HIGHLIGHTS:

- The State Bank of Pakistan ("SBP") decided to raise the benchmark policy rate by 100 bps to 17% in their Monetary Policy Committee meeting earlier this month. The SBP stated the reason for such hike is due to high inflation expectations, "The MPC stressed that it is critical to anchor inflation expectations and achieve the objective of price stability to support sustainable growth in the future".
- In the Inter-bank market, the National currency value stood at a level of PKR 262.60USD as of 27th of January 2023. The Pakistani rupee decline by 2.73%, previously on 26th January 2023 it went down by 9.61% in only span of one day. As a result of this, Pakistan is most likely heading towards the 9th review of the ongoing IMF programme.
- Pakistan's Large-Scale Manufacturing ("LSM") growth contracted by 5.49% during November 2022 vs. the last year. Likewise, on a Month-on-Month comparison ("M-o-M"), the LSM growth increased by 3.55% compared to the previous month of November 2022 (Base Year 2015-16).
- The cumulative inflows of deposits in the Roshan Digital Accounts ("RDA") reached $5.58 billion at the end of December 2022.
- As per the SBP, the remittances sent by Overseas Pakistani workers decreased by 3.17% to $2.04 billion in December 2022 vs. $2.11 billion in November 2022 on a M-o-M basis.
- According to the official statistics of the Federal Board of Revenue ("FBR"), the FBR has collected tax revenue worth PKR 740 billion in December 2022, although it has missed the target for the month by PKR 212 billion.
- The net foreign currency reserves held by the SBP stood at $3.68 billion as of 20th January 2023.
- The Broad Money (M2) stock from 1st of July 2022 to 7th January 2022 has contracted to PKR 408 billion, as compared to a contraction of PKR 547 billion last year in the same period.
- According to the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 24.5% on a year-on-year ("Y-o-Y") basis in December 2022 vs. 12.30% last year.
- As per the PBS, Pakistan's Exports decreased by 3.26% to $2.31 billion in December 2022 vs. $2.39 billion in November 2022 on a M-o-M basis.
- Pakistan's net FDI has depreciated by 58.7% or $654 million to $461 million provisionally during Jul-Dec FY23, as compared to $1,115 million during Jul-Dec FY22.
- The total net Foreign Investment declined by almost 181 times or $1,281 million to negative $(397) million on a Y-o-Y basis in Jul-Dec FY23 as against the amount of $709 million in Jul-Dec FY22
- The country has posted a Current account deficit ("CAD") of $3.67 billion in FY23's Jul-Dec 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)	November	↓	(5.49)%	5.96%
Central Government Debt	November	↑	PKR 50.90Trillion	PKR 40.97 Trillion
Credit to Private Sector	Jul – 7th Jan	↓	PKR 421 Billion	PKR 773 Billion
Roshan Digital Account	December	↓	US$ 140 Million	US$ 244 Million
Worker's Remittances	December	↓	US $2,042 Million	US $2,520 Million
Currency in Circulation	Jul – 7th Jan	↑	PKR 257 Billion	PKR 210 Billion
Net Government Sector borrowing	Jul – 7th Jan	↑	PKR 1,321 Billion	PKR 31 Billion
National CPI (Base Year 2015-16)	December	↑	24.5%	12.3%
FBR Tax Collection	Jul-Dec	↑	PKR 3,428 Billion	PKR 2,929 Billion
Foreign Exchange Reserves with SBP	As of 20th Jan	↓	$3.68 Billion	$16.19 Billion
Foreign Direct Investments	Jul-Dec	↓	$462 Million	$1,115 Million
Trade Deficit in Goods	Jul-Dec	↓	US$ (17.00) Billion	US$ (25.44) Billion
Current Account Deficit	Jul-Dec	↓	$(3,667)Million	$(9,091)Million

