HIGHLIGHTS:

- The IMF's recent publication of the global economic outlook indicates that Pakistan's anticipated GDP for 2023 has been lowered to 0.5%. Moreover, the projected inflation rate for the same year has been revised upwards to 27.1%.
- The SBP has raised the policy rate by 100 bps, from 20% to 21%, in the Monetary Policy Committee's ("MPC") in the month of April. 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 283.84/USD as of 28th of April 2023. After reaching the historic level of 285.09/USD on 2nd of March 2023, the PKR has been stable against USD in the ongoing month.
- Pakistan's Large-Scale Manufacturing ("LSM") growth contracted by 11.59% during February 2023 vs. the last year. Likewise, on a Month-on-Month comparison ("M-o-M"), the LSM growth decreased by 0.50% compared to the previous month of January 2023 (Base Year 2015-16).
- The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $5.97 billion at the end of March 2023.
- As per the SBP, the remittances sent by Overseas Pakistani workers increased by almost 27.41% to $2.53 billion in March 2023 vs. $1.98 billion in February 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 663 billion in March 2023, and missed the target set for March by PKR 64 billion.
- The Net foreign currency reserves held by the SBP stood at $4.46 billion as of 20th April 2023.
- The Broad Money (M2) stock from 1st of July 2022 to 7th April 2023 has reached to PKR 1,231 billion, as compared to an expansion of PKR 742 billion last year in the same period.
- According to the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 35.4% on a year-on-year ("Y-o-Y") basis in March 2023 vs. 12.7% last year.
- As per the PBS, Pakistan's exports increased by 8.26% to $2.37 billion in March 2023 vs. $2.19 billion in February 2023 on a M-o-M basis.
- Pakistan's net FDI has depreciated by 22.5% or $305 million to $1.05 billion provisionally during Jul-March FY23, as compared to $1.35 billion during Jul-March FY22.
- The total net Foreign Investment declined by almost 98% or $1.48 billion to $31 million on a Y-o-Y basis in Jul-March FY23 as against the amount of $1.51 billion in Jul-March FY22.
- The country has posted a Current account deficit ("CAD") of $3.37 billion in FY23's Jul-March 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)	**February**	↓	**(11.59)%**	**12.19%**
Central Government Debt	**January**	↑	**PKR 54.35 Trillion**	**PKR 42.76 Trillion**
Credit to Private Sector	**Jul – 7th April**	↓	**PKR 195 Billion**	**PKR 1,188 Billion**
Roshan Digital Account	**March**	↓	**US$ 155 Million**	**US$ 290 Million**
Worker's Remittances	**March**	↓	**US $2,533 Million**	**US $2,810 Million**
Currency in Circulation	**Jul – 7th April**	↑	**PKR 979 Billion**	**PKR 611 Billion**
Net Government Sector borrowing	**Jul – 7th April**	↑	**PKR 2,270 Billion**	**PKR 1,094 Billion**
National CPI (Base Year 2015-16)	**March**	↑	**35.4%**	**12.7%**
FBR Tax Collection	**Jul-March**	↑	**PKR 5,160 Billion**	**PKR 4,394 Billion**
Foreign Exchange Reserves with SBP	**As of 20th April**	↓	**$4.46 Billion**	**$10.88 Billion**
Foreign Direct Investments	**Jul-March**	↓	**$1.05 Billion**	**$1.35 Billion**
Trade Deficit in Goods	**Jul-March**	↓	**US$ (22.88) Billion**	**US$ (35.51) Billion**
Current Account Deficit	**Jul-March**	↓	**$(3,372) Million**	**$(13,014) Million**

TOLA ASSOCIATES
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1. LARGE SCALE MANUFACTURING:

According to the PBS, Pakistan's LSM sector showed a contraction of 11.59% in February 2023 on a Y-o-Y basis vs. February 2022. Likewise, on a M-o-M basis, the overall output growth declined by 0.50%, compared to the month of January 2023. This is the first time that the LSM sector has recorded a contraction in three consecutive months on a month on month basis. Moreover, during the Jul-Feb period of the Fiscal year 2022-23, the growth rate of large industries contracted by 5.56%.

