Chapter 1
Economic Review

1 Economic Review

1.1 Overview

After witnessing a Covid-led downturn in FY20, Pakistan's economy rebounded during FY21, with real GDP growth rising to 3.9 percent (**Table 1.1**). This growth was achieved without the widening of the twin deficits. The current account deficit (CAD) dropped to a 10-year low and contributed to the build-up in the foreign exchange reserves. The fiscal deficit edged down despite the Covid-related spending, allowing for a reduction in the public debt-to-GDP. Some easing was also noted in the headline CPI inflation on the back of stable core inflation, though overall price levels, especially of food items, stayed elevated owing to supply-side challenges.

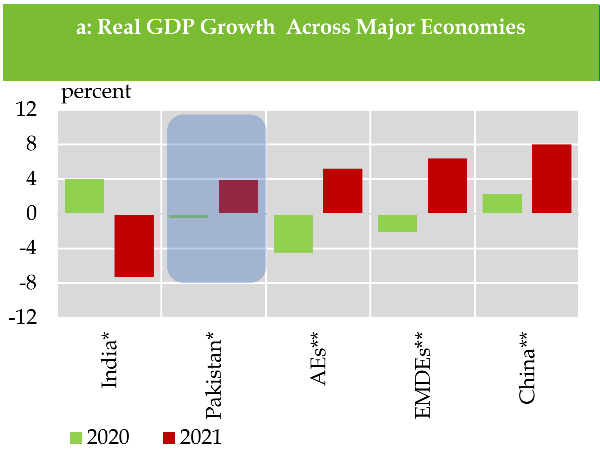
Pakistan also fared well compared to many other countries in terms of real economic activity, exports and public debt accumulation during July 2020-June 2021 (**Figure 1.1**). This performance was enabled by two major factors: (i) the country's success in navigating through multiple waves of Covid-19 with targeted mobility restrictions; and (ii) a prompt, well-coordinated and targeted monetary and fiscal response, aimed at countering the impact of Covid on economic growth and livelihoods.

Selected Economic Indicators **Table 1.1**

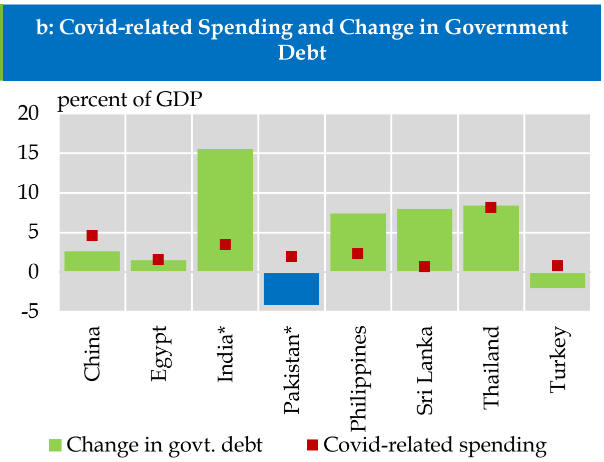
	FY19	FY20	FY21
Growth rate (percent)*			
Real GDP [a]	2.1	-0.5	3.9
Agriculture	0.6	3.3	2.8
Industry	-1.6	-3.8	3.6
o/w LSM	-2.3	-9.8	14.9
Services	3.8	-0.6	4.4
CPI (period average)[a]	6.8	10.7	8.9
Private sector credit [b]	11.6	2.9	11.2
Money supply (M2)[b]	11.3	17.5	16.2
Exports [b]	-2.1	-7.1	13.7
Imports [b]	-6.8	-15.9	23.3
Tax revenue –FBR [c]	-0.3	4.4	18.4
Exchange rate (+app/dep%)[b]	-24.1	-4.8	6.7
Policy rate [b]	12.25	7.0	7.0
billion US dollars			
SBP's reserves (end-period) [b]	7.3	12.1	17.3
Workers' remittances [b]	21.7	23.1	29.4
Current account balance [b]	-13.4	-4.4	-1.9
percent of GDP			
Fiscal balance [d]	-9	-8.1	-7.1
Current account balance	-4.8	-1.7	-0.6
Investment [a]	15.6	15.3	15.2

* The numbers relating to real GDP growth rate and its sub-components for FY19, FY20 and FY21 represent final, revised, and provisional estimates respectively.
Sources: [a] Pakistan Bureau of Statistics; [b] State Bank of Pakistan; [c] Federal Board of Revenue; [d] Ministry of Finance