1. LARGE SCALE MANUFACTURING:

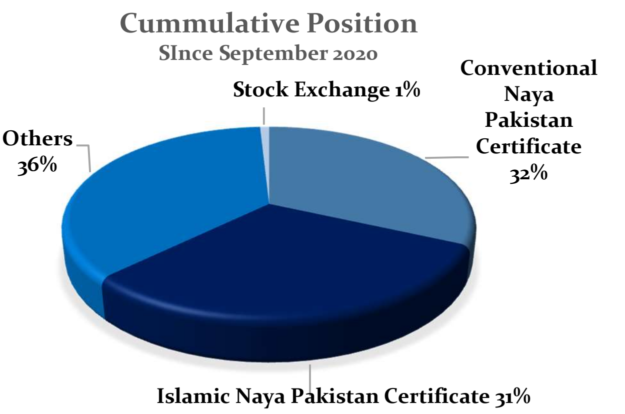
According to the PBS, Pakistan's LSM sector showed a contraction of 5.49% in November 2022 on a Y-o-Y basis vs. November 2021. Similarly, on a M-o-M basis, the overall output growth increased by 3.55%, compared to the month of October 2022. After a decline for three consecutive months, the LSM sector finally recorded a growth on a month on month basis. Moreover, during the Jul-Dec period of the Fiscal year 2022-23, the growth rate of large industries contracted by 3.58%. Out of 22 major industries, only 5 industries posted a surge in production during the first five months of FY23 as compared to last FY22's same period. These include wearing apparel, leather products, furniture, other manufacturing section and other transport equipment. However, the output in Food, beverages, tobacco, textile, coke and petroleum, pharmaceutical, Rubber, wood products, Non-Metallic Mineral Products, Fabricated Metal, Computer, electronics and Optical products, Electrical Equipment, Machinery and Equipment, Automobiles, Chemical, iron and steel products, and Paper and board has decreased during Jul-Dec 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, and cotton cloth contracted by 11.0% and 5.10%, while garment showed growth of 51.48% in the period of Jul-Dec 2022. Whereas, the cement industry declined by rate of 16.45%.

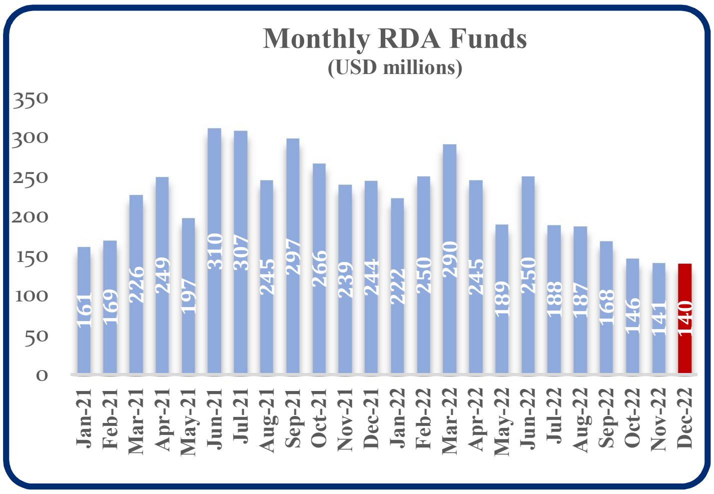
LSM (%)	Weight	Nov-22	Oct-22	Nov-21	Jul-Dec 2022-23
Textile	**18.2**	(22.04)	(24.62)	(1.99)	**(11.45)**
Food	**10.7**	(13.61)	(4.88)	(4.68)	**(7.78)**
Coke & Petroleum Products	**6.7**	5.26	(15.04)	(4.35)	**(13.63)**
Chemicals	**6.5**	(7.06)	(7.68)	6.49	**(0.73)**
Wearing Apparel	**6.1**	49.70	34.14	24.27	**51.48**
Pharmaceuticals	**5.2**	(8.34)	(18.56)	(18.07)	**(23.22)**
Non-Metallic Minerals Products	**5.0**	(13.07)	(10.06)	14.33	**(12.35)**
Beverages	**3.8**	9.97	(1.17)	(1.77)	**(5.42)**
Iron and Steel Products	**3.4**	(8.71)	(8.45)	20.90	**(0.87)**
Automobiles	**3.1**	(18.97)	(30.56)	52.83	**(28.73)**
Tobacco	**2.1**	(20.25)	5.42	29.16	**(22.32)**
Electrical Equipment	**2.0**	(3.28)	7.75	(0.67)	**1.06**
Paper & Board	**1.6**	(1.32)	(8.07)	11.29	**(2.84)**
Leather Products	**1.2**	9.84	2.82	(1.87)	**8.18**
Other Transport Equipment	**0.7**	(41.01)	(41.82)	(12.64)	**(41.76)**
LSM Growth for Nov 2022 (Y/Y)					**(5.49)%**
LSM Growth of Nov 2022 vs. Oct 2022 (M/M)					**3.55%**
LSM Growth for July-Nov 2022-23 (Y/Y)					**(3.58)%**

