## HIGHLIGHTS:

- As per the Federal Board of revenue ("FBR"), Pakistan's annual tax collection target has been revised upward to PKR 7.64tr from PKR 7.47tr for the Fiscal Year 2022-23 ("FY23").
- The SBP has raised the policy rate by 300 bps, from 17% to 20%, in Monetary Policy Committee's ("MPC") in the month of March. The SBP stated that the reason for this interest rate hike is due to high inflation expectations.
- In the Inter-bank market, the National currency value stood at a level of PKR 283.55/USD as of 28th of March 2023. After reaching the historic level of 285.09/USD on 2nd of March 2023, the PKR has appreciated gradually against USD.
- Pakistan's Large-Scale Manufacturing ("LSM") growth contracted by 7.90% during January 2023 vs. the last year. However, on a Month-on-Month comparison ("M-o-M"), the LSM growth increased by 1.48% compared to the previous month of December 2022 (Base Year 2015-16).
- The cumulative inflows of deposits in the Roshan Digital Accounts ("RDA") reached $5.81 billion at the end of February 2023.
- As per the SBP, the remittances sent by Overseas Pakistani workers increased by almost 5.0% to $1.99 billion in February 2023 vs. $1.89 billion in January 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 527 billion in February 2023 and achieved its monthly target.
- The Net foreign currency reserves held by the SBP stood at $4.60 billion as of 17th March 2023.
- The Broad Money (M2) stock from 1st of July 2022 to 11th March 2023 has reached to PKR 642 billion, as compared to an expansion of PKR 375 billion last year in the same period.
- According to the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 31.5% on a year-on-year ("Y-o-Y") basis in February 2023 vs. 12.2% last year.
- As per the PBS, Pakistan's Exports decreased by 2.36% to $2.19 billion in February 2023 vs. $2.24 billion in January 2023 on a M-o-M basis.
- Pakistan's net FDI has depreciated by 40.4% or $531 million to $784 million provisionally during Jul-Feb FY23, as compared to $1,316 million during Jul-Feb FY22.
- The total net Foreign Investment declined by almost 112 times or $2,141 million to negative $(235) million on a Y-o-Y basis in Jul-Feb FY23 as against the amount of $1,906 million in Jul-Feb FY22.
- The country has posted a Current account deficit ("CAD") of $3.86 billion in FY23's Jul-Feb 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) | January | ↓ | (7.90)% | 8.92% |
| Central Government Debt | January | ↑ | PKR 54.94 Trillion | PKR 47.78 Trillion |
| Credit to Private Sector | Jul – 11th March | ↓ | PKR 248 Billion | PKR 911 Billion |
| Roshan Digital Account | February | ↓ | US$ 125 Million | US$ 250 Million |
| Worker's Remittances | February | ↓ | US $1,988 Million | US $2,196 Million |
| Currency in Circulation | Jul – 11th March | ↑ | PKR 719 Billion | PKR 401 Billion |
| Net Government Sector borrowing | Jul – 11th March | ↑ | PKR 2,250 Billion | PKR 173 Billion |
| National CPI (Base Year 2015-16) | February | ↑ | 31.5% | 12.2% |
| FBR Tax Collection | Jul-Feb | ↑ | PKR 4,493 Billion | PKR 3,820 Billion |
| Foreign Exchange Reserves with SBP | As of 17th March | ↓ | $4.60 Billion | $14.96 Billion |
| Foreign Direct Investments | Jul-Feb | ↓ | $784 Million | $1,906 Million |
| Trade Deficit in Goods | Jul-Feb | ↓ | US$ (21.44) Billion | US$ (31.88) Billion |
| Current Account Deficit | Jul-Feb | ↓ | $(3,861) Million | $(12,077) Million |

## 1. LARGE SCALE MANUFACTURING:

According to the PBS, Pakistan's LSM sector showed a contraction of 7.90% in January 2023 on a Y-o-Y basis vs. January 2022. However, on a M-o-M basis, the overall output growth increased by 1.48%, compared to the month of December 2022. This is a third consecutive month in which the LSM sector recorded a growth on a month on month basis. Moreover, during the Jul-Jan period of the Fiscal year 2022-23, the growth rate of large industries contracted by 4.40%.

