PAKONOMICS

October 2022

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HIGHLIGHTS:

- The State Bank of Pakistan ("SBP") decided to raise the benchmark policy rate by 100 bps to 16% in their Monetary Policy Committee meeting earlier this month. The SBP further stated that "This decision reflects the MPC's view that inflationary pressures have proven to be stronger and more persistent than expected".
- In the Inter-bank market, the National currency value stood at a level of PKR 224/USD as of 28th of November 2022 closing against the US dollar. Since the first week of October, the currency parity has appreciated significantly against the greenback from PKR 239.4/USD in the last week of September 2022.
- Pakistan's Large-Scale Manufacturing ("LSM") growth stood at 0.01% during September 2022 vs. last year. Whereas, on a Month-on-Month comparison ("M-o-M"), the LSM growth increased by 0.1% compared to the previous month of August 2022 (Base Year 2015-16).
- The cumulative inflows of deposits in the Roshan Digital Accounts ("RDA") reached $5.295 billion at the end of October 2022.
- As per the SBP, the remittances sent by Overseas Pakistani workers decreased by 9.1% to $2.22 billion in October 2022 vs. $2.44 billion in September 2022 on a M-o-M basis.
- According to the official statistics published, the Federal Board of Revenue ("FBR"), the FBR has collected tax revenue worth PKR 534 billion in October 2022, however, missed target of October by PKR 22 billion.
- The net foreign currency reserves held by the SBP stood at $7.83 billion as of 18th November 2022.
- The Broad Money (M2) stock from 1st of July 2022 to 28th October 2022 has contracted to PKR 187 billion as compared to a contraction of PKR 244 billion last year in same period.
- According to the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 26.6% on a year-on-year ("Y-o-Y") basis in October 2022 vs. 9.2% last year.
- As per the PBS, Pakistan's Exports decreased by 2.53% to $2.38 billion in October 2022 vs. $2.45 billion in September 2022 on a M-o-M basis.
- Pakistan's net FDI has depreciated by 52% or $378 million to $348 million provisionally during Jul-Oct FY23, as compared to $727 million during Jul-Oct FY22.
- The total Foreign Investment declined by almost 36% or $173 million to $315 million on a Y-o-Y basis in Jul-Oct FY23 as against the amount of $488 million in Jul-Oct FY22
- The country has posted a Current account deficit ("CAD") of $2.82 billion in FY23's Jul-Oct period.

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)	September	↓	0.01%	7.6%
Central Government Debt	August	↑	PKR 49.5 Trillion	PKR 39.75 Trillion
Credit to Private Sector	Jul – 28th October	↑	PKR (1.8) Billion	PKR (271) Billion
Roshan Digital Account	October	↓	US$ 146 Million	US$ 266 Million
Worker's Remittances	September	↓	US $2,437 Million	US $2,670 Million
Currency in Circulation	Jul – 28th October	↑	PKR 99 Billion	PKR 131 Billion
Net Government Sector borrowing	Jul – 28th October	↑	PKR 316 Billion	PKR 87 Billion
National CPI (Base Year 2015-16)	October	↑	26.6%	9.20%
FBR Tax Collection	Jul-Oct	↑	PKR 2,148 Billion	PKR 1,841 Billion
Foreign Exchange Reserves with SBP	As of 18th Nov	↓	$7.83 Billion	$16.25 Billion
Foreign Direct Investments	Jul-Oct	↓	$348 Million	$727 Million
Trade Deficit in Goods	Jul-Oct	↓	US$ (11.53) Billion	US$ (15.62) Billion
Current Account Deficit	Jul-Oct	↓	$(2,821)Million	$(5,305)Million

1. LARGE SCALE MANUFACTURING:

According to the PBS, Pakistan's LSM sector showed a growth of only 0.01% in September 2022 on a Y-o-Y basis vs. September 2021, as per the new base year 2015-16. Similarly, on a M-o-M basis, the overall output growth stood by 0.1% compared to the month of August 2022. During the Jul-Sept period of the Fiscal year 2022-23, the growth rate of large industries contracted by 0.4%.