(Source: PBS)

2. Roshan Digital Account ("RDA"):

The cumulative inflows of deposits under the RDA reached $5.58 billion since its announcement in September 2020. Out of the $5.58 billion, approximately two-thirds, $3.50 billion or 63% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 511,159 accounts have been opened from 175 countries during the span of over two years.

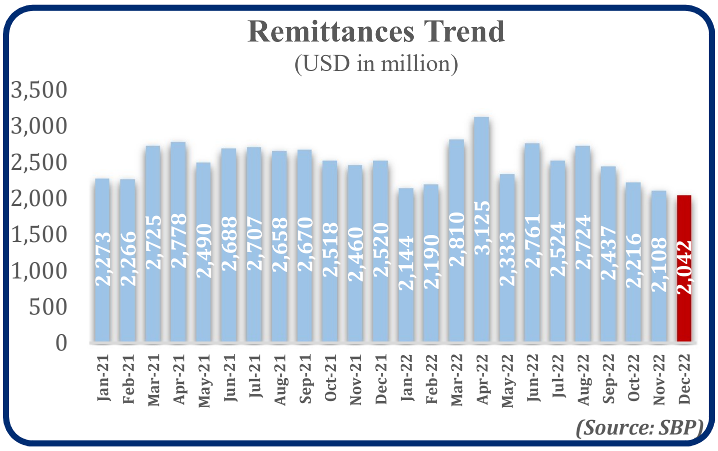


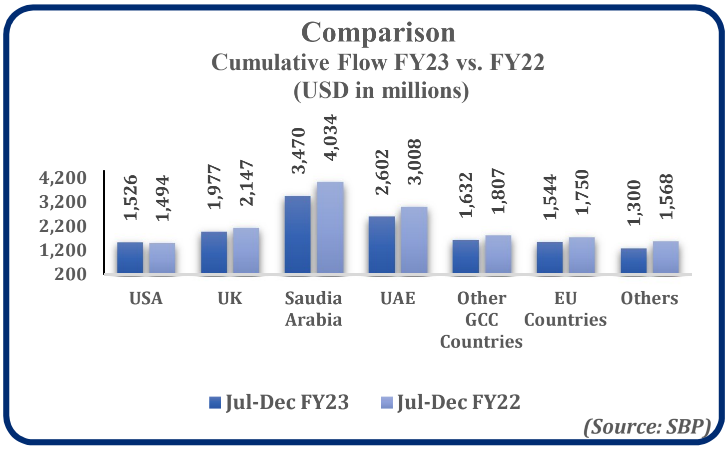


(Source: SBP)