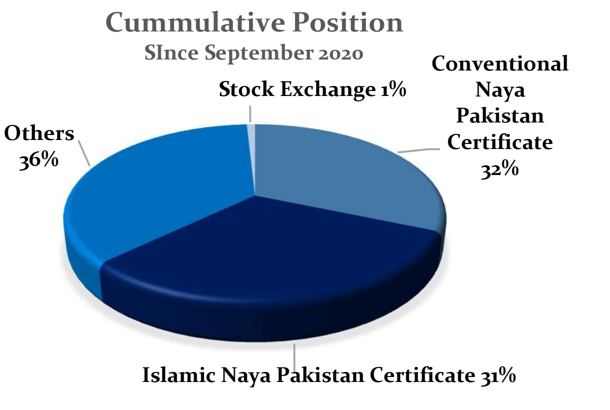
Out of 22 major industries, only 4 industries posted a surge in production during the Jul-Feb months of FY23 as compared to last FY22's same period. These include wearing apparel, leather products, furniture, and other manufacturing section. However, the output in Food, beverages, tobacco, textile, coke 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-Feb period of FY23 months under review, compared to the preceding year FY22 for the same period, data from the PBS has revealed. Sector-wise, important groups such as cotton yarn, and cotton cloth contracted by 18.16% and 9.82%, while garment showed growth of 35.53% in the period of Jul-Feb 2022-23. Whereas, the cement industry declined by rate of 11.82%.

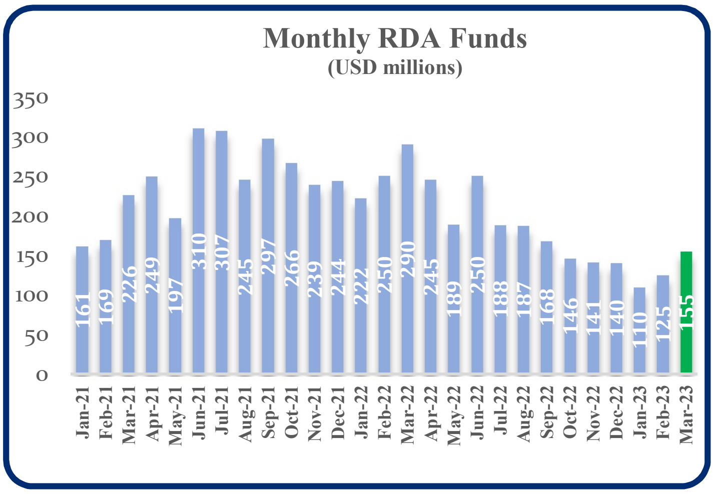
LSM (%)	Weight	Feb-23	Jan-23	Feb-22	Jul-Feb 2022-23
Textile	**18.2**	(19.67)	(14.20)	3.12	**(14.03)**
Food	**10.7**	(2.43)	0.04	1.38	**(1.95)**
Coke & Petroleum Products	**6.7**	(6.35)	(1.81)	4.90	**(9.43)**
Chemicals	**6.5**	(14.05)	(17.38)	14.78	**(4.84)**
Wearing Apparel	**6.1**	(2.99)	32.26	97.30	**35.53**
Pharmaceuticals	**5.2**	(25.47)	(23.85)	5.43	**(22.41)**
Non-Metallic Minerals Products	**5.0**	(1.33)	(0.18)	5.51	**(9.08)**
Beverages	**3.8**	4.97	(0.15)	(12.94)	**(6.14)**
Iron and Steel Products	**3.4**	(9.19)	(8.76)	15.46	**(3.89)**
Automobiles	**3.1**	(64.08)	(60.45)	36.74	**(38.59)**
Tobacco	**2.1**	(10.61)	(11.68)	4.08	**(20.42)**
Electrical Equipment	**2.0**	(24.40)	(15.50)	7.57	**(9.35)**
Paper & Board	**1.6**	(0.09)	(9.43)	13.51	**(3.37)**
Leather Products	**1.2**	(1.62)	(1.49)	(8.77)	**3.85**
Other Transport Equipment	**0.7**	(31.18)	(31.46)	(20.94)	**(37.73)**
LSM Growth for Feb 2023 (Y/Y)					**(11.59)%**
LSM Growth of Feb 2023 vs. Jan 2023 (M/M)					**(0.50)%**
LSM Growth for July-Feb 2022-23 (Y/Y)					**(5.56)%**

(Source: PBS)

2. Roshan Digital Account ("RDA"):

The cumulative inflow of deposits under the RDA have reached $5.97 billion since its announcement in September 2020. Out of the $5.97 billion, approximately two-thirds, $3.75 billion or 63% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 549,445 accounts have been opened from 175 countries over the span of more than two years.