Out of 22 major industries, only 8 industries posted a surge in production during the first quarter of FY23 as compared to last FY22 during the same period. These include beverages, wearing apparel, leather products, wood products, iron and steel products, Paper and board, furniture, and Chemicals. However, the output in Food, tobacco, textile, coke and petroleum, chemicals, pharmaceutical, Rubber products, Non-Metallic Mineral Products, Fabricated Metal, Computer, electronics and Optical products, Electrical Equipment, Machinery and Equipment, Automobiles, other Manufacturing (football) and other transport equipment has decreased during Jul-Sept period of FY23 months under review, compared to the preceding year FY22 same period, data from the PBS has revealed.

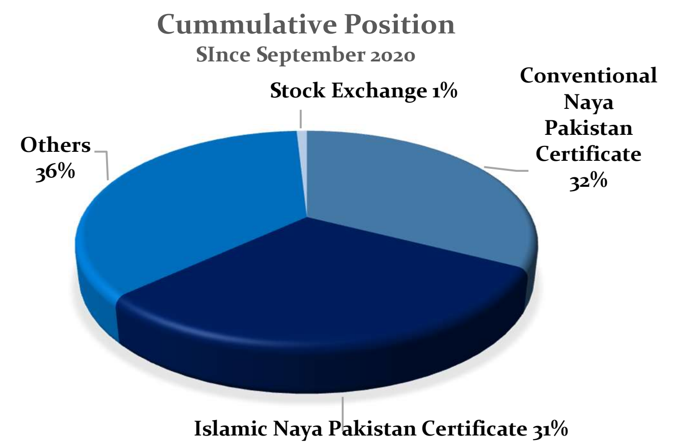
Sector-wise, important groups such as cotton yarn, cotton cloth, and garments rose by 0.01%, 0.1%, and 58.1%, respectively in the period of Jul-Sept 2022. Whereas, the cement industry declined by 20.4%.

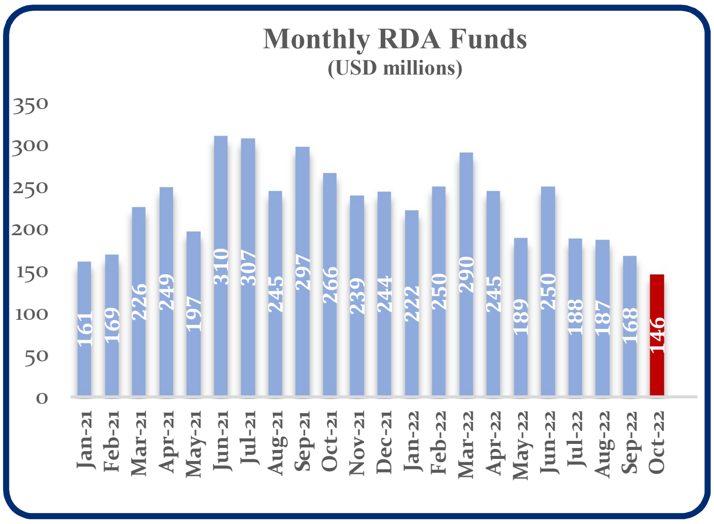
LSM (%)	Weight	Sept-22	Aug-22	Sept-21	Jul-Aug 2022-23
Textile	**18.2**	(2.5)	(5.0)	4.8	**(0.7)**
Food	**10.7**	(3.2)	(8.4)	(1.9)	**(0.4)**
Coke & Petroleum Products	**6.7**	(24.4)	(26.8)	10.6	**(1.9)**
Chemicals	**6.5**	9.7	6.8	(7.8)	**0.7**
Wearing Apparel	**6.1**	52.2	74.3	24.3	**4.2**
Pharmaceuticals	**5.2**	(22.5)	(29.4)	(7.4)	**(1.3)**
Non-Metallic Minerals Products	**5.0**	(1.0)	(5.9)	0.3	**(0.1)**
Beverages	**3.8**	11.6	(1.8)	(1.3)	**0.6**
Iron and Steel Products	**3.4**	(7.0)	10.3	27.2	**(0.4)**
Automobiles	**3.1**	(53.2)	(30.8)	55.8	**(2.6)**
Tobacco	**2.1**	(10.8)	(18.2)	35.7	**(0.3)**
Electrical Equipment	**2.0**	(2.0)	(7.0)	(9.6)	**(0.1)**
Paper & Board	**1.6**	58.5	(8.2)	26.8	**1.6**
Leather Products	**1.2**	5.0	6.9	4.0	**0.0**
Other Transport Equipment	**0.7**	(43.2)	(34.8)	(8.1)	**(0.4)**
LSM Growth for Sept 2022 (Y/Y)					**0.01%**
LSM Growth of Sept 2022 vs. Aug 2022 (M/M)					**0.1%**
LSM Growth for July-Sept 2021-22 (Y/Y)					**(0.4%)**