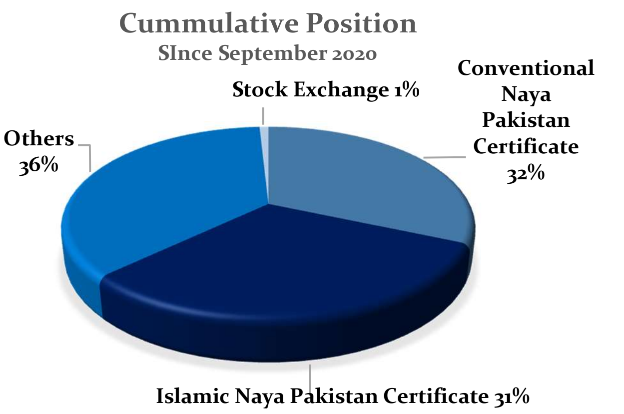
Out of 22 major industries, only 4 industries posted a surge in production during the Jul-Jan months of FY23 as compared to last FY22's same period. These include wearing apparel, leather products, furniture, and other manufacturing section. However, the output in Food, beverages, tobacco, textile, coke 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-Jan 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 16.45% and 8.70%, while garment showed growth of 44.47% in the period of Jul-Jan 2022. Whereas, the cement industry declined by rate of 13.06%.

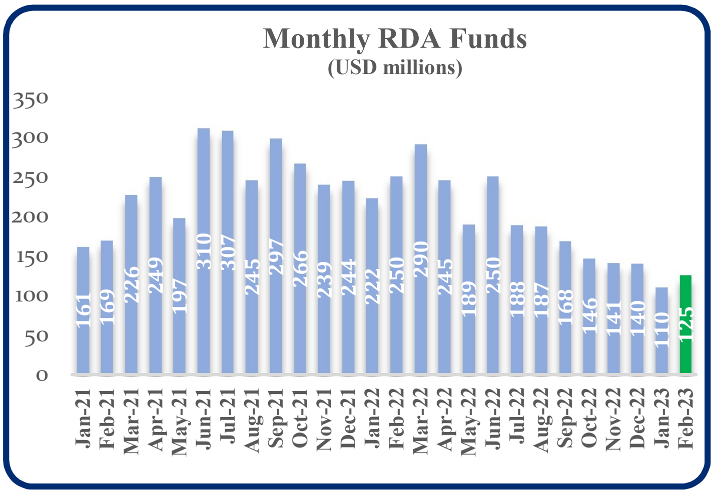
| LSM (%) | Weight | Jan-22 | Dec-22 | Jan-21 | Jul-Jan 2022-23 |
|---|---|---|---|---|---|
| **Textile** | **18.2** | (14.20) | (21.24) | (0.22) | **(2.71)** |
| **Food** | **10.7** | 0.04 | 11.05 | 11.40 | **(0.32)** |
| **Coke & Petroleum Products** | **6.7** | (1.81) | 3.53 | (1.01) | **(0.69)** |
| **Chemicals** | **6.5** | (17.38) | (3.82) | 21.0 | **(0.28)** |
| **Wearing Apparel** | **6.1** | 32.26 | 25.50 | 7.36 | **3.89** |
| **Pharmaceuticals** | **5.2** | (23.85) | (12.72) | 6.08 | **(1.22)** |
| **Non-Metallic Minerals Products** | **5.0** | (0.18) | (8.64) | (10.68) | **(0.74)** |
| **Beverages** | **3.8** | (0.15) | (12.45) | (5.15) | **(0.31)** |
| **Iron and Steel Products** | **3.4** | (8.76) | (8.12) | 12.88 | **(0.15)** |
| **Automobiles** | **3.1** | (60.45) | (36.22) | 35.42 | **(1.55)** |
| **Tobacco** | **2.1** | (11.68) | (28.83) | 23.38 | **(0.55)** |
| **Electrical Equipment** | **2.0** | (15.50) | (4.40) | 9.14 | **(0.10)** |
| **Paper & Board** | **1.6** | (9.43) | (1.46) | 13.67 | **(0.09)** |
| **Leather Products** | **1.2** | (1.49) | (0.72) | (2.02) | **0.03** |
| **Other Transport Equipment** | **0.7** | (31.46) | (27.52) | (15.48) | **(0.31)** |
| **LSM Growth for Jan 2022 (Y/Y)** | | | | | **(7.90)%** |
| **LSM Growth of Jan 2022 vs. Dec 2022 (M/M)** | | | | | **1.48%** |
| **LSM Growth for July-Jan 2022-23 (Y/Y)** | | | | | **(4.40)%** |