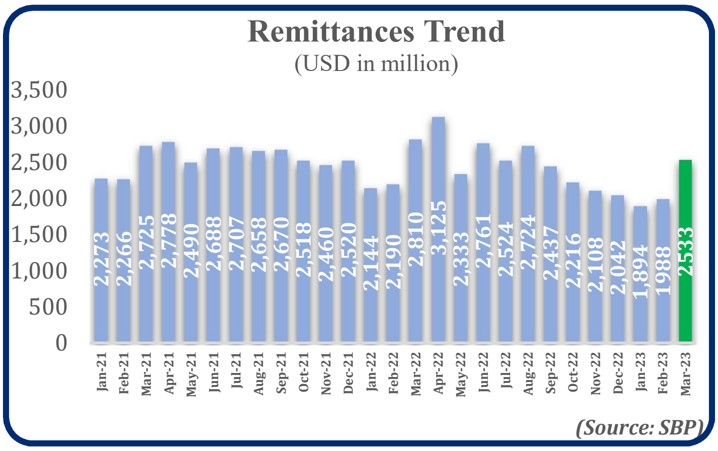


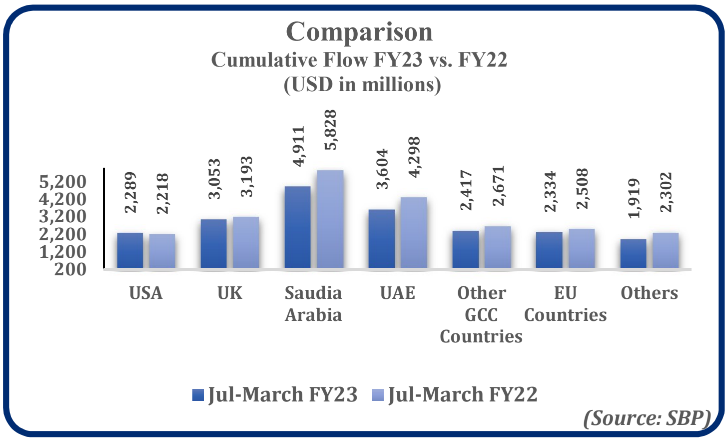


(Source: SBP)

3. WORKER'S REMITTANCES:

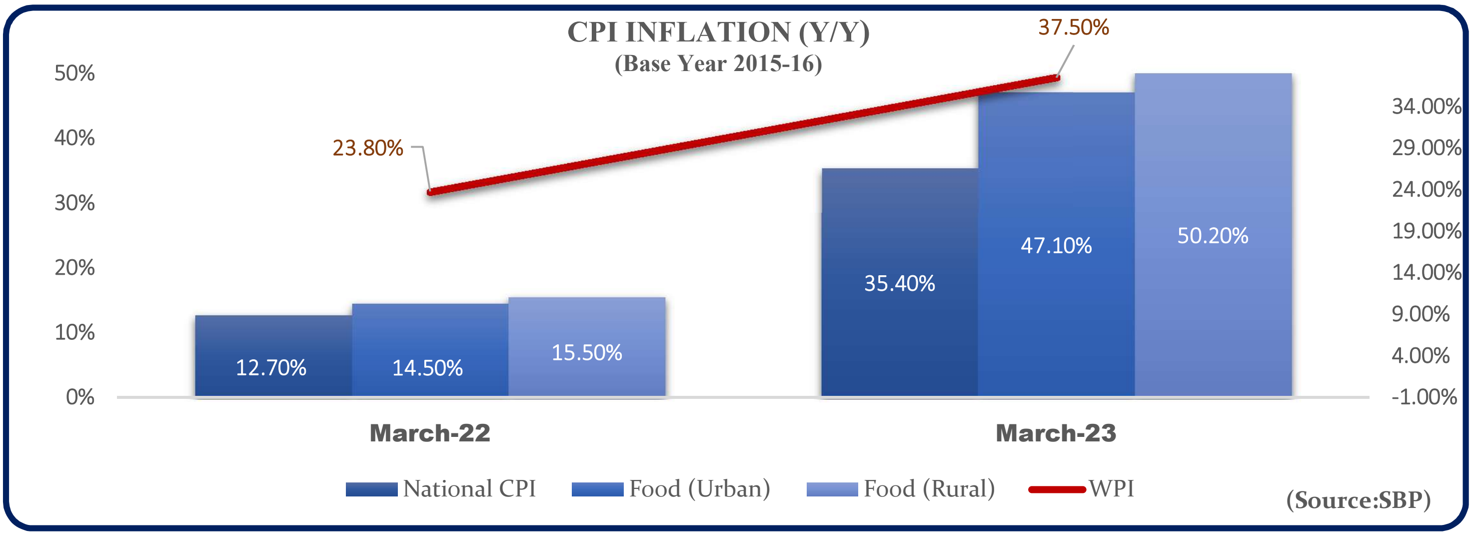
According to the SBP, the remittances sent by Overseas Pakistani workers increased by 27.41% to $2.53 billion in March 2023 vs. $1.98 billion in February 2023 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the inflows went down by 10.66% when compared to $2.83 billion received a year ago in the same month. In addition to that, in Jul-March period of FY23, inflows declined by 10.82% to $20.57 billion compared to $23.01 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-March period, when it grew by 7.38%. A descriptive analysis has revealed that remittances inflows during the Jul-March period of FY23 were coming mainly from four major countries: Saudi Arabia, UAE, UK, and the USA. With almost 24% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflows from Saudi Arabia have a negative growth of 15.74% to $5.83 billion in Jul-March period of FY23 vs. $5.74 billion during same period of FY22. An amount to the tune of $2.29 billion, or a 11.15% share, was received from the US, showing increase of 3.16% in Jul-March of FY23 vs. Jul-March period of FY22. Worker remittances from the UK decreased by 4.39% and although it's contributed 14.87% or $3.19 billion in first nine months of FY23 over same period of FY22. On the other hand, remittance growth from UAE declined at a rate of 16.14%, while its share is $3.60 billion or 17.56% share in the total remittances.