(Source: PBS)

2. Roshan Digital Account ("RDA"):

The cumulative inflows of deposits under the RDA reached $5.295 billion since its announcement in September 2020. Out of the $5.295 billion, approximately two-thirds, $3.34 billion or 63% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 485,873 accounts have been opened from 175 countries during the span of two years.



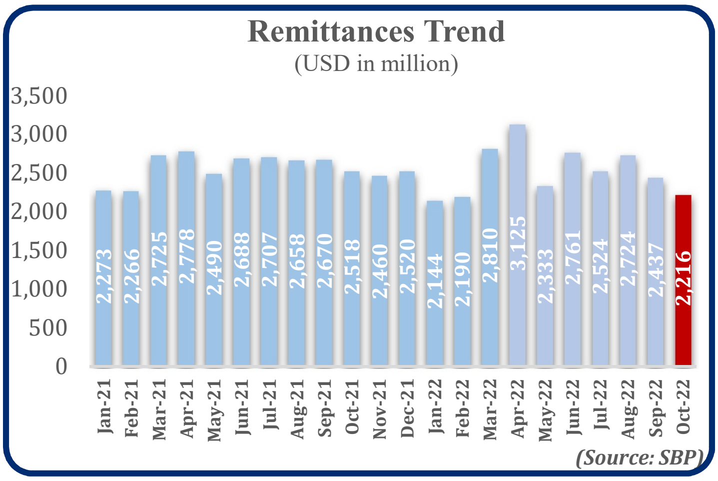


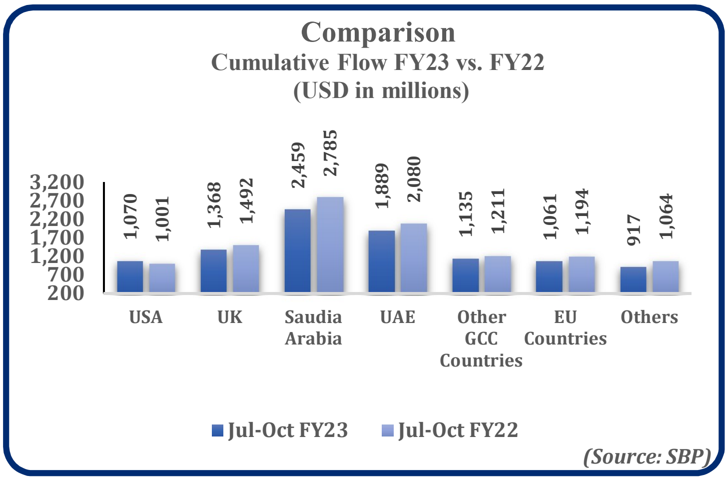
(Source: SBP)

3. WORKER'S REMITTANCES:

According to the SBP, the remittances sent by Overseas Pakistani workers decreased by 9.1% to $2.22 billion in October 2022 vs. $2.44 billion in September 2022 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the inflows went down by 15.7% when compared to $2.63 billion received a year ago in the same month. In addition to that, in Jul-Oct period of FY23, inflows declined by 8.6% to $9.90 billion compared to $10.83 billion received a year ago in the same period. Notably, on a cumulative basis, the pace of growth in FY23 is in negative as compared to FY22's Jul-Oct period, where it grew by almost 15%.