3. WORKER'S REMITTANCES:

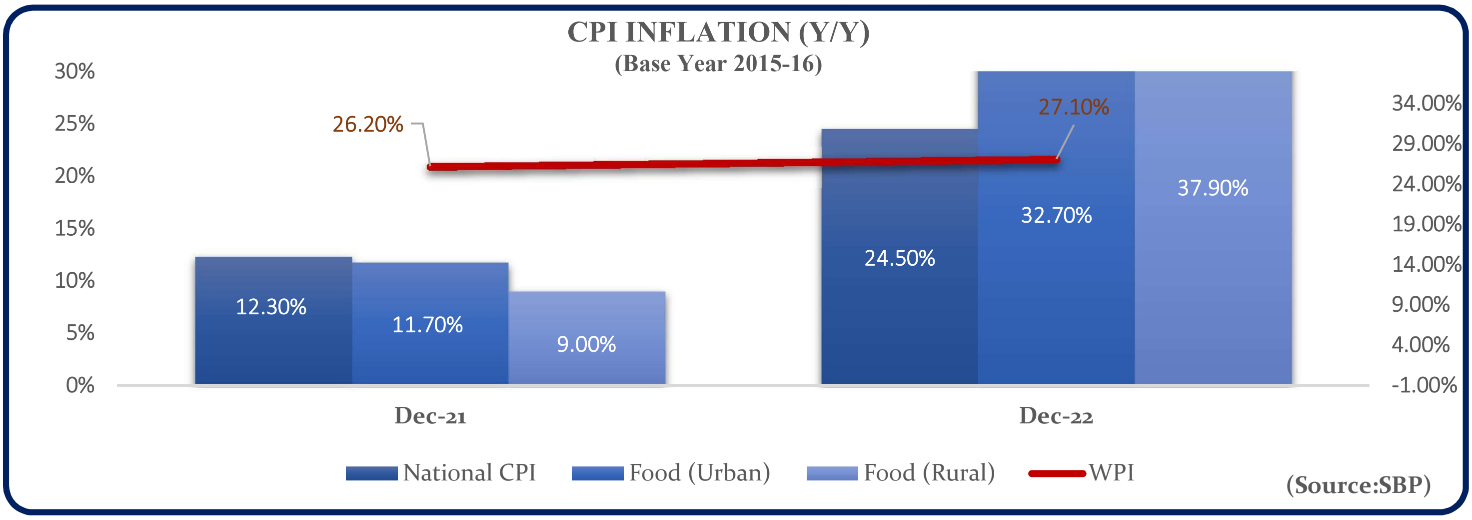
According to the SBP, the remittances sent by Overseas Pakistani workers decreased by 3.17% to $2.04 billion in December 2022 vs. $2.11 billion in November 2022 on a M-o-M basis. Similarly, on a y-o-y comparison, the inflows went down by 19.0% when compared to $2.52 billion received a year ago in the same month. In addition to that, in Jul-Dec period of FY23, inflows declined by 11.1% to $14.05 billion compared to $15.81 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 the last FY22's Jul-Dec period, where it grew by almost 11.40%. A descriptive analysis has revealed that remittances inflows during the Jul-Dec period of FY23 were coming mainly from four major territories: Saudi Arabia, UAE, UK, and the USA. With a 24.70% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflows from Saudi Arabia have a negative growth of 14.0% to $3.47 billion in Jul-Dec period of FY23 vs. $4.03 billion during same period of FY22. An amount to the tune of $1.53 billion, or a 10.86% share, was received from the US, showing increase of 2.20% in Jul-Dec of FY23 vs. Jul-Dec period of FY22. Worker remittances from the UK decreased by 7.90% and although it's contributed almost 14.07% or almost $2.0 billion in half of FY23 over same period of FY22. On the other hand, remittance growth from UAE declined at a rate of 13.50%, while its share is $2.60 billion or 18.52% in the total remittances.