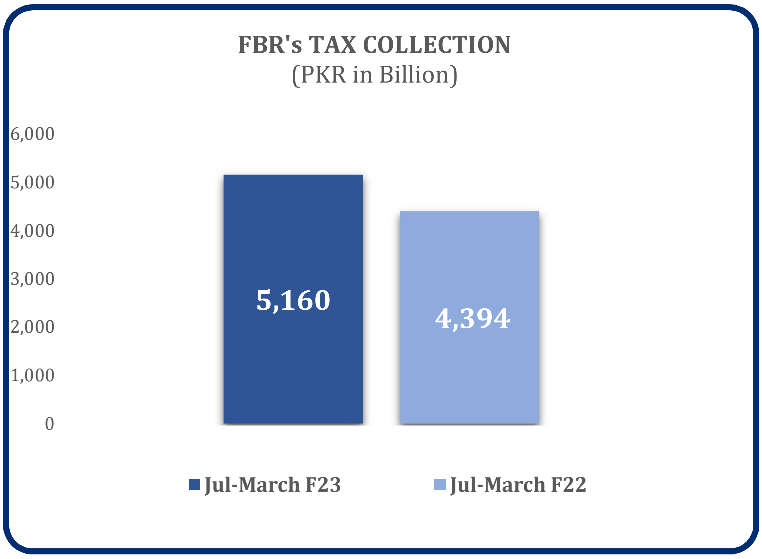


4. CONSUMER PRICE INDEX INFLATION:

The monthly rate of inflation spiked to 35.4% in March 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 (Feb 2023), the CPI stood at 31.5%. The current inflation hike is mainly due to high costs of non-perishable food items and fuel prices. Food inflation in Urban and rural areas accelerated by nearly 47.1% and 50.2% in month of February 2023. In addition to that, the wholesale price index ("WPI") stood at 37.5% on a Y-o-Y basis. In the previous month, the WPI had been recorded around 36.4% in Feb 2023. Whereas, on a monthly basis, the National CPI has recorded a rise of 3.7%. Similarly, the Food inflation in urban and rural areas increased by 5.6% and 4.5%, respectively, compared to Feb 2023. In Feb 2023, the Core inflation, which is calculated by excluding energy and food items, increased by 18.6% and 23.1% in urban and rural areas on a Y-o-Y basis, respectively.