GDP Growth and Debt Accumulation Amid Covid **Figure 1.1**



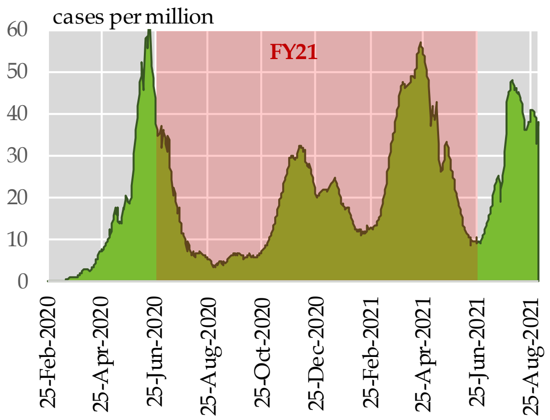
*Fiscal year basis for Pakistan & India
**Projected growth of 2021 on calendar-year basis
Source: IMF & Pakistan Bureau of Statistics



*Fiscal year basis for Pakistan & India; projections of calendar year 2021 for all others.
Source: IMF Fiscal Monitor & State Bank of Pakistan

Pakistan successfully navigated through two waves of the pandemic during FY21 without imposing wide-scale shutdowns of industry and services. The authorities' focus on strict implementation of SoPs, smart lockdowns and contact tracing helped contain the spread of the disease, especially during the third wave (**Figure 1.2**). Notably, Pakistan ranked among the best performing countries for its effective handling of Covid-19.[1] Furthermore, the initiation of Covid vaccinations from March 2021 onwards and the gradual pickup in its pace and coverage, together with supportive economic policies, helped sustain the economic momentum.

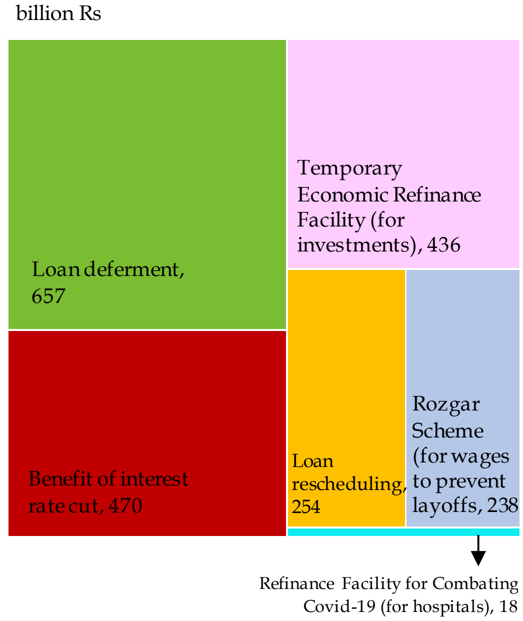
Pakistan: New Covid Cases **Figure 1.2**



Source: ourworldindata.org

In terms of policy stimulus, the SBP provided aggressive liquidity support via multiple policy tools after the outbreak in March 2020, which stood around 5 percent of GDP by the end of FY21. Refinance schemes were introduced to shore up employment and the healthcare system, and to stimulate long-term investment in the economy (**Figure 1.3**). Specifically, the Rozgar Scheme provided payroll support to businesses so they could retain their workers, and was instrumental in getting firms to restart their operations immediately after the reopening of the economy. In the same vein, the loan deferments and restructurings enhanced the liquidity position of firms and consumers, which helped prevent delinquencies. Meanwhile, the Temporary Economic

Estimated Liquidity Impact of SBP's Major Relief Measures (as of June 30, 2021)* **Figure 1.3**



* The overall size of SBP support is Rs 2,073 billion.
Source: State Bank of Pakistan estimates

Refinance Facility (TERF) would shore up the long-term productive capacity in the economy. The SBP maintained an accommodative monetary stance, by keeping the policy rate unchanged during FY21, after a sharp 625 bps reduction during Mar-Jun 2020.

Importantly, SBP liquidity support sheltered both small and big businesses. Specifically, for the loan deferment and restructuring package and the Rozgar scheme microfinance institutions had about 94.1 percent and 74.4 percent share in the total applications approved by SBP, and constituted around one-fifth share in the actual benefits availed by businesses from these schemes.

In addition to the monetary stimulus, the SBP undertook other policy initiatives to bolster economic activity. These included: (i) measures to boost digitization in the economy amid Covid-related mobility restrictions; (ii) relaxing credit requirements for exporters and importers; and (iii) incentivizing housing and construction finance; and (iv) adopting forward guidance as a tool to communicate

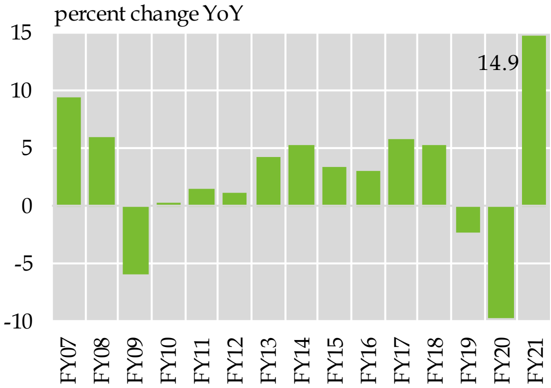
[1] Global Normalcy Index, *The Economist* (www.economist.com).

future monetary policy stance, to address Covid-related uncertainty and to facilitate economic decision-making.