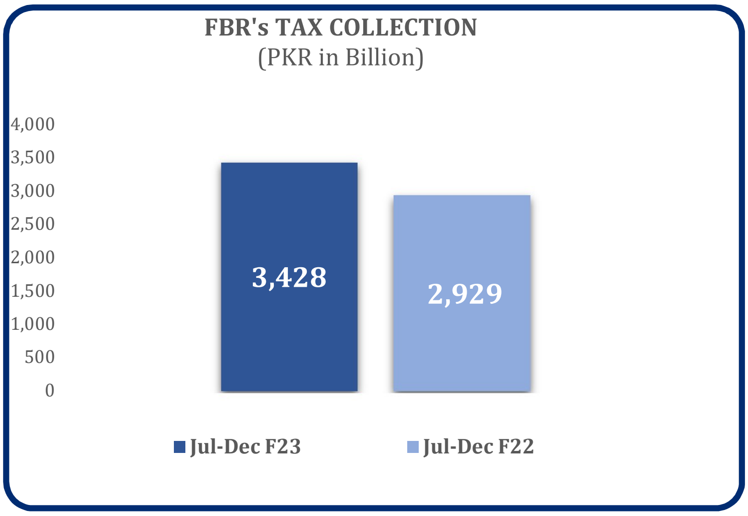


4. CONSUMER PRICE INDEX INFLATION:

The monthly rate of inflation has risen to 24.5% in December 2022 on a Y-o-Y basis. In the previous month, the CPI was recorded at 23.8%. On an average, during the Jul-Dec period of the FY23, Pakistan's inflation rate recorded around 25.2 percent. Food inflation in Urban and rural areas also increased to 32.7% and 37.9%, respectively in December 2022. In addition to that, the wholesale price index ("WPI") stood at 27.1% on a Y-o-Y basis. In previous month WPI has been recorded around 27.7% in November. Whereas, on a monthly basis, the National CPI has recorded a rise of 0.5%. Similarly, the food inflation in rural areas increased by 0.1 percent, while no food inflation has been witnessed in urban areas, compared to November 2022. In December 2022, the Core inflation, which is calculated on the basis of excluding energy and food items, rose by 14.7% and 19.0% in urban and rural areas on a Y-o-Y basis, respectively.



5. FBR TAX REVENUE COLLECTION:

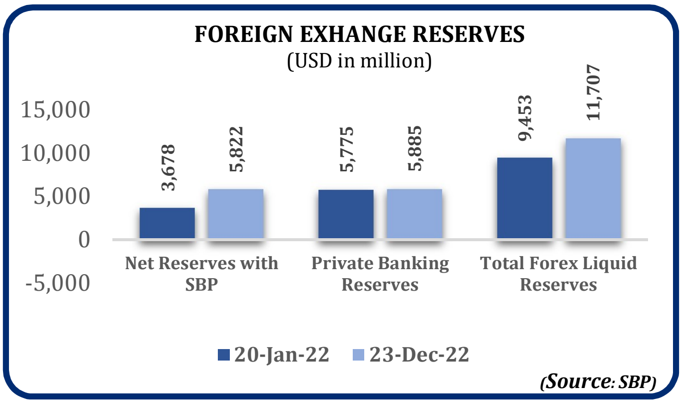


According to official data published by the FBR, the FBR has collected tax revenue worth PKR 740 billion in Dec 2022 and failed to achieve both, its monthly target of PKR 965 billion and Jul-Dec target of PKR 3.65tr. Targets have not been achieved amidst the pursuance of contractionary policies. When compared with previous year tax collection in Jul-Dec period, taxes grew by 17.0% or PKR 500 billion. As per Mr. Shahbaz Rana's article titled "Rs220 billion hole surfaces against FBR's target" published on 31sr Dec 2022 in the Express Tribune, of the PKR 3.428r, FBR collected PKR 1.5tr in income tax, while share of taxes at import stage dropped to 43% amidst rise in income tax and contraction of imports. Whereas, share of Sales tax is PKR 1.27tr."