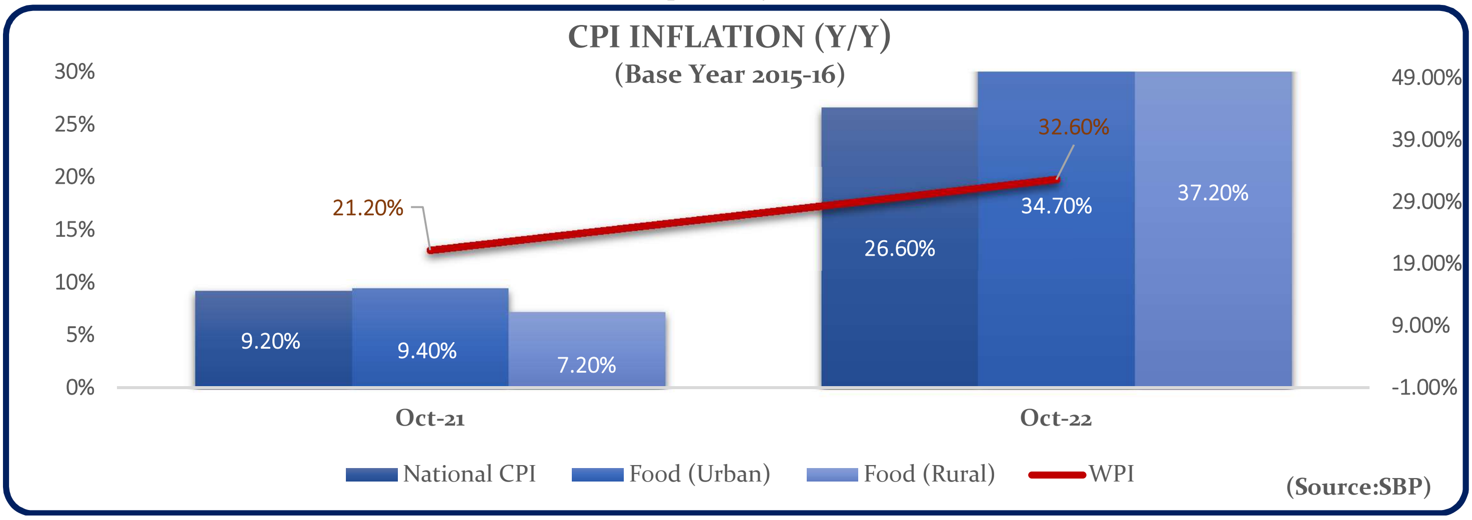
A descriptive analysis has revealed that remittances inflows during the Jul-Oct period of FY23 were coming mainly from four major territories: Saudi Arabia, UAE, UK, and the USA. With a 24.84% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflows from Saudi Arabia have a negative growth of 11.7% to $2.46 billion in July-Oct period of FY23 vs. $2.79 billion during same period of FY22. An amount to the tune of $1.07 billion, or a 10.81% share, was received from the US, showing increase of almost 7.0% in Jul-Oct of FY23 vs. Jul-Oct period of FY22. Worker remittances from the UK decreased by 8.3% and although it's contributed 14% or $1.38 billion in first four months of FY23 over same period of FY22. On the other hand, remittance growth from UAE declined at a rate of 9.2%, while its share is $1.89 billion or 19% in the total remittances.