*(Source: PBS)*

## 2. Roshan Digital Account ("RDA"):

The cumulative inflows of deposits under the RDA have reached $5.81 billion since its announcement in September 2020. Out of the $5.81 billion, approximately two-thirds, $3.66 billion or 63% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 536,676 accounts have been opened from 175 countries during the span of over two years.

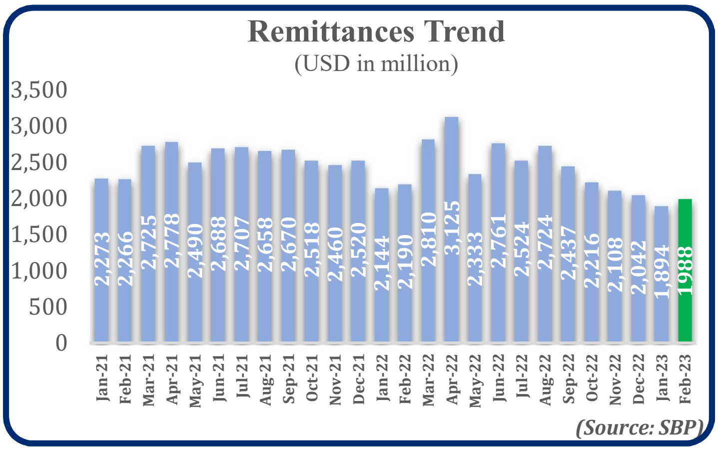


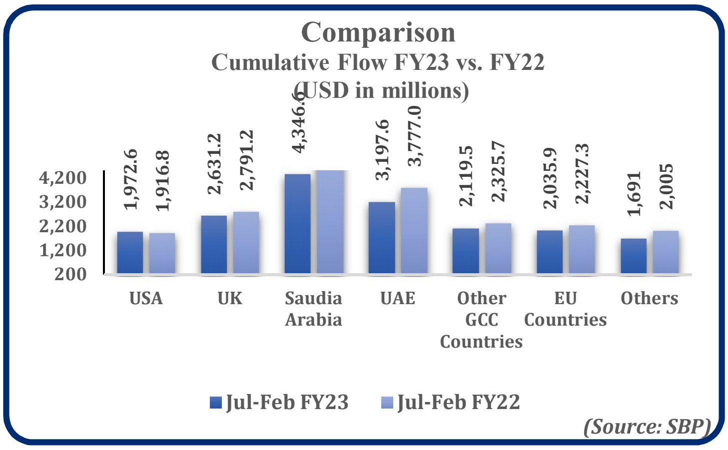




*(Source: SBP)*

## 3. WORKER'S REMITTANCES:

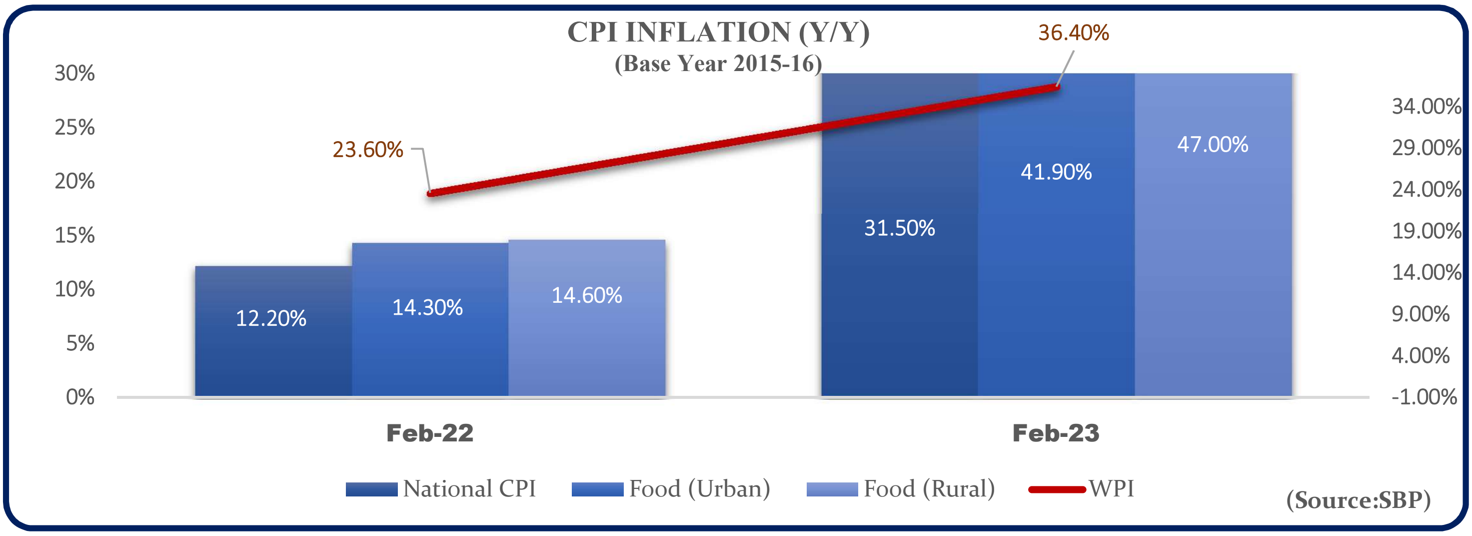
According to the SBP, the remittances sent by Overseas Pakistani workers increased by almost 5.0% to $1.99 billion in February 2023 vs. $1.89 billion in January 2022 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the inflows went down by 9.49% when compared to $2.20 billion received a year ago in the same month. In addition to that, in Jul-Feb period of FY23, inflows declined by 10.8% to $17.99 billion compared to $20.18 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-Feb period, where it grew by almost 8.0%. A descriptive analysis has revealed that remittances inflows during the Jul-Feb period of FY23 were coming mainly from four major countries: Saudi Arabia, UAE, UK, and the USA. With a 24.16% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflows from Saudi Arabia have a negative growth of 15.5% to $4.35 billion in Jul-Feb period of FY23 vs. $5.15 billion during same period of FY22. An amount to the tune of $1.92 billion, or a 10.96% share, was received from the US, showing increase of 2.90% in Jul-Feb of FY23 vs. Jul-Feb period of FY22. Worker remittances from the UK decreased by 5.70% and although it's contributed 14.62% or $2.63 billion in first eight months of FY23 over same period of FY22. On the other hand, remittance growth from UAE declined at a rate of 15.30%, while its share is $3.20 billion or 17.70% share in the total remittances.



