HIGHLIGHTS:

- As per the Ministry of Finance ("MoF"), Pakistan's fiscal deficit recorded at 2% of the GDP in the first six months of the ongoing Fiscal Year 2022-23 ("FY23"). However, the Primary balance is 1.1% of GDP.
- In the Inter-bank market, the National currency value stood at a level of PKR 259.9/USD as of 27th of February 2023. After reaching the historic level of 276.58/USD on 3rd of February, the PKR has appreciated consistently against USD barring two to three sessions.
- Pakistan's Large-Scale Manufacturing ("LSM") growth contracted by 3.51% during December 2022 vs. the last year. However, on a Month-on-Month comparison ("M-o-M"), the LSM growth increased by 12.38% compared to the previous month of November 2022 (Base Year 2015-16).
- The cumulative inflows of deposits in the Roshan Digital Accounts ("RDA") reached $5.69 billion at the end of January 2023.
- As per the SBP, the remittances sent by Overseas Pakistani workers decreased by 9.09% to $1.89 billion in January 2023 vs. $2.10 billion in December 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 537 billion in January 2023 and achieved the monthly target.
- The Net foreign currency reserves held by the SBP stood at $3.26 billion as of 17th February 2023.
- The Broad Money (M2) stock from 1st of July 2022 to 27th January 2023 has reached to PKR 122 billion, as compared to an expansion of PKR 175 billion last year in the same period.
- According to the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 27.6% on a year-on-year ("Y-o-Y") basis in January 2023 vs. 13.0% last year.
- As per the PBS, Pakistan's Exports decreased by 2.98% to $2.24 billion in January 2023 vs. $2.31 billion in December 2022 on a M-o-M basis.
- Pakistan's Net FDI has depreciated by 44.2% or $541 million to $684 million provisionally during Jul-Jan FY23, as compared to $1,225 million during Jul-Jan FY22.
- Whereas, the total net Foreign Investment declined by almost 118 times or $2,217 million to negative $(341) million on a Y-o-Y basis in Jul-Jan FY23 as against the amount of $1,875 million in Jul-Jan FY22.
- The country has posted a Current account deficit ("CAD") of $3.80 billion in FY23's Jul-Jan 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)	December	↓	(3.51)%	5.37%
Central Government Debt	December	↑	PKR 50.99Trillion	PKR 41.54 Trillion
Credit to Private Sector	Jul – 27th Jan	↓	PKR 435 Billion	PKR 807 Billion
Roshan Digital Account	January	↓	US$ 110 Million	US$ 222 Million
Worker's Remittances	January	↓	US $1,894 Million	US $2,144 Million
Currency in Circulation	Jul – 27th Jan	↑	PKR 290 Billion	PKR 155 Billion
Net Government Sector borrowing	Jul – 27th Jan	↑	PKR 1,618 Billion	PKR 130 Billion
National CPI (Base Year 2015-16)	January	↑	27.6%	13.0%
FBR Tax Collection	Jul-Jan	↑	PKR 3,965 Billion	PKR 3,367 Billion
Foreign Exchange Reserves with SBP	As of 17th Feb	↓	$3.26 Billion	$16.80 Billion
Foreign Direct Investments	Jul-Jan	↓	$684 Million	$1,225 Million
Trade Deficit in Goods	Jul-Jan	↓	US$ (19.59) Billion	US$ (28.86) Billion
Current Account Deficit	Jul-Jan	↓	$(3,799)Million	$(11,558)Million

1. LARGE SCALE MANUFACTURING:

According to the PBS, Pakistan's LSM sector showed a contraction of 3.51% in December 2022 on a Y-o-Y basis vs. December 2021. However, on a M-o-M basis, the overall output growth increased by 12.38%, compared to the month of November 2022. This is a second consecutive month in which the LSM sector 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 3.68%.