Similarly, the government provided targeted fiscal support of around 2 percent of GDP through the Economic Stimulus Package (ESP), envisaging a coverage of more than 15 million families through emergency cash transfers. Importantly, Pakistan's emergency cash intervention was recognized as a global success and was ranked fourth in terms of the number of people covered, and third in terms of the share of population.[2] The ESP also included targeted incentives to buttress activity in agriculture, manufacturing and export sectors during FY21.

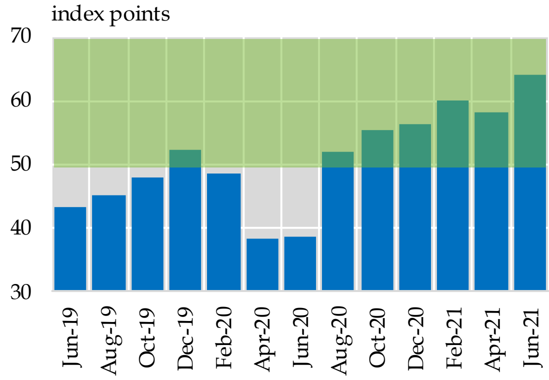
The agriculture sector gained further from the substantial increase in the minimum support price (MSP) of wheat, as well as from subsidized availability of inputs and machinery. Furthermore, the cost of production for manufacturing firms, especially export-oriented units, was reduced via a rationalization of duties on imported raw materials and elimination of peak-hour power tariff rates. The export sector further benefitted from the fast-tracking of GST refunds. To spur construction activity, the government extended the timelines to avail benefits under the amnesty scheme till June 2021, whereas the SBP implemented

Annual LSM Growth in Pakistan **Figure 1.4**



Source: Pakistan Bureau of Statistics

Trend in Business Confidence in Pakistan **Figure 1.5**



Source: State Bank of Pakistan

mandatory targets for banks to provide construction financing.

These policy efforts proved instrumental in driving the sharp recovery in real GDP growth in FY21, exceeding expectations. The growth was broad-based, with major shares from industry, and wholesale and retail trade services. Led by the conducive supply and demand dynamics as well as a low base effect from Covid-led contraction last year, large-scale manufacturing (LSM) posted a 14.9 percent increase, with production in some key industries, such as textiles, food, cement, fertilizer and chemicals, exceeding the peaks recorded during the high-growth years of FY17-FY18 (**Figure 1.4**). Construction activity benefitted from policy efforts as well as pent-up demand from previous years. The enabling policy environment also boosted business confidence during FY21 (**Figure 1.5**). Aside from the policy support, a surge in workers' remittances and sharp increase in production of important crops strengthened rural incomes adding further impetus to consumer demand.

Though the growth in agriculture was slightly lower than last year, it was at par with the target set for the year. Specifically, the production of wheat, rice and maize rose to historic levels during FY21, while sugarcane reached its second-highest level. The cumulative increase in the production of these crops offset the sharp decline in cotton

[2] Poverty Alleviation and Social Safety Division: (www.pass.gov.pk/NewsDetailWerFf65%5ES23d$gH2a3c9cbf-2f66-47d3-a386-4ce516d8bdc30ecFf65%5ES23d$Pd).

production. The improvement in the commodity-producing sectors and a surge in imports drove wholesale and trade services growth to a 14-year high in FY21.

This rebound in economic growth was facilitated by a significant expansion in credit offtake by the private sector. The demand for fixed investment loans was high, and these rose close to the levels seen during the previous high-growth years of FY17-18. The SBP's concessionary refinance schemes, particularly for long-term investment under the Temporary Economic Refinance Facility (TERF), played a major role in increasing the fixed investment loans. The textile sector was the largest beneficiary of this scheme, followed by the food industry. Moreover, the lower cost of financing significantly increased consumer financing in FY21, with auto loans witnessing a sharp rise, supported by high demand owing to new car models, postponed purchases from last year, and subsidy on tractors. The working capital loans also recovered during FY21, with sizable demand witnessed from the non-manufacturing sector, agriculture, power, and wholesale and retail trade. Meanwhile, mandatory targets from the SBP and lower cost of financing stimulated housing and construction loans.

With the revival in private sector credit, the growth in money supply remained elevated during FY21, though it was marginally lower than last year. The government's borrowing from the banking system reduced slightly, amidst greater availability of external financing. The government adhered to its commitment of zero borrowing from the SBP, switching the financing requirement to commercial banks. The net foreign assets (NFA), on the other hand, grew sharply, given the favorable position of the external account and the ensuing build-up in the FX reserves.