FOREIGN EXCHANGE RESERVES:

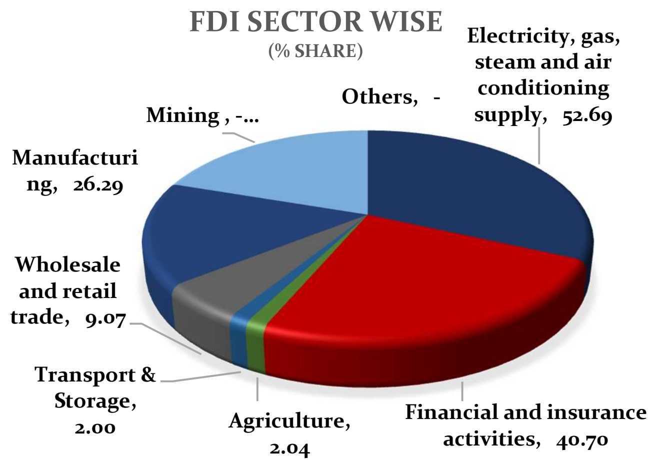
The net reserves of the SBP stood at $3.68 billion as of 20th January 2023, decreasing by 20% or $923 million compared with last week's $4.60 billion on 13th Jan 2023. Moreover, when compared to last month reserves which was then $5.8 billion, went down 36.8%.

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 the verge of declining.

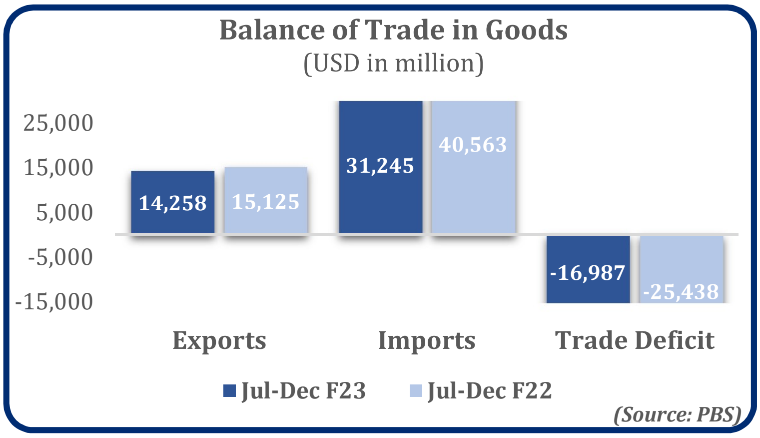


6. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has depreciated by 58.7% or $654 million to $461 million provisionally during Jul-Dec FY23, as compared to $1,115 million during Jul-Dec FY22. Whereas, the total net Foreign Investment declined by almost 181 times or $1,281 million to negative $(397) million on a Y-o-Y basis in Jul-Dec FY23 as against the amount of $709 million in Jul-Dec FY22. This Pie chart shows the percentage share of flows in different sectors of the Economy in the period of Jul-Dec FY23.