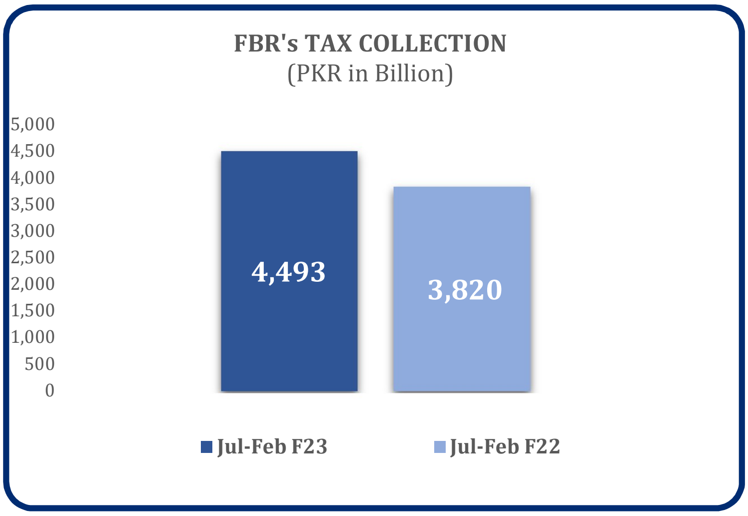




## 4. CONSUMER PRICE INDEX INFLATION:

The monthly rate of inflation spiked to 31.5% in Feb 2023 on a Y-o-Y basis in Pakistan, making it the highest year on year rate in nearly 50 years. In the previous month (January 2023), the CPI stood at 27.6%. The current inflation hike is mainly due to high costs of non-perishable food items and transportation. Food inflation in Urban and rural areas accelerated by nearly 42.0% and 47.0% in month of February 2023. In addition to that, the wholesale price index ("WPI") stood at 36.4% on a Y-o-Y basis. In the previous month, the WPI was recorded around 28.5% in January 2023. Whereas, on a monthly basis, the National CPI has recorded a rise of 4.3%. Similarly, the Food inflation in urban and rural areas increased by 4.3% and 3.9%, respectively, compared to Jan 2023. In Feb 2023, the Core inflation, which is calculated by excluding energy and food items, increased by 17.1% and 21.5% in urban and rural areas on a Y-o-Y basis, respectively.



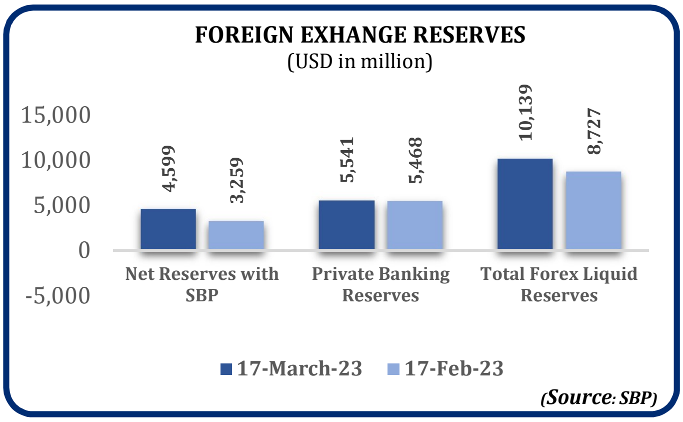
## 5. FBR TAX REVENUE COLLECTION:




As per official data published by the FBR, the FBR has collected tax revenue worth PKR 527.3 billion in Feb 2023 surpassing the monthly target by PKR 3 million. However, the overall collection shortfall came at PKR 212 billion during the Jul-Feb period. When compared with previous year tax collection during the Jul-Feb period, the tax collection grew by 17.6% or PKR 673 billion. As per Mr. Shahbaz Rana's article titled "Mini-budget fails to help narrow tax shortfall" published on 1st March 2023 in the Express Tribune, out of the PKR 4.49tr, FBR collected, PKR 1.96tr or 47% pertains to income tax, while the Federal excise duty collection stood at PKR 216 billion amidst import contraction the target thereof was missed by PKR 23 billion.

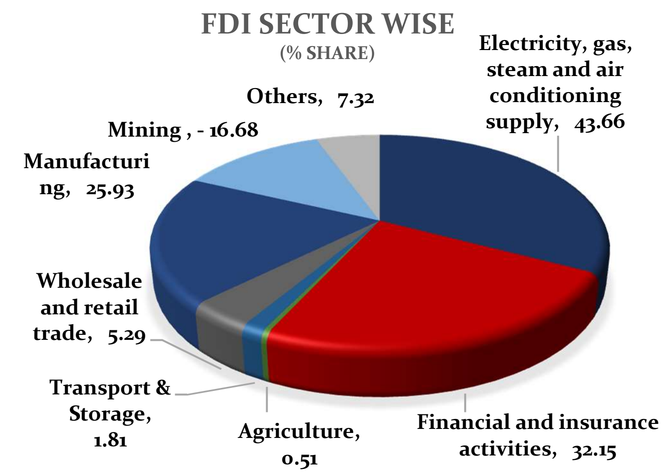
## FOREIGN EXCHANGE RESERVES:

The Net reserves of the SBP stood at $4.60 billion as of 17th March 2023, increasing by 6.50% or $280 million compared to last week's reserves of $4.31 billion on 10th March 2023. Moreover, when compared to last month reserves (which were then $3.26 billion), the Net reserves have gone up up by 41%, amidst disbursement of $1 billion from Commercial Bank of China ("ICBC"). 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 have been declining.