5. FBR TAX REVENUE COLLECTION:

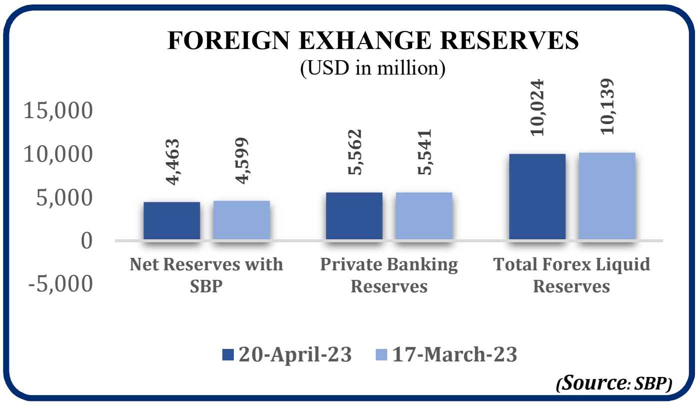


As per data by the FBR, the FBR has collected tax revenue worth PKR 663 billion in March 2023, recording a shortfall of PKR 64 billion in the monthly target set for March of PKR 727 billion. Moreover, overall collection shortfall has accumulated to PKR 276 billion during the Jul-March period. When compared with last year tax collection during the same period, the tax collection grew by 17.4% or PKR 766 billion. As per Mr. Shahbaz Rana's article titled "Tax revenues short by Rs276b" published on 1sr April 2023, in the Express Tribune, out of the PKR 5.16tr collected by the FBR collected, PKR 2.3tr or 46% pertains to income tax, (FBR collected income tax worth PKR 287 billion solely in March). Whereas, the Sales tax collection amounted to PKR 1.9tr in nine months, out of which 64% collected at import stage."

6. FOREIGN EXCHANGE RESERVES:

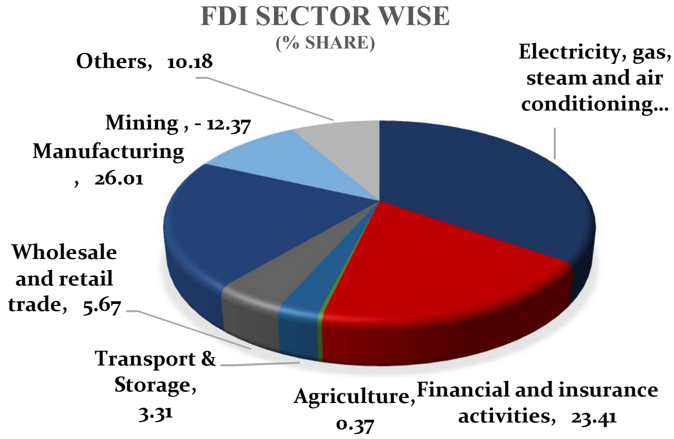
The Net reserves of the SBP stood at $4.46 billion as of 20th April 2023, increasing by 0.7% or $30.3 million compared to last week's reserves of $4.43 billion on 14th April 2023. Moreover, when compared to last month reserves (which were then $4.60 billion), the Net reserves have gone down by almost 3.0%, amidst external debt repayments.

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 EFF programme of the IMF and Pakistan International Sukuk Bond issuance of $1 Billion), the Net foreign exchange reserves have been declining.

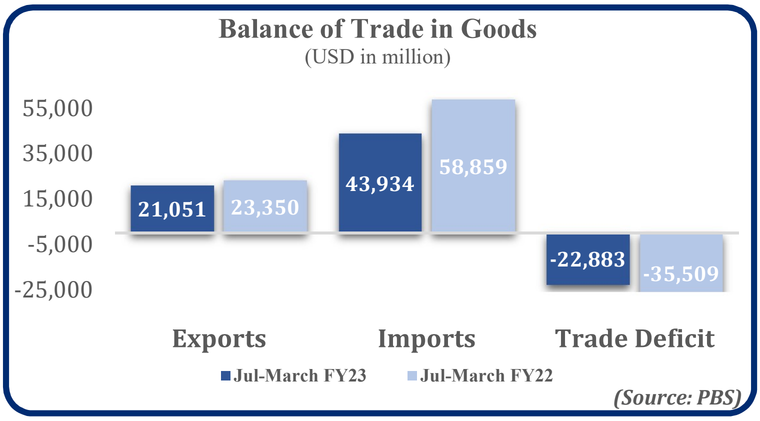


7. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has depreciated by 22.5% or $305 million to $1.05 billion provisionally during Jul-March FY23, as compared to $1.35 billion during Jul-March FY22. Whereas, the total net Foreign Investment declined by almost 98% or $1.48 billion to $31 million on a Y-o-Y basis in Jul-March FY23 as against the amount of $1.51 billion in Jul-March FY22. This Pie chart shows the percentage share of flows in different sectors of the Economy in the period of Jul-March FY23.