7. BALANCE OF TRADE IN GOODS:

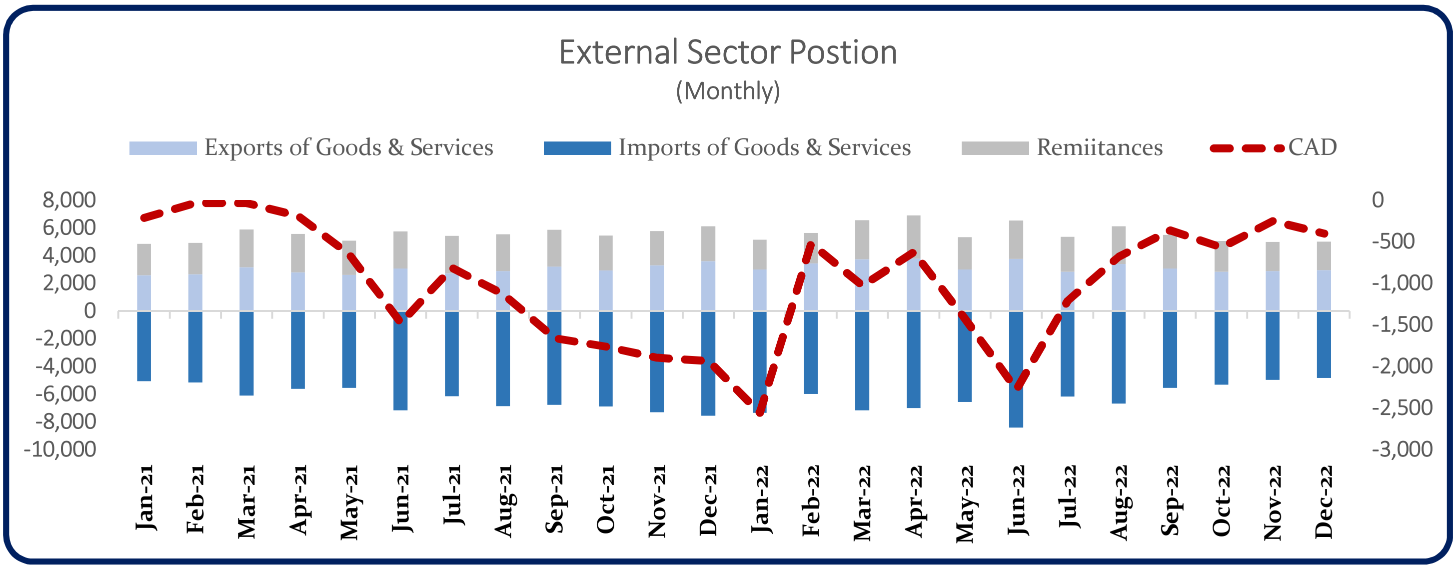


As per the PBS, Pakistan's trade deficit shrunk by a good margin of 33% to almost $17.0 billion during the period of Jul-Dec of FY23 vs. same period of FY22 amidst a steep deduction in import bills. As far as Exports are concerned, it went down by 5.73% to USD 14.26 billion in FY23's period of Jul-Dec compared to USD 15.12 billion in same period of FY22. Whereas, on a monthly basis, the exports decreased by 3.26% to $2.31 in December 2022 from $2.39 billion in November 2022. Addionally, the country's trade deficit rose by a slight margin of 1.79% to $2.84 in December 2022 from $2.79 in November 2022 on a month on month basis.

8. BALANCE OF PAYMENT:

Pakistan's CAD has slightly increased to $400 million, which is still a sustainable level, when compared to a deficit of $1.86 billion in the last FY22's December month. Latest data released by the State Bank of Pakistan ("SBP") showed. This is the fifth consecutive month where CAD has below the $1 billion mark amidst a notable decline in the import bills. On a cumulative basis from July to December in the ongoing FY23, the CAD declined by $5.42 billion to $3.67 billion, compared to a relatively large deficit of $9.09 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 approx. USD 10-12 billion in FY23.

(USD in millions)	FY23 P (Jul-Dec)	FY22 (Jul-Dec)
Current account Balance	(3,667)	(9,091)
Capital Account Balance	285	119
Financial Account Balance	1,204	(10,105)
Net FDI in Pakistan	668	(1,070)
Net Portfolio investment	1,031	374
Net incurrence of Liabilities	(868)	9,823
Overall Balance	4,284	(788)
SBP Gross Reserve	5,702	17,837
		(Source: SBP)