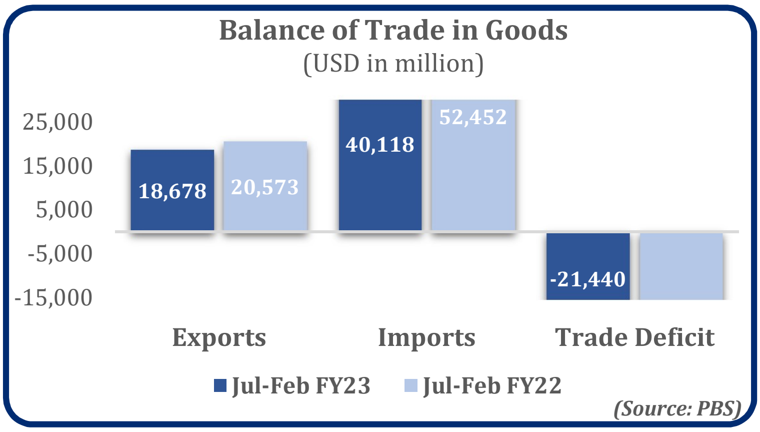



## 6. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has depreciated by 40.4% or $531 million to $784 million provisionally during Jul-Feb FY23, as compared to $1,316 million during Jul-Feb FY22. Whereas, the total net Foreign Investment declined by almost 112 times or $2,141 million to negative $(235) million on a Y-o-Y basis in Jul-Feb FY23 as against the amount of $1,906 million in Jul-Feb FY22. This Pie chart shows the percentage share of flows in different sectors of the Economy in the period of Jul-Feb FY23.