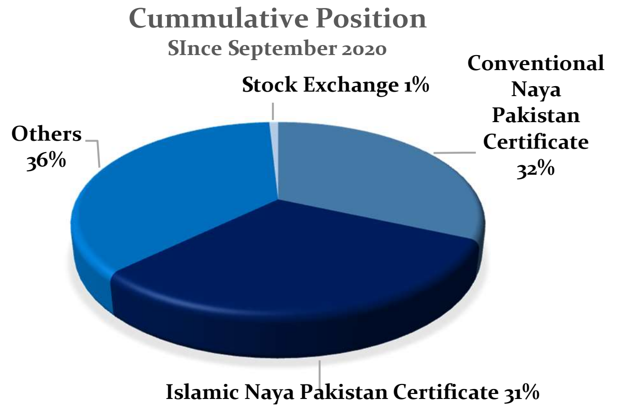
Out of 22 major industries, only 4 industries posted a surge in production during the first six months of FY23 as compared to last FY22's same period. These include wearing apparel, leather products, furniture, and other manufacturing section. However, the output in Food, beverages, tobacco, textile, 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, transport equipment, 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 14.2% and 7.2%, while garment showed growth of 46.6% in the period of Jul-Dec 2022. Whereas, the cement industry declined by rate of 15.1%.

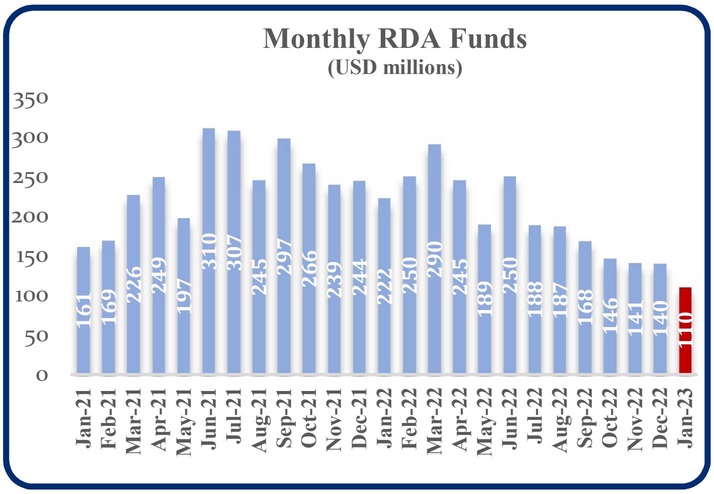
LSM (%)	Weight	Dec-22	Nov-22	Dec-21	Jul-Dec 2022-23
Textile	**18.2**	(21.24)	(22.04)	(0.67)	**(4.01)**
Food	**10.7**	11.05	(13.61)	2.65	**2.58**
Coke & Petroleum Products	**6.7**	3.53	5.26	(21.56)	**0.20**
Chemicals	**6.5**	(3.82)	(7.06)	11.08	**(0.29)**
Wearing Apparel	**6.1**	25.50	49.70	17.10	**2.27**
Pharmaceuticals	**5.2**	(12.72)	(8.34)	(14.27)	**(0.63)**
Non-Metallic Minerals Products	**5.0**	(8.64)	(13.07)	6.02	**(0.61)**
Beverages	**3.8**	(12.45)	9.97	(1.26)	**(0.34)**
Iron and Steel Products	**3.4**	(8.12)	(8.71)	13.40	**(0.38)**
Automobiles	**3.1**	(36.22)	(18.97)	75.72	**(1.72)**
Tobacco	**2.1**	(28.83)	(20.25)	50.74	**(0.74)**
Electrical Equipment	**2.0**	(4.40)	(3.28)	14.53	**(0.13)**
Paper & Board	**1.6**	(1.46)	(1.32)	20.13	**(0.03)**
Leather Products	**1.2**	(0.72)	9.84	1.40	**0.00**
Other Transport Equipment	**0.7**	(27.52)	(41.01)	(21.86)	**(0.18)**
LSM Growth for Dec 2022 (Y/Y)					**(3.51)%**
LSM Growth of Dec 2022 vs. Nov 2022 (M/M)					**12.38%**
LSM Growth for July-Dec 2022-23 (Y/Y)					**(3.68)%**

(Source: PBS)

2. Roshan Digital Account ("RDA"):

The cumulative inflows of deposits under the RDA reached $5.69 billion since its announcement in September 2020. Out of the $5.69 billion, approximately two-thirds, $3.57 billion or 63% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 524,822 accounts have been opened from 175 countries during the span of over two years.