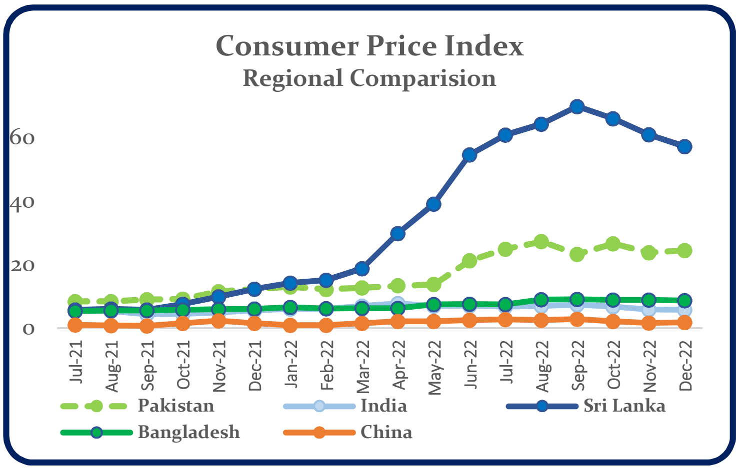


9. Regional Analysis:

On a Y-o-Y basis, double digit inflation was observed only in Pakistan and Srilanka. Whereas, the Bangladesh and Indian economy are gradually stimulating and inflation is declining over there. However, the Pakistani economy has faced a fragile situation that is why CPI is on the rise. Simultaneously, exchange volatility has hit the Pakistani economy very badly. On the other hand, the Srilankan rupee is relatively stable against the greenback in last six months, therefore, a decline in CPI has been reported in Srilanka. While, India also had a stable currency, and hence, the impact of rising inflation didn't haunt their economy too much. Similarly, China has 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 27th Jan)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	24.5	262.6	(48.4)
India	5.72	81.51	(8.63)
Bangladesh	8.71	105.5	(22.9)
China	1.80	6.76	(6.04)
Sri Lanka	57.2	362.0	(80.1)

(Source: Trading Economics)



OUTLOOK:

- In the last quarter, the economy of Pakistan, realized a few economic challenges. Despite, decline of inflation rate in previous month, inflation remains elevated. Particularly, core inflation is on a rising trend. It is very likely amidst uncertain situation of the economy that the inflation expectations are going to go up for consumers and business owners in the coming month.
- Secondly, despite the policy-induced decline in the CAD, numerous challenges for the external sector have risen such the case observed with the Pakistan's domestic currency. Furthermore, lack of recent financial inflows and current debt repayments have led to a depletion in official reserves.
- Thirdly, the global economic activity has slowed down and with that, a decline has been observed in the global commodity demand which has had an adverse impact on the outlook of National exports, and a decline has also been witnessed in worker's remittances which is ultimately offsetting the gains from the contraction of imports. On the other hand, if the international financial condition stabilizes and there is an improvement in the worldwide commodity market in the future, then it might provide some relief to Pakistan's economic position.
- The IMF on last Thursday announced to sending its team to Pakistan in next week for the 9th review of the $7 billion loan tranche which has been much waited. However, the Resident Representative of the IMF stated that, "At the request of the Pakistan's officials, an in-person fund mission is scheduled to visit Islamabad from January 31 to February 9 to continue discussions under the 9th Extended Fund Facility ("EFF") review". This seems to be a positive development for the economy of Pakistan.
- In this havoc like situation, Pakistan badly needs to streamline its taxation system to attain a likely tax target worth of 7.47 trillion rupee for the next fiscal year and to meet other financing need for the rest of the FY23. The Government needs to correct the fractured system of taxation and should remedy the inequity of taxes in Pakistan. Otherwise, it may be difficult for Pakistan to meet its tax target by June 2023.
- Among very few options in this difficult time, the practical way forward in the recession period will be to cut down on non-essential imports, which the current regime has done brilliantly. Furthermore, the government needs to raise the incentives for the production of essential food items and productivity in the manufacturing industries. Moreover, the Government should consider shifting their policy focus to targeted subsidies and for the implementation of crucial reforms to diversify the structure of the Pakistan's economy in order to build a resilient economy.
- In addition to that, Pakistan has to remain engaged with IMF to complete ongoing programme, which is the best possible way out for Pakistan's economy. Subsequent to that, SBP need to impose strict regulations to curb dollar hoarding, as it has an adverse effect on foreign remittance of Pakistan due to numerous artificial rate prevailing in exchange markets.
- 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.