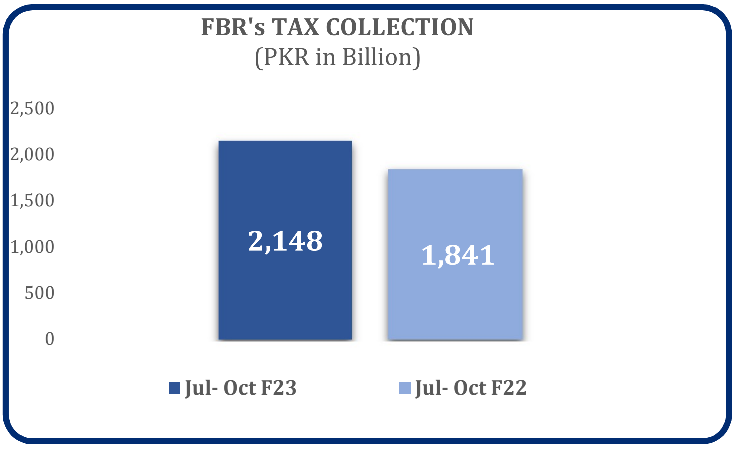


4. CONSUMER PRICE INDEX INFLATION:

The monthly rate of inflation increased to 26.6% in October 2022 on a Y-o-Y basis. In the previous month, the CPI had dropped to 23.2%. The present inflation rate hike has mainly come from the rise in prices of food items. Food inflation in Urban and rural areas accelerated to 34.7% and 37.2%, respectively in October 2022. In addition to that, the wholesale price index ("WPI") stood 32.6% on a Y-o-Y basis month-wise comparison which was 38.9% in previous month, it might increasing the chances of clipping the inflation down gradually. Whereas, on a monthly basis, the National CPI has recorded a rise of 4.7%. Similarly, the Food inflation in urban and rural increased by 4.6% and 6.1%, respectively, compared to September 2022. In October 2022, the Core inflation, which is calculated on the basis of excluding energy and food items, rose by 14.9% and 18.2% in urban and rural areas on a Y-o-Y basis, respectively.



5. FBR TAX REVENUE COLLECTION:

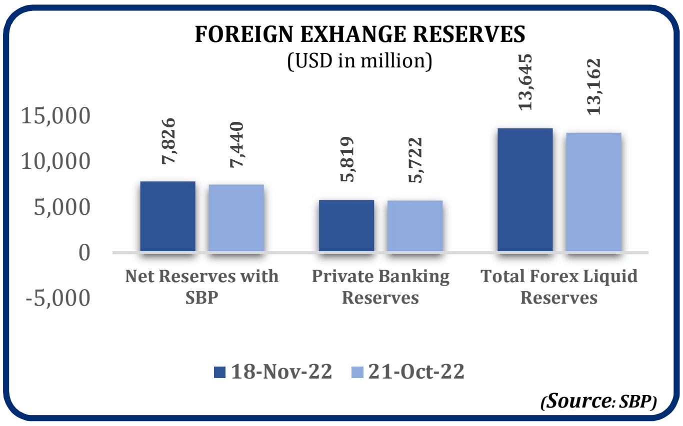


As per the official statistics published by the FBR, the FBR has collected tax revenue worth PKR 534 billion in October 2022 and FBR missed its monthly target by PKR 22 billion. However, the target of the Jul-Oct has been exceeded, achieving PKR 2,148 billion against the target of PKR 2,143 billion of FY23. When compared with previous year tax collection in Jul-Oct period, the tax collection grew by 16 percent. As per Mr. Shahbaz Rana's article titled "34% reduction in income tax returns filing" published on 1st Nov 2022 in the Express Tribune, out of the PKR 2,148 billion, FBR collected PKR 886 billion in income tax and having a share of 41.24%, while the share of sales tax on import declined to 46% of the total taxes amidst import reduction".