(Source: SBP)

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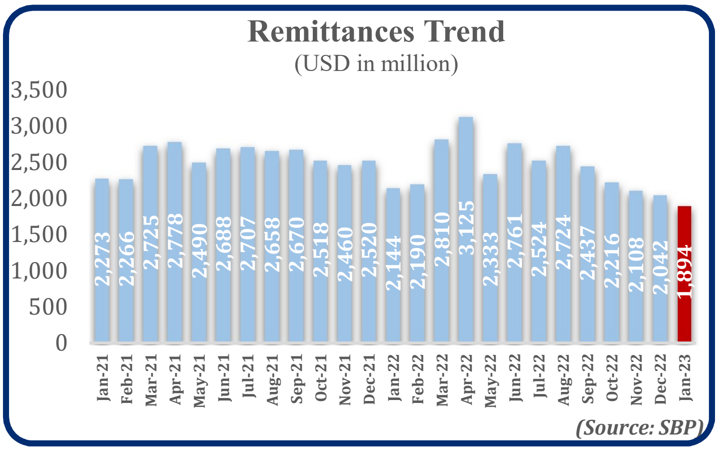
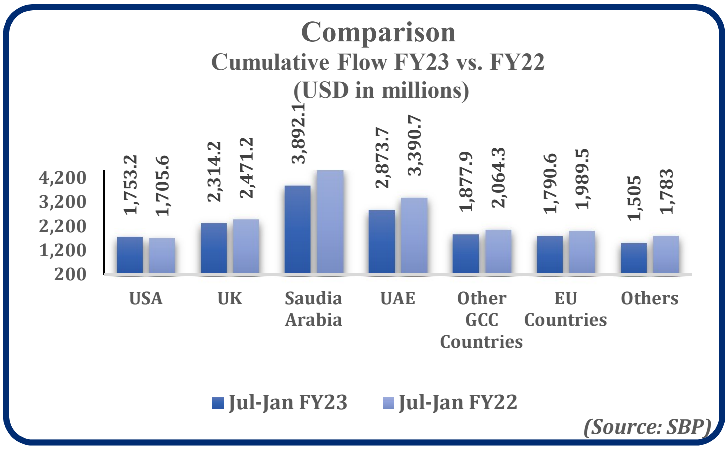
3. WORKER'S REMITTANCES:

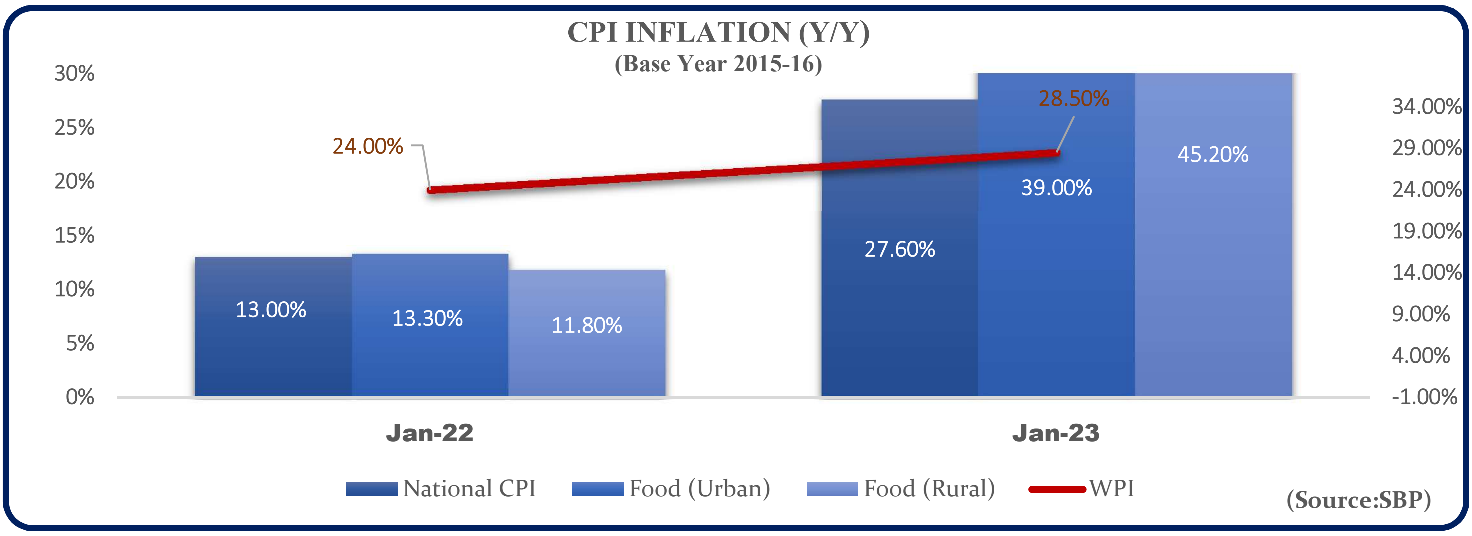
According to the SBP, the remittances sent by Overseas Pakistani workers decreased by 9.09% to $1.89 billion in January 2023 vs. $2.10 billion in December 2022 on a M-o-M basis. Similarly, on a y-o-y comparison, the inflows went down by 13.14% when compared to $2.18 billion received a year ago in the same month. In addition to that, in Jul-Jan period of FY23, inflows declined by 11.0% to $16.00 billion compared to $17.99 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-Jan period, where it grew by almost 9.30%. A descriptive analysis has revealed that remittances inflows during the Jul-Jan period of FY23 were coming mainly from four major territories: Saudi Arabia, UAE, UK, and the USA. With a 24.32% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflows from Saudi Arabia have a negative growth of 15.1% to $3.89 billion in Jul-Jan period of FY23 vs. $4.58 billion during same period of FY22. An amount to the tune of $1.75 billion, or a 10.95% share, was received from the US, showing increase of 2.80% in Jul-Jan of FY23 vs. Jul-Jan period of FY22. Worker remittances from the UK decreased by 6.40% and although it's contributed 14.46% or $2.31 billion in first seven months of FY23 over same period of FY22. On the other hand, remittance growth from UAE declined at a rate of 15.20%, while its share is $2.87 billion or almost 18.0% share in the total remittances.