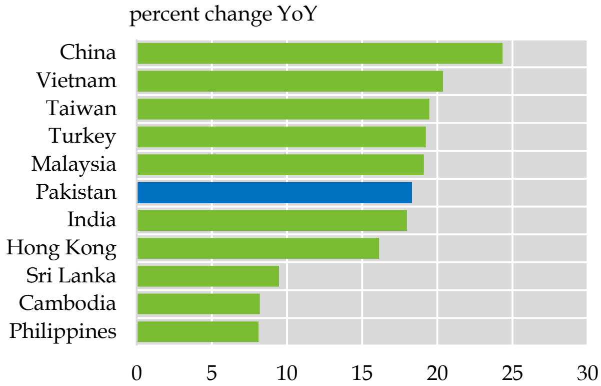
The overall credit and financial market conditions were made further conducive by the issuance of forward guidance by the SBP in the January 2021 Monetary Policy Statement. The guidance provided comfort about the continuation of the current monetary policy settings in the near term, in the absence of any unforeseen adverse developments. This guidance was reinforced in the subsequent MPC meetings, which helped ease secondary market yields, leading to increased participation in the auctions for medium- and long-term instruments. Specifically, market participation in fixed-rate PIBs increased during Q4-FY21, after remaining lackluster till Q3.

It was this prudent mix of policymaking which resulted in the economic recovery, without leading to a worsening in the macroeconomic imbalances. First, the external account improved considerably during FY21, as the current account deficit fell to a 10-year low of US$ 1.9 billion and the SBP's FX reserves rose by US$ 5.2 billion during the year. This encouraging outcome was achieved due to a surge in workers' remittances and export receipts, along with the availability of external financing from the IMF and other creditors, inflows into the Roshan Digital Accounts, and the issuance of Eurobonds, after a gap of three years. In addition to capturing some deflected orders from competitors amidst Covid-related lockdowns there, the policy focus was on improving export competitiveness on a sustainable basis – by the continued adherence to the market-based exchange rate system; provision of subsidized inputs via reduction in power tariffs, lower duties on imported raw materials and concessionary credit; and the fast-tracking of GST refunds. Pakistan's export performance during July 2020-June 2021 was quite prominent, as compared to other major global exporters (**Figure 1.6a**). This was evident particularly in case of high value-added textiles, where Pakistani exporters managed to increase their market share in the major destinations (**Figure 1.6b**).

In effect, the FX receipts from these sources partially offset a significant increase in the import payments. The upswing in economic activity; supply-side challenges across wheat, sugar and cotton; and elevated international commodity prices, all contributed to the

Export Growth of Major EMs during July 2020-June 2021

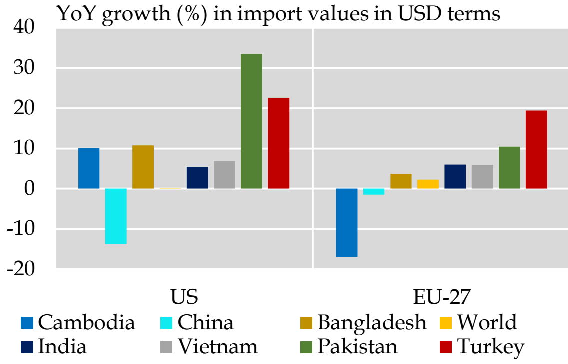
Figure 1.6a



Source: Haver Analytics

Growth in Apparel Imports by US & EU-27 during July 2020-June 2021

Figure 1.6b

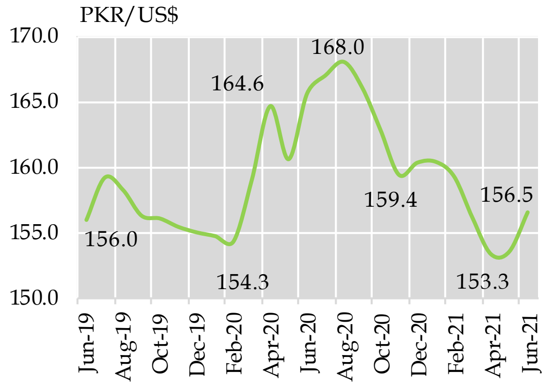


Source: OTEXA (US Dept. of Commerce), Eurostat & Haver Analytics

higher imports. These pressures had become more prominent towards the end of the year, and were reflected in the exchange rate movements: the PKR, after appreciating 10.0 percent during Jul-Mar, depreciated 3.0 percent against the US Dollar during the fourth quarter. Therefore, Rupee has been moving in an orderly way in both directions; responding to developments in the trade deficit, thus acting as a shock absorber (**Figure 1.7**).