6. FOREIGN EXCHANGE RESERVES:

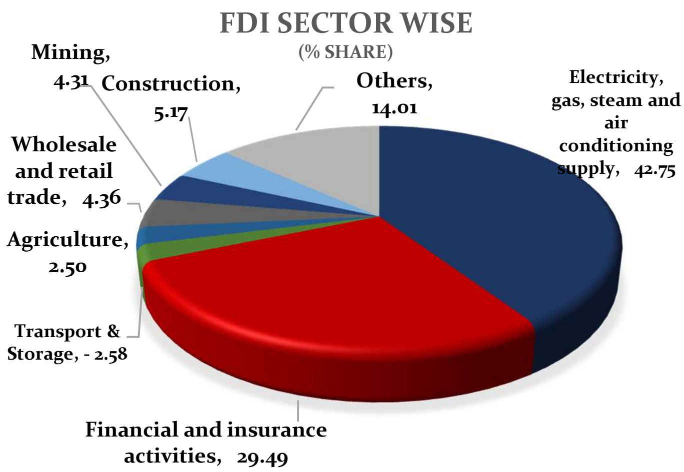
The net reserves of the SBP stood at $7.83 billion as of 18th Nov 2022, decreasing by only 1.68% or 133.8 million compared with last week's $7.96 billion on 11th Nov 2022. However, when compared to last month, reserves which were then $7.44 billion, went up by 5.2%.

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 a declining trend.

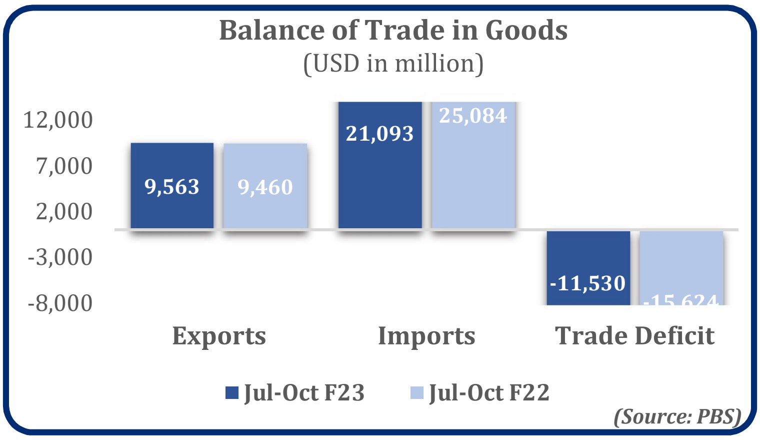


7. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has depreciated by 52% or $378 million to $348 million provisionally during Jul-Oct FY23, as compared to $727 million during Jul-Oct FY22. Whereas, the total Foreign Investment declined by almost 36% or $173 million to $315 million on a Y-o-Y basis in Jul-Oct FY23 as against the amount of $488 million in Jul-Oct FY22. This Pie chart shows the percentage share of flows in different sectors of the Economy in the Jul-Oct FY23.



