

## Global Economic Outlook

- Russo-Ukrainian War, sanctions, and inflation have led the countries to shift towards **coal-based energy** generation. It will increase carbon emission and exacerbate the climate crisis.
- **Euro drops to 20-year low**, approaches parity with dollar (1USD=1Euro). The effect on trade will be relative i.e. **increasing the cost** of American goods sold in Europe while making European goods **cheaper** in the U.S.
- According to the Oil Market Report 2022, the price of oil has **declined by \$10** in a single day.
- In June-July 2022, there has been surge in fuel prices, exchange rate depreciation against USD, loss of consumer confidence, and decline in foreign exchange reserve.

## Pakistan's Economic Performance

- Major economic indicators have shown a declining trend due to Russo Ukrainian War and increase in commodity prices. With government interventions and reforms it will take time to stabilize.
- SECP has approved approximately around 41,000 new companies which shows a positive signs in the economy.

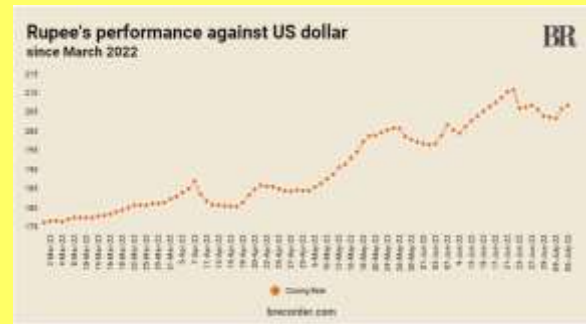
## Inflation

- According to the PBS, the average inflation rate remained **12.15%** for Jul-June 2021-22, driven by costlier oil, food and weakening rupee. However, the current inflation rate report is **21.32%**.
- ECC approved the increase in Gas price by 335 percent which will generate PKR 666 billion in revenue, however this will make production expensive.

## Exchange Rate

Pak rupee fell for the second consecutive time against the US dollar, closing near the 208 level in the inter-bank market. **1USD=PKR208**.

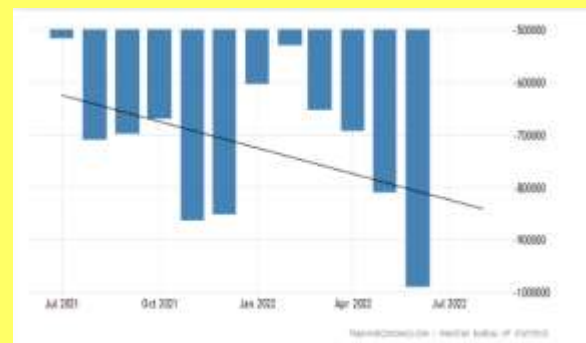
*Figure 1: Exchange Rate Trend*



## Trade

- The **trade deficit** as of July-May 2021-22 remained at **\$36.2 billion**. The total exports were \$29.3 billion while the imports were around \$65.5 billion. (Ministry of Finance).
- IMF reaches staff-level agreement to release \$1.17 billion funds for Pakistan (14 July 2022)
- Roshan Digital Account inflows increased to a 3-month high of \$250 million in June, up 32% compared to May. Total inflows have now crossed **\$4.6bn**. (State Bank of Pakistan).
- APTMA said that over 300 textile Mills have been shut down since June-2022 due to cut in gas supply. It has urged the federal government to restore gas supply to the industry on an urgent basis, saying that the exports have already been hurt by a **loss of more than \$1 billion so far**.

*Figure 2: Trade Trends*



## Energy

There is an increase in the price of petrol to **PKR 248.74**, which is the **fourth time** since May 2022.

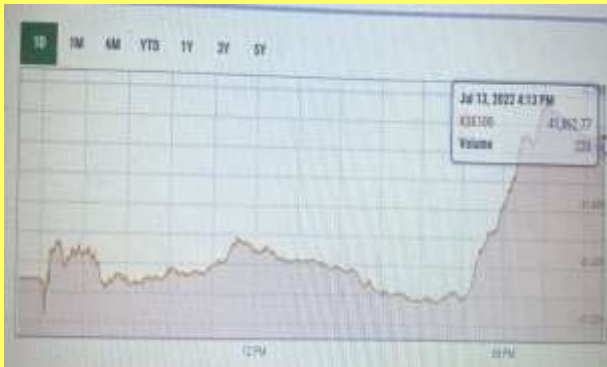
## Debt

The total external debt of Pakistan is **expected to be \$118 billion** by the end of this quarter. The increase is due to devaluation and interest payments.

## Stock Market

Pakistan Stock Exchange showed a bullish trend. It closed at **41862.77 points**. The investor confidence is improving due to IMF deal. (PSX 13 June). Pakistan Stock Exchange (PSX) witnessed a mixed session as a combination of buying and selling pressures kept the benchmark KSE-100 index in a narrow range for first week of July 2022. Although the benchmark index remained under pressure, it still closed with a **marginal gain** after two times in the red.

*Figure 3: Stock Market Trend*



## Proposed Way Forward

- There is an increase in policy rate by 15%, to curb the inflation. With IMF requirement the SBP is proactive. The interest rate may increase further to control inflation and increase saving. The higher interest rate causes increase in debt servicing and overall increase in internal debt.
- The government has decreased the budget allocation for the Armed Forces Development Budget by nearly 20% to fulfill a longstanding

demand of the IMF. However, it may increase procurement costs.

- The government has announced the 100 unit free electricity program which may further widen the trade deficit as most of the electricity is generated from imported oil.
- The Marshall-Lerner condition (depreciation of currency leads to increase exports) does not apply in case of Pakistan's economy because;
  - Exports of differentiated products grow more slowly when the real effective exchange rate depreciates than they fall when it appreciates.
  - There is a less response to depreciation than appreciation of the products having relatively greater supply constraint.
  - The depreciation of Effective Exchange Rate (EER) has a marginal impact on exports volume of the country.
- The government may revise its tax policies, especially the tax on IT exports. It may be revised to boost the exports.

## Sources

*The data & information has been collected from Business Recorder, MoF, Bloomberg, SBP, PBS, Oil Market Report 2022 and The News.*

## Note

*The Islamabad Policy Research Institute-IPRI has started Economic Security Program that will issue a fortnightly economic snapshot of the economy. This may help in better understanding the key indicators and forecast.*

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