Average Monthly Exchange Rate*

Figure 1.7



*Mark to market

Source: State Bank of Pakistan

Second, the fiscal consolidation efforts continued during FY21 and delivered a reduction in the fiscal deficit to 7.1 percent of GDP, from 8.1 percent last year. The policy efforts reprioritized spending towards social safety nets, the Economic Stimulus Package (ESP) and support for various sectors of the economy, and restrained non-interest current spending. Importantly, the incidence of these adjustments did not fall on development spending, which recovered slightly after consistently declining over the past three years. However, the government had to make payment of power sector subsidies to partially clear circular debt of the independent power producers (IPPs) and the Power Holding Private limited (PHPL) under the Circular Debt Management Plan (CDMP). Similarly, the fiscal burden of the loss-making public sector enterprises (PSEs) continued to strain the fiscal account. On the revenue side, the FBR tax collection improved sharply with the turnaround in economic activity, along with the surge in imports, and efforts to streamline the tax administration.

Third, owing to the improvement in the primary balance, Pakistan's public debt dynamics improved in FY21. The pace of debt accumulation fell to a three-year low; the maturity profile of debt further improved, with favorable implications for debt sustainability; and the country was able to diversify its financing sources. The reduction in the debt burden was driven by the improvement in the twin deficits and an appreciation of the PKR against the US Dollar. The public debt-to-GDP ratio declined to 83.5 percent in FY21 from 87.6 percent last year. However, despite the reduction in the ratio of interest payments-to-tax revenues to 57.7 percent from 65.5 percent last year, interest expenses continue to consume a sizable share of tax revenues. Meanwhile, the improvement in the maturity profile was secured through the issuance of diversified debt instruments, including the Naya Pakistan Certificates

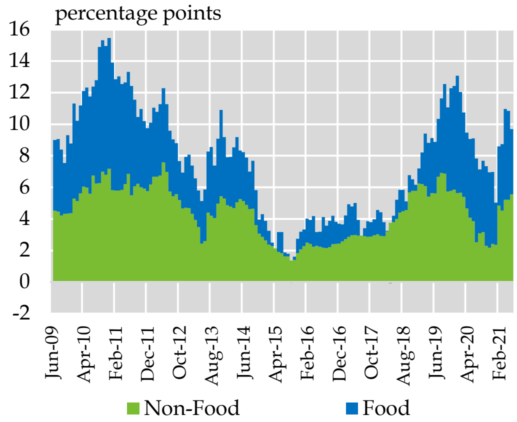
(NPCs) to attract investment from mostly non-resident Pakistanis, which fetched US$ 1.0 billion during FY21. Moreover, the country also mobilized US$ 2.5 billion via Eurobonds, after a gap of three years. In the domestic debt market, the country issued floating-rate PIBs with quarterly coupon payments.

Fourth, the average headline CPI inflation fell to 8.9 percent in FY21 – within the SBP's forecast range of 7-9 percent. The resurgence in domestic demand did not give rise to inflationary pressures amidst the presence of some spare capacity in the economy. On the supply side, ample availability of perishable food products and tax relief measures kept inflation in check. In addition, an appreciation in the PKR exchange rate helped absorb some of the increase in international commodity prices. However, inflation remained volatile during the year. With the increase in power tariffs in January 21 and an uptick in fuel prices, inflationary pressures started to creep up from March 2021, pushing the average inflation to 10.6 percent during Q4-FY21 from 8.9 percent during Jul-Mar FY21. Furthermore, while the underlying inflationary pressures were contained, food group emerged as the largest contributor to inflation during FY21. Within food items, price pressures were evident in wheat and sugar; moreover, these supply gaps had to be plugged in by imports at a time when international commodity prices had risen quite substantially.

The elevated food price inflation witnessed in FY21 is actually a recurring phenomenon in Pakistan (**Figure 1.8**). This needs to be addressed by ensuring market-availability of food items, thereby mitigating some of the impact of these pressures on CPI inflation. The needed measures include regular, timely and accurate monitoring of crops across the development stage; investments in human capital to improve demand forecasts for major commodities; addressing delays in procurement by public sector organizations; and removing procedural impediments in arranging timely imports.[3]

In addition to this, addressing deep-rooted structural impediments is crucial for sustaining and improving the current growth momentum over the medium to long term. In this regard, following are some of the challenges that require immediate policy attention. First, consistently low yields of important crops, especially cotton, have constrained the agriculture sector's growth outcome (**Figure 1.9a**). Importantly, cotton