## 7. BALANCE OF TRADE IN GOODS:

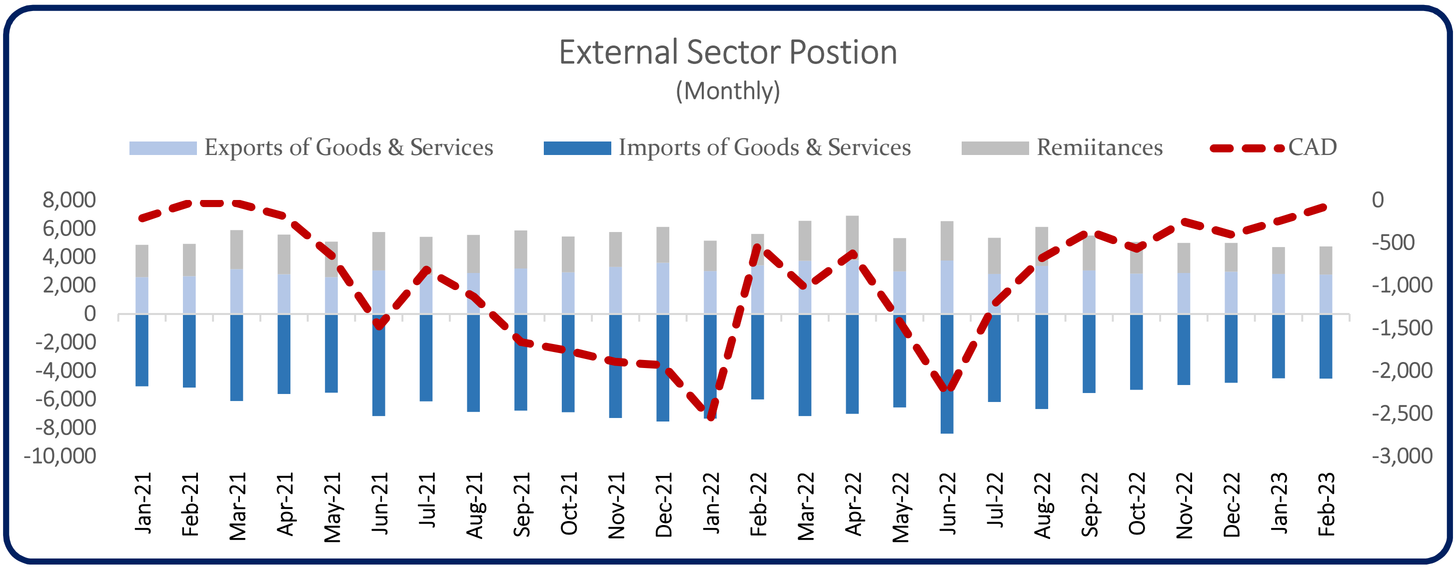



As per the PBS, Pakistan's trade deficit shrunk by a good margin of 32.75% to almost $21.44 billion during the period of Jul-Feb of FY23 vs. same period of FY22 amidst a steep deduction in import bills. As far as Exports are concerned, the same has decreased by 9.2% to USD 18.68 billion in FY23's period of Jul-Feb compared to USD 20.57 billion in same period of FY22. Whereas, on a monthly basis, the exports decreased by 2.36% to $2.19 in Feb 2023 from $2.24 billion in Jan 2023. Additionally, the country's trade deficit went down by a healthy margin of almost 30% to $1.84 in February 2023 from $2.63 in January 2023 on a month on month basis.

## 8. BALANCE OF PAYMENT:

Pakistan's CAD has dropped down to $74 million, which is a very feasible level, when compared to a large deficit of $517 million in the last FY22's February month, as per the latest data released by the SBP. This is the seventh consecutive month where CAD has been below the $1 billion mark amidst a notable decline in the import bills. On a cumulative basis from July to February in the ongoing FY23, the CAD has declined by $8.22 billion, to $3.86 billion, compared to a relatively large deficit of $12.07 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 7-8 billion in FY23.

| (USD in millions) | FY23 P (Jul-Feb) | FY22 (Jul-Jan) |
|---|---|---|
| Current account Balance | (3,861) | (12,077) |
| Capital Account Balance | 334 | 148 |
| Financial Account Balance | 2,199 | (11,947) |
| Net FDI in Pakistan | 403 | (1,203) |
| Net Portfolio investment | 1,016 | (610) |
