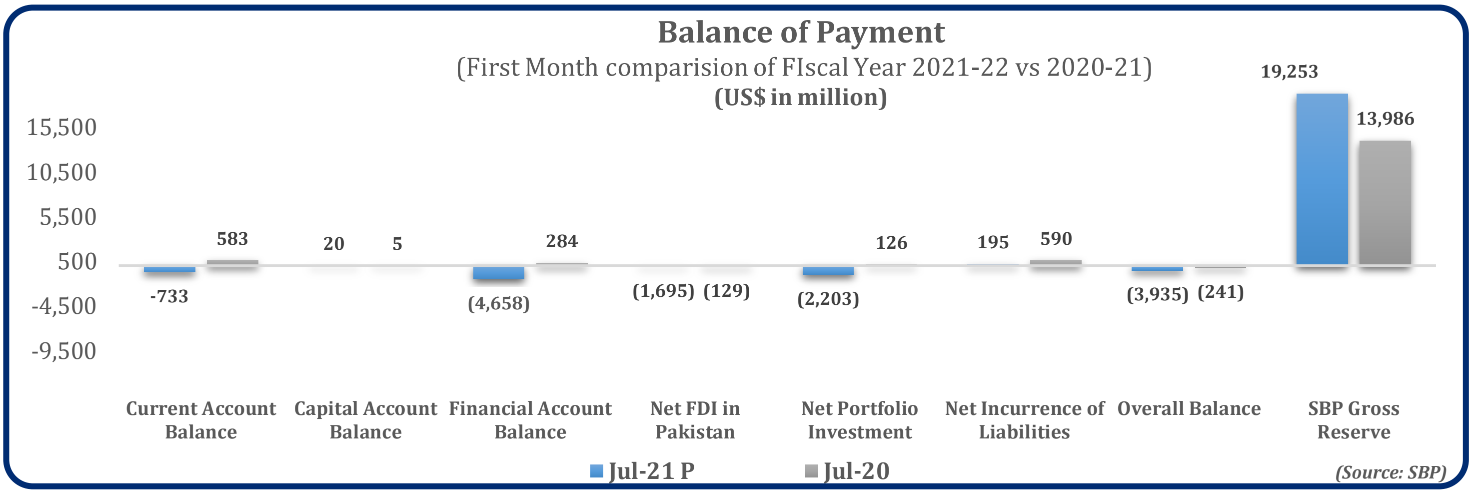
However, country's trade deficit widened by 85.53% to $3.1 billion during the month of July of FY22 compared to $1.6 billion during the same period of FY21, says PBS.

The trade gap could put some pressure on the country's balance of payment and exchange rate in months to come. Whereas, Ministry of Commerce said on the month wise status of foreign inflows and outflows, "Exports would pick up in the coming months on the back of additional incentives given to exporters"

## 9. BALANCE OF PAYMENT:

| ($ in million) | July 2021 (Provisional) | June 2021 (Revised) |
|---|---|---|
| **Current account Balance** | **(733)** | **(1,619)** |
| **Capital Account Balance** | **20** | **25** |
| **Financial Account Balance** | **(1,486)** | **(3,201)** |
| **Net FDI in Pakistan** | (96) | (128) |
| **Net Portfolio investment** | (990) | (573) |
| **Net incurrence of Liabilities** | **195** | **2,160** |
| **Overall Balance** | **(533)** | **(1,618)** |
| **SBP Gross Reserve** | 19,253 | 18,716 |

Pakistan's Current Account Deficit (CAD) remain elevated at $773 million in the first month of FY 2021-22 compared to a surplus of $583 million in the same month of last year. However, the July deficit is less than half the deficit of $1.62 billion in June 2021 decreasing by almost 55%. "This deficit is in line with SBP's expectations of a current account deficit of 2-3% of GDP (gross domestic product) as economic activity continued to progress," the SBP said on its official Twitter. Rapid increase in imports was the real reason for CAD in July 2021, the SBP data showed. The imports bill jumped to $5.396 billion in the first month compared to $3.557 billion in the same month of FY 2020-21. Exports also increased, but not very significant, to $2.257 billion in July compared to $1.885 billion in July 2020. The data revised by the SBP on last Friday showed that the country's current account had been in deficit since December 2020. In January it was $229m, $50m in February, $47m in March and $188m in April, but in May it widened to $650m and surged to $1.6 billion in June, resultantly the country ended the FY 2020-21 with CAD of $1.827 billion. Growth in the economy should have largely come from export-oriented sectors instead of import-dependent ones, so that our current account and balance of payments remain favorable.




## 10. OUTLOOK:

- The share of import taxes and duties in total revenue sharply rose to 51%, which has put more burden on people who have less capacity to pay. It may cause inflationary pressure in the economy, as taxes paid at the import stage are usually recovered by increasing the prices. These import taxes are also causing an increase in prices of electricity and petroleum products.
- The country's forex reserve position is expected to continue to improve this year due to the adequate availability of external financing, including $2,752 million from the IMF because of its new global special drawing rights allocation.
- The fall in the rate of inflation according to the CPI is not visible in the WPI. The Wholesale Price Index (WPI) has actually shown a higher rate of increase since April 2021 when it was 16.6%. It now stands at 17.3% in July. However, there is usually a lag in the transmission from wholesale to retail prices which might cause rise in CPI in coming month. High base effect might be another reason.
- Looking forward, real test is CAD SBP had projected deficit hovering around 2-3% of GDP, equivalent to $6 to $9 billion. It will depend upon how the prices of oil and lubricant (POL) and other imports would remain and the CAD might be standing at $9 to $10 billion in FY 2021-22, which possess risk that needs to be curtail.
- Overall, there is a strong likelihood that the rate of inflation in the CPI will start rising once again. Similarly, due to external debt servicing, a rising import bill, and the outflow of capital which resulted in depreciation of the rupee, which lead to fuel imported inflation. The government will need to take strong administrative and policy measures if the rate of inflation is to be restricted to a single-digit rate in 2021-22.