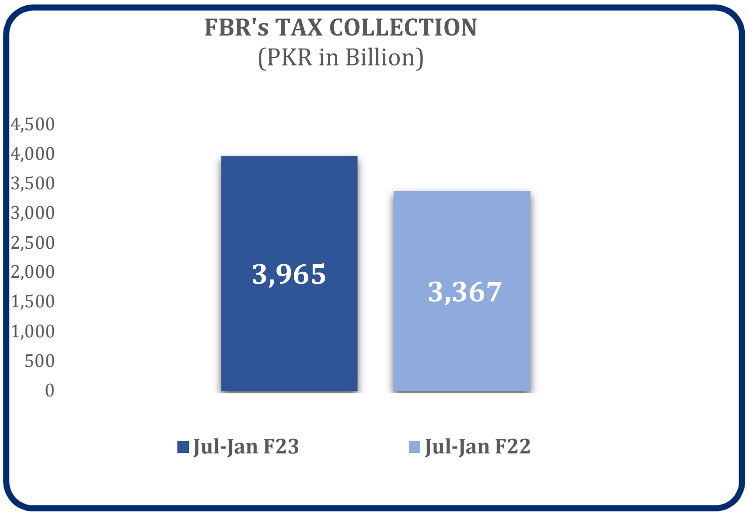


4. CONSUMER PRICE INDEX INFLATION:

In the starting month of 2023, the monthly CPI inflation has risen to 27.6% in January 2023 on a Y-o-Y basis. In the previous month, the CPI was recorded at 24.5%. On an average, during the Jul-Jan period of the FY23, Pakistan's inflation rate recorded around 25.41 percent. Food inflation in Urban and rural areas also increased to 39.0% and 45.2%, respectively in January 2023. In addition to that, the wholesale price index ("WPI") stood at 28.5% on a Y-o-Y basis. In the previous month, the WPI has been recorded around 27.1% in November. Whereas, on a monthly basis, the National CPI has recorded a rise of 2.9%. Similarly, the food inflation in urban and rural areas increased by 3.9% and 5.7%, respectively, compared to December 2022. Moreover, in January 2023, the Core inflation, which is calculated on the basis of excluding energy and food items, rose by 15.4% and 19.4% in urban and rural areas on a Y-o-Y basis, respectively.