Contribution to Infaltion **Figure 1.8**

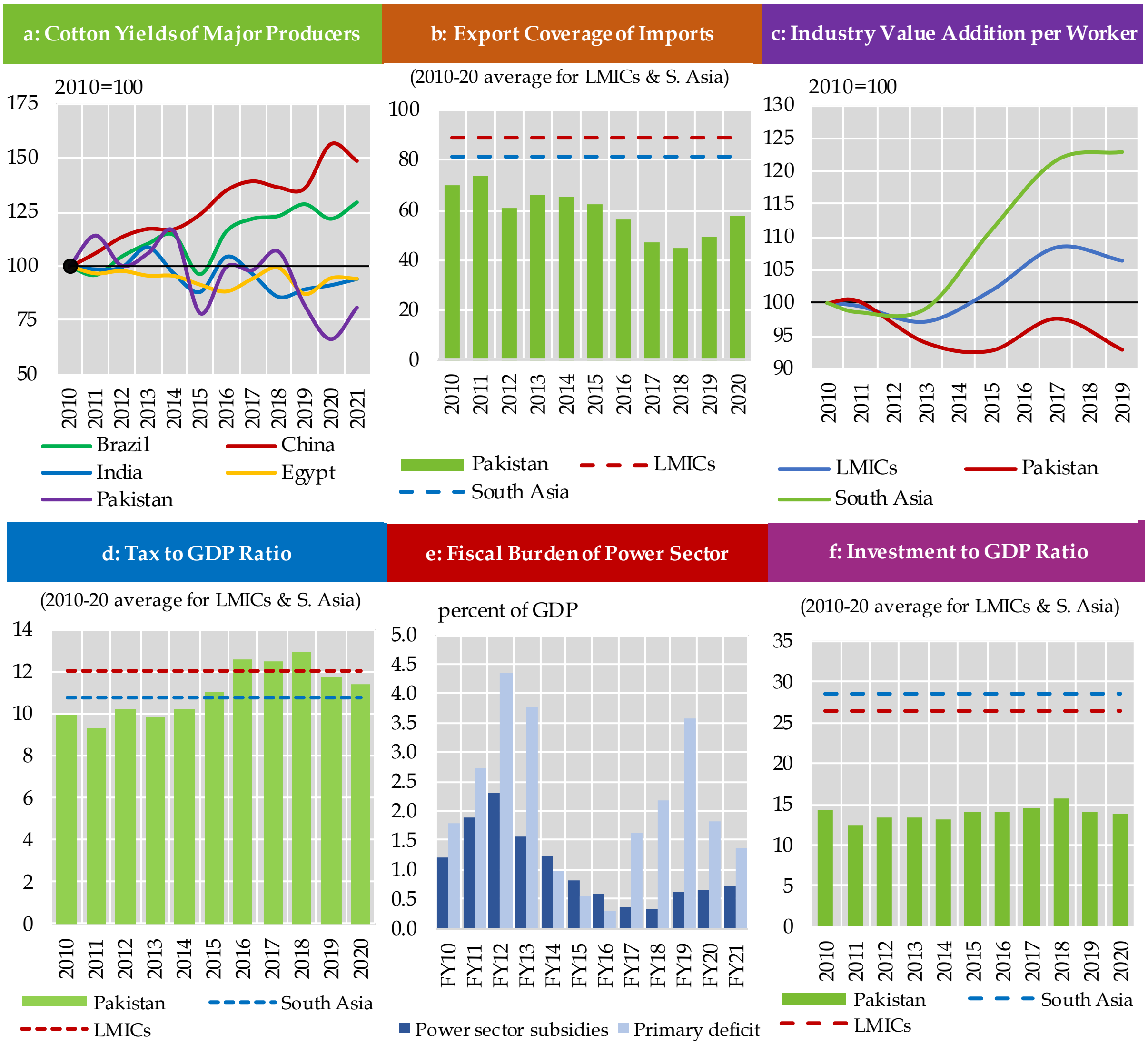


Source: Pakistan Bureau of Statistics

yields in Pakistan are considerably lower than those of other major producers. Inadequate availability and affordability issues related to quality inputs, such as certified seeds, water shortage, climate change, inefficient extension services, and poor regulatory oversight by relevant departments, have all contributed to this sub-par performance. To stem the declining trend in the yields of the important crops, the government introduced various supportive measures during the year including subsidized availability of inputs and increase in the minimum support prices of wheat. The long-term solution of these issues lies in a multipronged policy effort, incorporating significant upscaling of existing R&D setups in the public and private research institutes; addressing human and physical resource constraints; development of new

[3] For details, see A.Khalid and Sabahat (2020). *Price Stabilization Mechanism in Pakistan's Food Market: Exploring Issues and Potential Challenges.* SBP Staff Note 02/20. Karachi: SBP.