8. BALANCE OF TRADE IN GOODS:

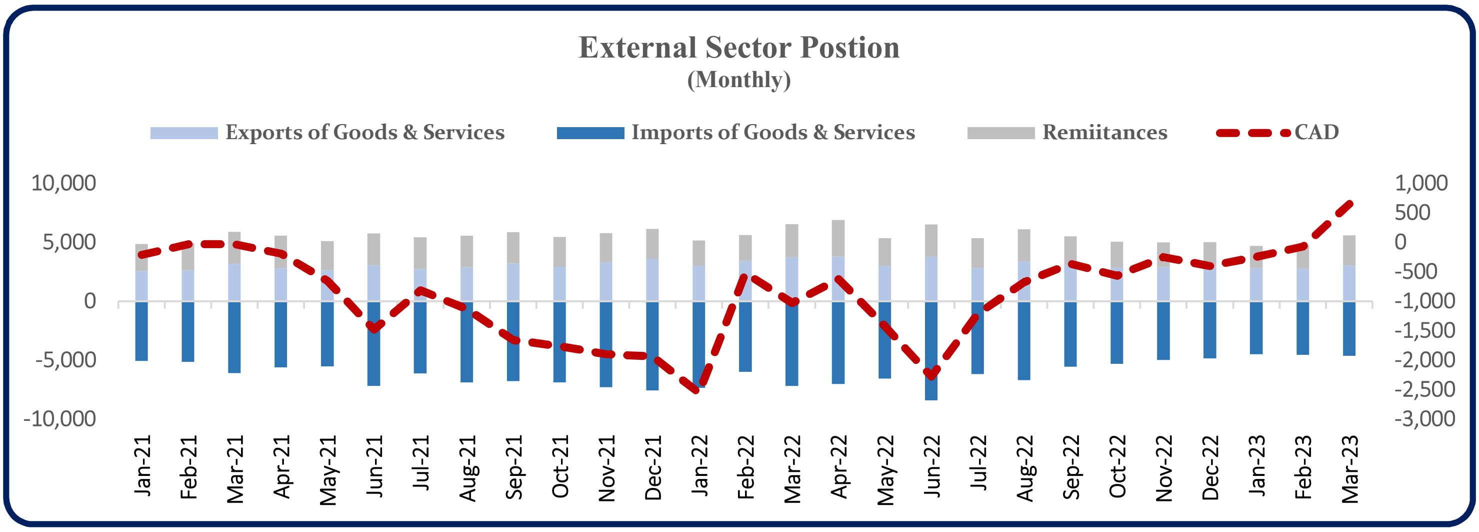


As per the PBS, Pakistan's trade deficit shrunk by a good margin of 35.56% to almost $22.88 billion during the period of Jul-March of FY23 vs. same period of FY22 amidst a steep reduction in import bills. As far as Exports are concerned, the same has decreased by 9.85% to USD 21.05 billion in FY23's period of Jul-March compared to USD 23.35 billion in same period of FY22. Whereas, on a monthly basis, the exports increased by 8.26% to $2.37 in March 2023 from $2.19 billion in Feb 2023. Additionally, the country's trade deficit went down by a healthy margin of almost 21.65% to $1.44 in March 2023 from $1.84 in February 2023 on a month on month basis.

9. BALANCE OF PAYMENT:

Pakistan's economy has experienced a significant surplus in its current account balance in March 2023, totaling $654 million, after 28-months of deficit amidst a notable decline in import bills. This represents a considerable improvement from the large deficit of $981 million recorded in March of the previous fiscal year. The current level of CAD is quite feasible and represents a positive development for the country's economic outlook. On a cumulative basis from July to March in the ongoing FY23, the CAD has declined by $8.22 billion, to $3.37 billion, compared to a relatively large deficit of $13.01 billion in the same period last year. If the Government is successful in keeping the CAD bill below $1 billion mark monthly, then overall CAD position could decrease to approximately USD 7-8 billion in FY23.