5. FBR TAX REVENUE COLLECTION:

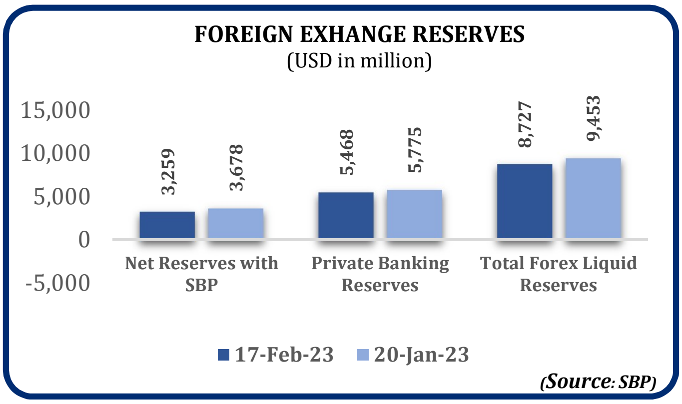


According to official data published by the FBR, the FBR has collected tax revenue worth PKR 537 billion in Jan 2023 surpassing the monthly target by PKR 4 billion. Moreover, the overall collection shortfall narrowed to PKR 214 billion. When compared with previous year tax collection in Jul-Jan period, the tax collection grew by 17.6% or PKR 598 billion. As per Mr. Shahbaz Rana's article titled "Tax shortfall narrows to Rs214b" published on 1sr Feb 2023 in the Express Tribune, of the PKR 3.97tr, FBR collected PKR 1.74tr or 48% in income tax, while the Federal excise duty collection stood at Rs190 billion as due to import contraction the target thereof was missed by PKR 19 billion. Whereas, the share of Sales tax is PKR 1.47tr.

FOREIGN EXCHANGE RESERVES:

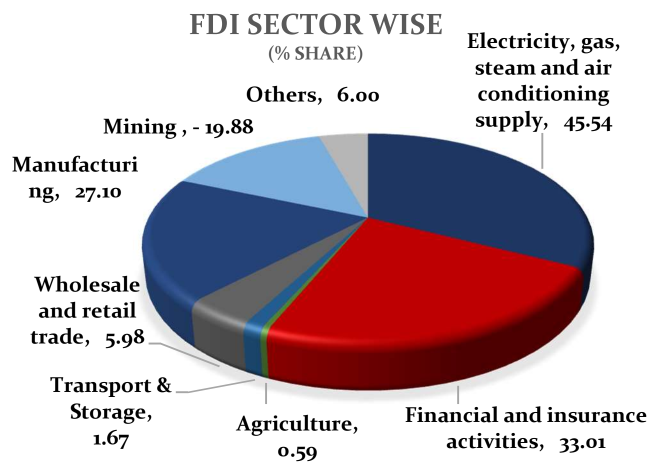
The Net reserves of the SBP stood at $3.26 billion as of 17th February 2023, increasing by 2.05% or $66 million compared to last week's reserves of $3.19 billion on 10th Feb 2023. Moreover, when compared to last month reserves which was then $3.68 billion, went down 11.4%.

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 have been declining.

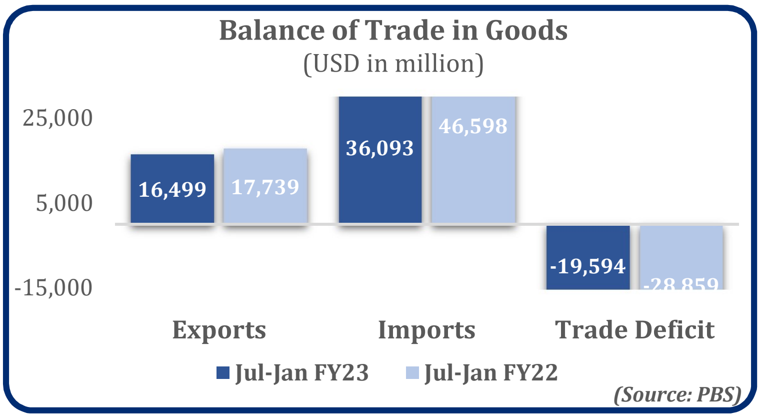


6. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has depreciated by 44.2% or $541 million to $684 million provisionally during Jul-Jan FY23, as compared to $1,225 million during Jul-Jan FY22. Whereas, the total net Foreign Investment declined by almost 118 times or $2,217 million to negative $(341) million on a Y-o-Y basis in Jul-Jan FY23 as against the amount of $1,875 million in Jul-Jan FY22. This Pie chart shows the percentage share of flows in different sectors of the Economy in the period of Jul-Jan FY23.