Structural Impediments to Pakistan's Economy **Figure 1.9**



Note: LMIC = Lower Middle Income Countries as per World Bank classification; VA = Value added
Sources: State Bank of Pakistan, Pakistan Bureau of Statistics, Ministry of Finance, World Bank

varieties of pest and climate change-resistant seeds; and strict enforcement of seed market regulations.

Second, the mismatch between the country's export earnings and import payments is a concern from the standpoint of the external sector's stability. It is worth noting that export receipts have risen to an all-time high during FY21, with high value-added textile items performing quite strongly, even relative to other major exporters. Also, the foreign exchange earnings of the country witnessed diversification during FY21 with a record surge in worker's remittances and a pickup in information, communications and technology (ICT) exports. Despite this, the exports' coverage of imports is still under 60 percent, which is also below the average of some peer economies, including those in South Asia (**Figure 1.9b**). A number of factors may explain this outcome, including low quality of products, inadequate product and market diversification, limited integration with the world market through value chains, and lack of entrepreneurship and of international certifications. The concentration of the country's exports in a few markets and products has limited its ability to achieve a high growth path. In this context, there is a need to introduce a long-term policy framework to address the aforementioned structural issues.

In addition, the pressure on the scarce foreign exchange earnings may also be partly alleviated by encouraging import substitution industrialization. The adoption of a market based exchange rate system is an important step in this regard. Further policy push can be provided by encouraging domestic production in sectors that do not require sophisticated technological advancement such as light engineering industries, and telecommunication machinery and apparatus.

The quality of exportable products also often suffers owing to low labor productivity in the country. A cross-country comparison shows that labor productivity in Pakistan is one of the lowest within peer emerging economies; moreover, productivity in Pakistan has declined over the past 10 years and is still below 2010 levels (**Figure 1.9c**). To address this structural shortcoming, investment in quality education and vocational training, alongside investments in technology, R&D, and health, can hardly be overemphasized.

However, the domestic resource envelope is currently inadequate to undertake the needed investments. A perceptible improvement in the fiscal account requires generating sustained increase in tax revenues. To address the issues of widening fiscal imbalance and a narrow tax base, Pakistan has initiated tax policy reforms for the past few years. Some of the major reforms include the elimination of preferential GST rates, phasing out of income tax exemptions, strengthening tax administration efforts, and simplification of tax rules and procedures. Pakistan's tax-to-GDP ratio declined to around 11 percent in recent years, after increasingly slightly during FY16-18 (**Figure 1.9d**). A sustained increase in the tax base requires widening the scope of these efforts. Furthermore, for undertaking much-needed public investment and to provide targeted support to the economy, sustained primary surpluses are needed. Consistently large fiscal deficits have pushed the country's public debt to high levels, whereas the consequent increase in debt servicing has constrained the government's capacity for undertaking public investment and might also discourage private investment.

At the same time, on the expenditure side, concerted efforts are needed to contain non-interest current spending by addressing inefficacies in the SOEs. In particular, the scale of subsidies devoted to the energy sector, and the continued fiscal burden of a few major public sector enterprises, has become quite concerning (**Figure 1.9e**). Around 80 percent of the overall subsidies in the country go to the power sector; moreover, the sector's share in subsidies has almost doubled in just a span of 5 years. To check the continued build-up in the energy sector circular debt, the government has adopted the Circular Debt Management Plan (CDMP) during F21, while efforts are underway to undertake restructuring of loss-making SOEs. A swift progress on governance reforms and expediting the privatization process will be instrumental in reducing the fiscal drain of these entities.

Finally, the consistently declining trend of investment in terms of GDP is one of the major factors behind the boom-bust cycle of Pakistan's economic growth, where the economy is not able to sustain temporary consumption-led growth spurts in the absence of a concomitant increase in investment (**Figure 1.9f**). The dearth of investments has marred the productive capacity of the economy, increasing its vulnerability to shocks. This trend needs to be reversed by addressing key bottlenecks that have discouraged investment activity. To this end, the government has introduced a number of reforms to improve the investment climate in the country over the past two years.

Further efforts to this end include harnessing the potential of one investment policy tool, i.e. is the Special Economic Zones (SEZs). The SEZs have been around globally for some decades and are starting to gain prominence in Pakistan, given the focus of second phase of the China-Pakistan Economic Corridor

(CPEC) on enhancing business-to-business cooperation between the two countries. In this regard, this report contains a Special Chapter on SEZs, which provides an overview of the SEZ landscape in the country from a regulatory and policy standpoint, explores some major reasons for the lack of success of industrial estates and export processing zones, and provides policy recommendations to ensure that the SEZs achieve their desired objective of stimulating foreign and domestic investments in the country.

1.2 Economic Outlook

The economic recovery during FY21 is projected to gain further momentum in FY22. This is evident in the significant increase in machinery and raw material imports, continued expansion in consumer financing, and strong uptrend in domestic sales as seen from high frequency demand indicators during the initial months of FY22. Partly capturing these dynamics, the SBP is projecting GDP growth in the range of 4-5 percent (**Table 1.2**).

