IPRI Islamabad Policy Research Institute
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Fortnightly Economic Snapshot
(15-31 July 2022)
Islamabad Policy Research Institute

GLOBAL OUTLOOK

- De-dollarizing mutual trade: Iran and Russia have taken significant steps for **removing the U.S. dollar from their bilateral trade**, launching a settlement system to use their national currencies in economic exchanges.
- Brazil increased its interest rate **13 times**, causing the cost of borrowing to the highest level of decade. Yet there's **no evidence of reduction in inflation so far**.
- Saudi Arabia's gross domestic product rose by **11.8%** in the second quarter compared with the same period in 2021, according to initial government estimates, as the world's top **oil exporter benefits** from higher energy prices.

PAKISTAN'S ECONOMIC PERFORMANCE

- The FBR's report on tax exemptions revealed that the Russian Federation tops the list with an estimated **14.8 percent** of its GDP as tax expenditure, while India is at the other extreme with only 0.4 percent of GDP as a tax expenditure while **Pakistan ranked 19th** on the list, with an estimated **2.8 percent** of its GDP in terms of tax expenditure.
- According to WB report, the **average household income** in Pakistani has grown by **67 percent** as compared to 42.97 percent expenditure growth from 2001 to 2018 and during the same period the household expenditure increase by **42.97 percent.**
- **The performance of Pakistan's economy in the month of July 2022 is as;**
  - Interest rate went up by +9.1%
  - Inflation (CPI) went up by +18.3%
  - CAD (June) went up by +59.1%
  - PKR went down by -16.9%
  - WTL Crude went down by -5.4%
  - KSE100 went down by -3.3%

INFLATION

According to the PBS, the inflation rate (MoM) increased by **4.35%** for July 2022, driven by costlier oil, food and weakening rupee. However, the current inflation rate (YoY) report is **24.93%**.

Figure 1: Inflation rate Trend

EXCHANGE RATE

Pak rupee fell for the second consecutive time against the US dollar, closing near the 239.0 (*31July 2022*) level in the inter-bank market. **Pak rupee appreciated by Rs. 13. **1USD=PKR228.66.** (*4 August 2022*)

TRADE

- According to PBS, Pakistan's oil import bill surged by **105.31 percent** to reach a record high of **$23.318** billion during July-June 2021-22 (FY22) compared to **$11.357 billion** in the same time period of last year. While MoM basis Pakistan's current account deficit has narrowed **35 percent** and the import bill stood at just **$5 billion** in July, compared to $7.7 billion in the previous month.
- The Global e-commerce market is growing at a very fast pace, Pakistan's e-commerce market was projected to cross **$7 billion** in 2022 and around **$9 billion** by 2025.
- Pakistan's Exports contracted by **5.17% YoY**, while Imports fell by 12.81% in the same period. As a result, trade deficit **declined** by **18.33%** to US$ 2642 Million.

Figure 3: Trade Balance (July 2022)

Sources: The data & information has been collected from Business Recorder, MoF, IMF, SBP, PBS, and The News.

ENERGY

- The price of petrol have been **decreased** by **Rs. 3.05 per liter,** while the price of diesel (HSD) have been **increase** by **Rs. 8.95 per** liter. The new prices of petrol and diesel will be Rs. 227.19 per liter and Rs. 244.95 per liter respectively.
- The government has approved a **Rs. 30 billion** grant to Pakistan State Oil (PSO) to avoid disruption in oil supply, amidst tight economic conditions.
- DISCOs lost more than **Rs. 2.8 billion** due to short recovery of bills in more than **430,000 cases** of electricity theft during FY21-22.

STOCK MARKET

Pakistan's Stock Market still shows a bearish trend in the month of July 2022. PSX stood at **40182.10 points** (31st July 2022). As of 4th August 2022 the PSX stood at **41393.89 points.**

Figure 4: Stock Market Trend

PROPOSED WAY FORWARD

- The power sector of Pakistan has been badly incapacitated by the grave issues of circular debt i.e. Rs. 2.467 trillion, which is reflected in the continuous electricity tariff hikes and skyrocketing fuel price adjustments. Such issues cannot be completely resolved without political well and government initiative, but steps can be taken to improve supply chain management and ensure that the government recovers its past debts from consumers so as to improve the financial health of DISCOs.
- State Bank of Pakistan has 'discouraged' currency trade amid rupee depreciation, political instability and a rebound in oil prices. This has led Pakistani investors to sell their stocks.
- Fitch has revised Pakistan's 'B' Long-Term Foreign-Currency to 'B-', reflecting the agency's view that the current political tensions and economic weakness make it increasingly unlikely that the government will be able to offset next year's sharp increase in financing needs by accelerating tax reform. Similarly, S&P Global rating Agency changed Pakistan's outlook to negative. This will further worsen the situation of Pakistan's economy.
- Solar energy storage power solutions need to be created for households, with which they can utilize solar energy. Solar panels must not be imported but manufactured locally at zero GST which will create jobs.
- Pakistan is listed as among a dozen countries in danger of default, with a warning to curtail non-essential imports by 20% or face the consequences. While this may seem drastic, petrol rationing for non-commercial vehicles may be needed.
- It seems that the textile industry will have to face serious challenges due to the reduction in international cotton prices by 40 percent. They could easily face a reduction in textile exports (value-wise) as well.
- Pakistan's foreign currency reserves held by the State Bank (SBP) are less than $8 billion USD, with an additional $6 billion within the private banking system. This means, at $4 billion of imports per month, there are less than 2 months of reserves with the SBP.
    - Therefore, if an external infusion of foreign funding doesn't come through, the country might, it is argued, not have enough dollars to service its international obligations.
    - Pakistan has attained a Staff-Level Agreement from the IMF, but the Fund is demanding very difficult policies (tight fiscal policy in energy and other subsidies). It is also demanding, bizarrely so, that external partners (Saudi Arabia) also extend credits. These types of shenanigans by the IMF are certainly politically motivated.
    - Meanwhile, political infighting and wrangling is taking everyone's attention away from the economic priorities, which are both urgent and

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important. The political instability since April 2022 is costing Pakistan greatly.

Dr. Aneel Salman, Chair, Economic Security-IPRI

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