7. BALANCE OF TRADE IN GOODS:

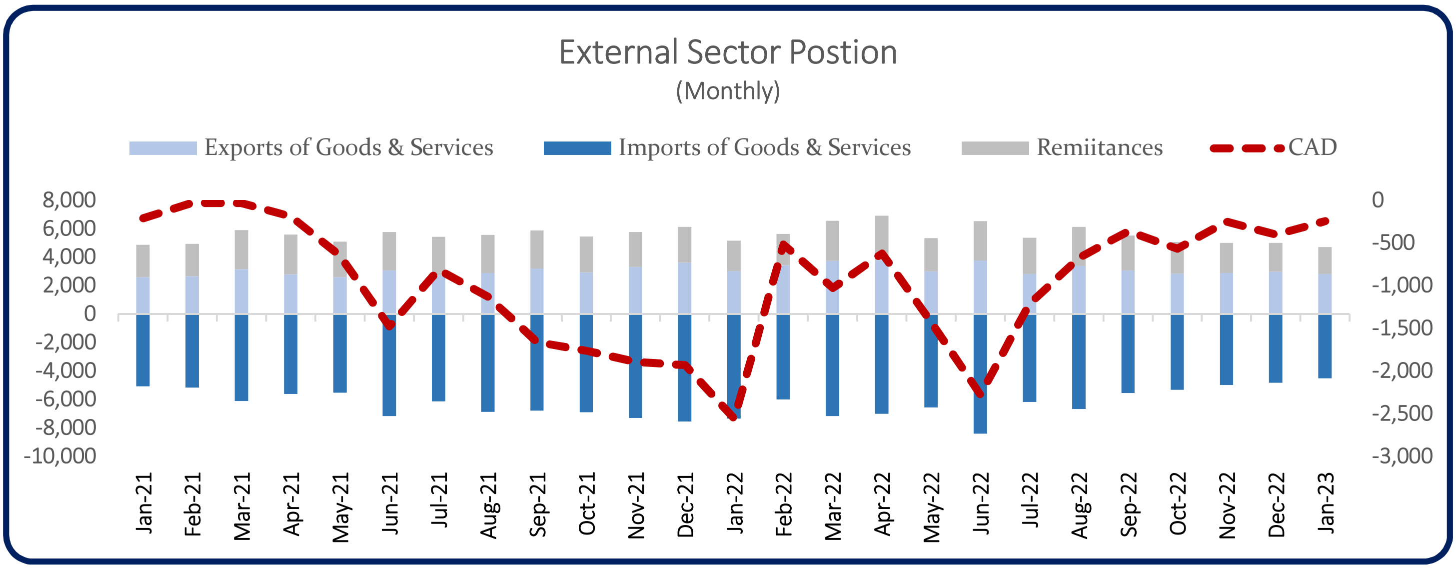


As per the PBS, Pakistan's trade deficit shrunk by a good margin of 32% to almost $19.59 billion during the period of Jul-Jan of FY23 vs. same period of FY22 amidst a steep deduction in import bills. As far as Exports are concerned, the same has decreased by 7.0% to USD 16.5 billion in FY23's period of Jul-Jan compared to USD 17.74 billion in same period of FY22. Whereas, on a monthly basis, the exports decreased by almost 3% to $2.24 in January 2023 from $2.31 billion in December 2022. Additionally, the country's trade deficit went down by a margin of 7.39% to $2.63 in January 2023 from $2.84 in December 2022 on a month on month basis.

8. BALANCE OF PAYMENT:

Pakistan's CAD has dropped down to $242 million, which is a sustainable level, when compared to a huge deficit of $2.47 billion in the last FY22's January month, as per the latest data released by the State Bank of Pakistan ("SBP") showed. This is the sixth 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 January in the ongoing FY23, the CAD has declined by $7.76 billion to $3.80 billion, compared to a relatively large deficit of $11.56 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 9-10 billion in FY23.