Macroeconomic Targets and Projections — **Table 1.2**

	FY22	
	Target[1]	SBP Projections[2]
	percent growth	
Real GDP	4.8	4.0 – 5.0
CPI (average)	8.0	7.0 - 9.0
	billion US$	
Remittances	31.3	30.5 – 32.5
Exports (fob)	26.8	26.5 - 27.5
Imports (fob)	55.3	62.5 – 63.5
	percent of GDP	
Fiscal deficit [3]	6.3	6.3 - 7.3
Current a/c deficit	0.7	2.0 - 3.0

Sources: [1]Annual Plan 2021-2022, Planning Commission, [2]SBP, [3]Ministry of Finance

The sustained pace of vaccine roll-out has created optimism about the normalization of economic activity, notwithstanding the risk of virus variants. The policy support provided after the Covid outbreak over FY20-21 has succeeded in reviving the real economic activity. Specifically, the refinance schemes provided by the SBP are likely to have a cascading effect on growth through a revival in private investment. In addition, the accommodative monetary policy stance, the pro-growth measures outlined in the FY22 budget, the government's focus on the revival of construction industry under the 'Naya Pakistan Housing Scheme commonly known as Mera Pakistan Mera Ghar (MPMG) Scheme' and the mandatory housing finance targets by the SBP, together with the rebound in external demand, has set the stage for stronger growth momentum in FY22.

Both the supply and demand channels are expected to contribute to this higher growth outcome. The FY22 budget stipulates a sharp expansion in development spending, which would give a push to construction and allied industries. Similarly, the extension in the social safety envelope under BISP is expected to smoothen consumption patterns of the economically vulnerable segments. For businesses, tax and duty incentives for raw materials and capital goods, and the availability of power subsidies, are likely to boost economic activity and support private investment. The agriculture sector is projected to further benefit from the support packages for the Kharif and Rabi crops, which would, in turn, have a positive effect on the services sector as well.

The national CPI inflation is expected to remain within a range of 7.0 to 9.0 percent. Better commodity management practices, especially the build-up of reserves for wheat and sugar, would likely contain supply-side pressures from seeping into the inflation during FY22. Importantly, headline inflation is expected to retreat more visibly in the second half of the year, with the phasing out of the base impact of the hike in power tariffs. That said, these projections are subject to multiple upside risks, including from a greater-than-anticipated increase in global commodity prices and upward revision in utility tariffs. In addition to triggering a sharp increase in domestic prices, these developments may also give rise to significant second-round impacts on inflation.

In the fiscal sector, the government plans to continue with the adjustment measures, which are projected to reduce the deficit to 6.3 percent of GDP, from 7.1 percent in FY21. The

SBP envisages the fiscal deficit within a range of 6.3 to 7.3 percent of GDP for FY22. This outcome would be driven by the continued check on non-priority current spending and an expansion in both tax and non-tax revenues. Specifically, a strong upsurge in economic activity will have a corresponding positive implication for tax revenues. In addition, the Corporate Income Tax (CIT) reforms announced in March 2021, are likely to support FBR tax collection via the elimination of various income tax exemptions and normalization of tax rates. Similarly, sustained efforts to enhance tax administration will further beef up collections by increasing formality and expanding the tax base. On the non-tax revenue side, the government primarily relies on collection from the Gas Infrastructure Development Cess (GIDC), with the settlement of issues in litigation. Furthermore, the sustained turnaround in sales of petroleum products may also boost collection from the petroleum development levy.

In the external sector, pressures are emerging from the import side, with payments exceeding the US$ 6 billion in three of the past four months (June, August and September 2021). The surge in imports is broad-based, partly reflecting the increasing pace of economic activity, a further increase in the global commodity prices, continued imports of agricultural commodities, automobiles, and many consumption related items. On a positive note, this increase in imports also reflects increase in machinery, much of which is supported by TERF that should help to augment future productive capacity. In this scenario, the current account deficit is projected in the range of 2.0 to 3.0 percent of GDP during FY22. A part of the expansion in the import payments is projected to be financed through a consistent increase in the workers' remittances and export receipts. Particularly, remittances are expected to remain upbeat amid the recovery in the global economy. Similarly, the pickup in international demand and a range of incentives announced by the government to lower the domestic cost of production, would likely bolster the export performance. The services deficit is projected to expand, in line with some resumption in international air travel. Meanwhile, the outlook for financial flows is likely to remain conducive, on the back of the US$ 3.8 billion already received from the global SDR allocations and from a Eurobond, along with further loan disbursements from multilateral and bilateral creditors, and inflows into the RDAs.