8. BALANCE OF TRADE IN GOODS:

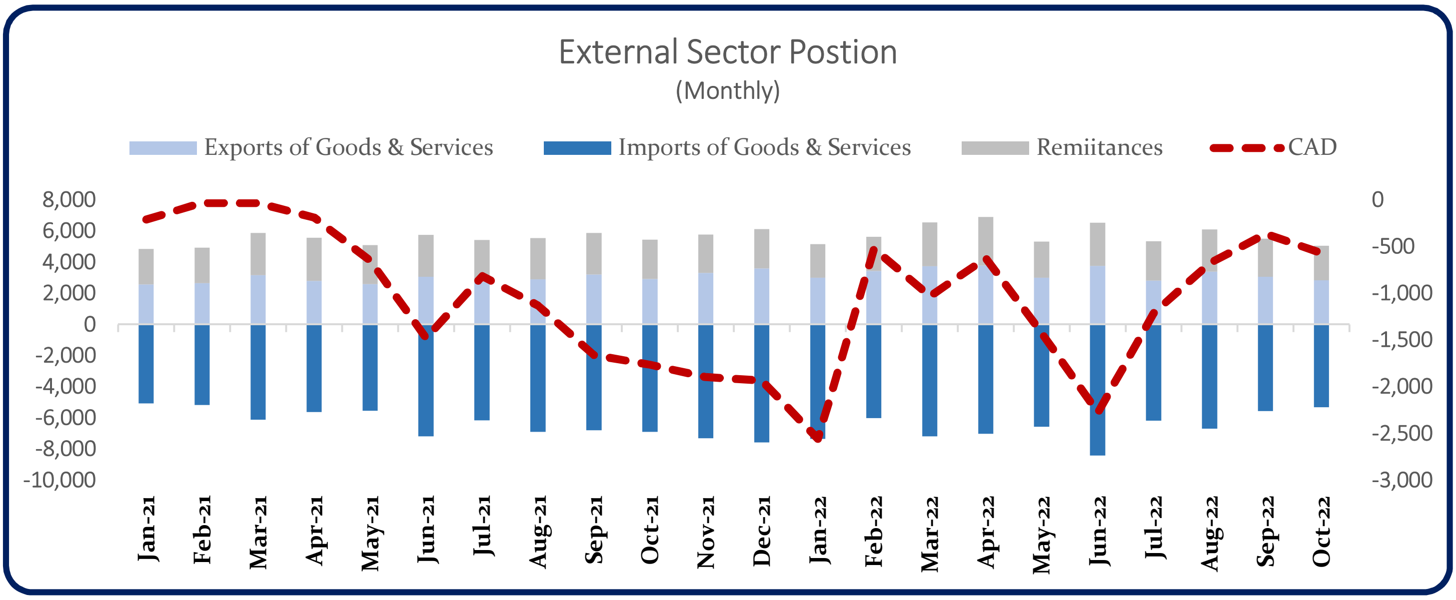


As per the PBS, Pakistan's trade deficit shrunk by a good margin of 26.2% to $11.53 billion during the period of Jul-Oct of FY23 vs. same period of FY22 amidst a steep deduction in import bill. As far as Exports are concerned, it went up by marginally 1.1% to USD 9.56 billion in FY23's period of Jul-Oct compared to USD 9.46 billion in same period of FY22. However, on a monthly basis, the exports decreased by 2.5% to $2.38 in October 2022 from $2.45 billion in September 2022. Addionally, the country's trade deficit curtail by a massive margin of 20% to $2.33 in October 2022 from $2.90 in September 2022 on a month on month basis.

9. BALANCE OF PAYMENT:

Pakistan's CAD has narrowed to a sustainable level of $567 million in October 2022 as compared to a deficit of $1.78 billion in the last FY22's October month, latest data released by the State Bank of Pakistan ("SBP") showed. This is the fourth consecutive month where the CAD has narrowed down amidst a notable decline in the import bills. On a cumulative basis from July to October in the ongoing FY23, the CAD declined by $2.48 billion to $2.82 billion, compared to a relatively large deficit of $5.31 billion in the same period last year. If the Government is successful in keeping the CAD bill below USD 1 billion mark monthly, then overall CAD position could decrease to approximately USD 10-12 billion in FY23.

(USD in millions)	FY23 P (Jul-Oct)	FY22 (Jul-Oct)
Current account Balance	(2,821)	(5,305)
Capital Account Balance	52	72
Financial Account Balance	(1,939)	(5,676)
Net FDI in Pakistan	(213)	(671)
Net Portfolio investment	28	175
Net incurrence of Liabilities	1,053	5,463
Overall Balance	826	(67)
SBP Gross Reserve	8,972	17,388
		(Source: SBP)