(USD in millions)	FY23 P (Jul-Jan)	FY22 (Jul-Jan)
Current account Balance	(3,799)	(11,558)
Capital Account Balance	325	139
Financial Account Balance	3,187	(11,574)
Net FDI in Pakistan	474	(1,146)
Net Portfolio investment	1,023	(670)
Net incurrence of Liabilities	(3,135)	10,713
Overall Balance	6,539	(299)
SBP Gross Reserve	3,204	16,714
		(Source: SBP)

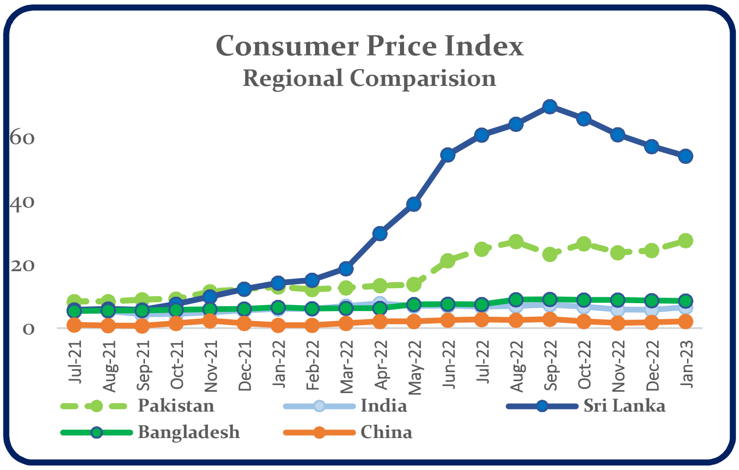


9. Regional Analysis:

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 rate volatility has hit the Pakistani economy very badly. On the other hand, the Srilankan rupee has been relatively stable against the greenback during the previous six months, therefore, a decline in CPI has been reported in Srilanka. Moreover India has also had a stable currency, and hence, the impact of rising inflation has not haunted their economy that 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 27th Feb)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	27.6	259.92	(46.76)
India	6.52	82.72	(10.27)
Bangladesh	8.57	106.59	(24.01)
China	2.10	6.95	(10.18)
Sri Lanka	54.2	360.70	(78.25)

(Source: Trading Economics)



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OUTLOOK:

- With the start of 2023, things are not looking good for the economy. Pakistan badly needs to enact economic stabilization strategies for a long term period to correct critical imbalances that threaten the country's economic viability. Moreover, Pakistan has to follow the contractionary policies prescribed by the IMF, leaving no room for the Government's desire to attain a high economic growth in the ongoing fiscal year potentially in the coming fiscal year.
- In the staff level meeting with Pakistan, the major focus of the IMF is on the fiscal position. Gladly, during the past six month, a primary surplus of 1.1% to the GDP has been attained. There is an agreement with the government of Pakistan, to sustain a primary surplus till the end of on going FY23. Along with that, additional taxation measures worth PKR 170 billion have been introduced in order to create much needed fiscal space for the country. As per the Finance Ministry, the additional PKR 170 billion taxes have not been imposed to cover any revenue shortfall in the FBR annual target of PKR 7.470 trillion. Instead, as per the Finance Ministry, the additional taxes have been imposed to offset the projected PKR 755 billion circular debt flow".
- We expect that due to the efficient efforts by the Government, Pakistan will be successful in limiting the consolidated fiscal deficit to 6% to the GDP by the end of FY23. This will still symbolize a significant attempt in achieving much needed reduction in the budget deficit which is almost 2% of the GDP when compared with the previous fiscal year level.
- There is also a need for contractionary monetary policies to curb inflation, which has been projected to be above 25% in the ongoing fiscal year. Following that, the IMF is also seeking a big adjustment in policy rate to curtail the inflationary pressure, as they believe that delayed action will delay the slowdown of inflation.
- Among very few options in this difficult time, the practical way forward during the recession period will be to cut down on non-essential imports, which the current regime has done brilliantly. Moreover, the Government needs to raise the incentives for the production of essential food items and productivity in the manufacturing industries. Furthermore, 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 the ongoing programme, which is the best possible way out for Pakistan's economy. Subsequent to that, the SBP needs to impose strict regulations to curb dollar hoarding, as it has had an adverse effect on foreign remittance of Pakistan due to numerous artificial rates prevailing in the 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.