(USD in millions)	FY23 P (Jul-March)	FY22 (Jul-March)
Current account Balance	(3,372)	(13,014)
Capital Account Balance	349	166
Financial Account Balance	2,024	(8,400)
Net FDI in Pakistan	193	(1,206)
Net Portfolio investment	1,016	(181)
Net incurrence of Liabilities	(1,660)	9,460
Overall Balance	4,971	5,112
SBP Gross Reserve	4,299	11,644
		(Source: SBP)

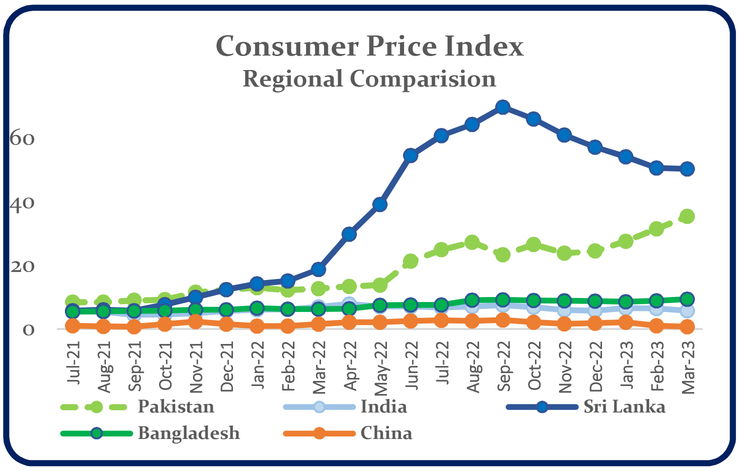


10. Regional Analysis:

Compared to other countries in the region, Pakistan and Sri Lanka have experienced double-digit inflation on a year-on-year basis, while Bangladesh and India have shown signs of recovery with inflation gradually decreasing. The Pakistani economy is facing a fragile situation, which is reflected in the rising CPI. However, the Sri Lankan rupee has been relatively stable against the US dollar, resulting in a decline in CPI in Sri Lanka over the last two months. Similarly, India's stable currency has limited the impact of rising inflation on their economy. Moreover, China, with its stable currency parity, has a lower CPI, and thus the effects of volatility in prices are not significantly visible in their country.

Country	CPI (%)	Local Currency Units per USD (As of 28th April)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	35.4	283.84	(52.71)
India	5.66	81.77	(6.86)
Bangladesh	9.33	106.10	(22.86)
China	0.7	6.92	(4.25)
Sri Lanka	50.3	320.00	8.57

(Source: Trading Economics)



OUTLOOK:

- According to reports from both ADB and the IMF, the projected inflation rate for 2022-23 in Pakistan is estimated to be 27.5 percent and 27.1 percent, respectively. The inflation rate has already reached an average of 27.2 percent in the first nine months, with an even higher rate of 35.4 percent in March 2023. While ADB is anticipating an increase in the inflation rate after March 2023, a more probable scenario is that the rate of inflation in the last quarter will remain similar to the inflation rate in March or may potentially be even higher. Thus, the expected inflation rate for 2022-23 may range between 27 percent to 28 percent.
- The IMF has estimated the size of the current account deficit ("CAD") for the current fiscal year, with a projection that it will be limited to 2% of the Gross Domestic Product ("GDP"). This forecast demonstrates a substantial improvement over the preceding year, in which the CAD was 4.2% of the GDP. It is clear that the current government is working diligently to tackle the issue of the CAD and minimize their reliance on external financing.
- 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 level of the previous fiscal year.
- During the ongoing challenging times, there are limited ways-out available; and one practical approach to deal with the economic downturn would be to reduce non-essential imports, which the incumbent government has accomplished effectively. Moreover, the Government should provide more incentives to encourage the production of essential food items and enhance productivity in the large manufacturing industries. Furthermore, the government should redirect its policy focus toward targeted subsidies and implement necessary reforms to diversify the economy's structure and create a more robust and resilient economy for Pakistan.
- 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. The Federal Minister for Finance, Mr. Ishaq Dar, has stated that Pakistan has fulfilled all the requirements stipulated by the International Monetary Fund (IMF) for a staff-level agreement. The lender's team for review will soon receive approval from the fund's executive board for a staff-level agreement.
- To stabilize and recover the economy, the government needs to implement measures and announce a strategic plan for sustainable economic growth and increasing foreign reserves instead of relying on friendly countries for bailout packages. Effective policy measures could include, *inter-alia*: (a) Limiting the primary deficit in the budget; (b) Implementing tax reforms to broaden the tax base; (c) Implementing structural reforms in commodity-producing sectors; (d) Working on comparative trade policies to enhance national exports; (e) Reducing interest rates to stimulate economic activity and minimize debt servicing.