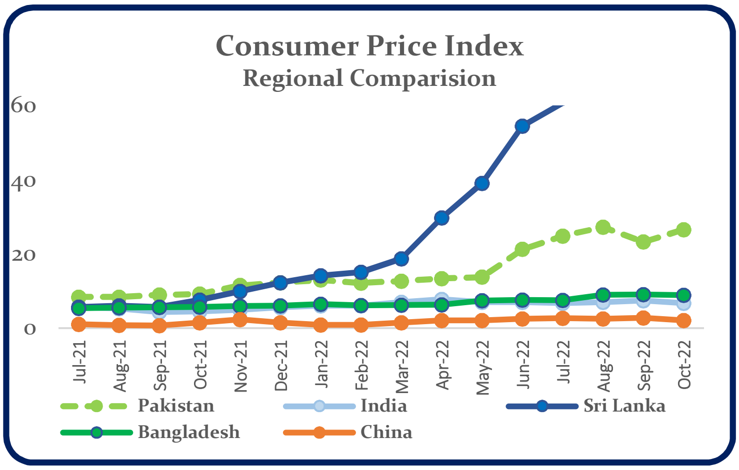


10. Regional Analysis:

On a Y-o-Y basis, double digit inflation was observed only in Pakistan and Srilanka. Whereas, the Bangladesh and Indian economy is gradually stimulating and inflation is declining over there. However, the Pakistani economy has faced an unforeseen flood situation which is why CPI is on a rising trend, whilst the PKR parity has remained stable unlike in the past months. Whereas, Sri lankan rupee relatively losing momentum against greenback in last week of November, therefore rise in CPI has been reported. On the other hand, India also had a stable currency and with that impact of rising inflation didn't haunt their economy too much. Similarly, China has a lower CPI and the impact of volatility in prices is not quite visible in their country due to their stable currency parity.

Country	CPI (%)	Local Currency Units per USD (As of 28th Nov)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	26.6	224.0	(27.27)
India	6.77	81.61	(8.77)
Bangladesh	8.91	105.15	(22.81)
China	2.10	7.21	(12.94)
Sri Lanka	66.0	363.0	(79.70)

(Source: Trading Economics)



OUTLOOK:

- Since earlier this month, rumors have been circulating that Pakistan might default on its international debt obligations. There has been growing uncertainty about the ability of Pakistan to meet external financing obligations with the country in the midst of an economic crisis and recovering from devastating floods. However, the Ministry of Finance has in uncertain terms stated that Pakistan will repay its $1 billion payment on time.
- The 9th review of the $7 billion loan tranche of IMF has been stalled, and date of this review is yet to be finalized. This delay is due to a lack of clarity on flood related financial requirements for the ongoing fiscal year and decreasing of tax revenue collection in the wake of import controls. We hope that the IMF will show some space in performance criteria in this difficult time for Pakistan's economy.
- In this havoc like situation, Pakistan really needs to streamline its taxation system to attain a likely tax target of 7.47 trillion rupee for the next fiscal year. The Government needs to correct the fractured system of taxation and should remedy the inequity of taxes in Pakistan. Otherwise, it won't be possible that Pakistan can meet its tax target by June 2023.
- In the MPC statement over the outlook of Inflation for the remainder of ongoing FY23 it was stated that "The momentum of inflation also picked up sharply, rising by 4.7 percent (m/m). As a result of these developments, inflation projections for FY23 have been revised upwards. While inflation is likely to be more persistent than previously anticipated, it is still expected to fall toward the upper range of the 5-7 percent medium-term target by the end of FY24, supported by prudent macroeconomic policies, orderly Rupee movement, normalizing global commodity prices and beneficial base effects. The MPC will continue to carefully monitor developments affecting medium-term prospects for inflation, financial stability, and growth".
- The Government should take measures to help the economy to stabilize and recover, and announce a strategic plan for sustainable economic growth and building foreign reserves instead of looking at friendly countries for bailout packages. Effective policy measures should be such as, *inter-alia*: (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 National Export; (e) Reduce interest rate to boost Economic activity and limit the debt servicing; (f) Manage External sector properly to avoid rampant devaluation of domestic currency.