| Net incurrence of Liabilities | (2,212) | 11,695 |
| Overall Balance | 5,621 | 503 |
| SBP Gross Reserve | 3,960 | 16,580 |
| | | *(Source: SBP)* |

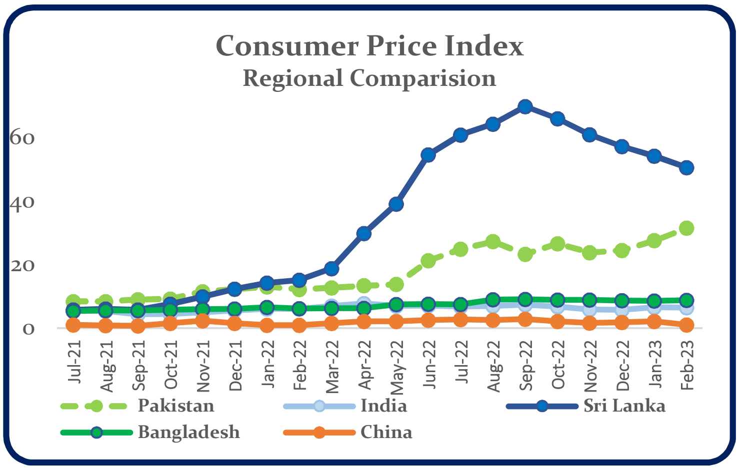



## 9. Regional Analysis:

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 which is why CPI is on the rise. Simultaneously, the exchange rate volatility has hit the Pakistani economy quite badly. On the other hand, the Srilankan rupee has been relatively stable against the greenback during last month, 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 28th March) | Currency Appreciation (Depreciation) % Change Y-o-Y |
|---|---|---|---|
| **Pakistan** | 31.5 | 283.55 | (55.64) |
| **India** | 6.44 | 82.17 | (8.64) |
| **Bangladesh** | 8.78 | 107.65 | (25.01) |
| **China** | 1.0 | 6.88 | (7.94) |
| **Sri Lanka** | 50.6 | 322.0 | (11.81) |

*(Source: Trading Economics)*



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**OUTLOOK:**

- With the start of 2023, things are not looking good for the economy. Pakistan needs to follow 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.

- We expect that due to the efficient efforts of 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.

- The IMF is seeking a big adjustment in policy rate to curtail the inflationary pressure, as they believe that delayed action will delay the slowdown of inflation. Ultimately, a hike of 200 bps points in policy rate is expected in upcoming MPC meeting on 4th of April 2023.

- 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 the 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.