Pakonomics
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Highlights

During the 106th meeting of the National Accounts Committee ("NAC"), the provisional growth rate of Pakistan's Gross Domestic Product ("GDP") for the fiscal year 2022-23 ("FY23") ending on June 30th was disclosed. Unfortunately, the economic growth estimates for Pakistan took a major hit, dropping to a mere 0.3% from 6.1% (revised estimates) in the previous Fiscal Year.

In addition to GDP estimates, the growth rate of the agricultural, industrial and services sectors has been estimated at 1.55%, -2.94% and 0.86% respectively.

In the Inter-bank market, the National currency value stood at a level of PKR 285.15/USD as of 26th of May 2023. After reaching the historic level of 298.93/USD on 11th May 2023, the PKR has been stable against the USD in the ongoing month.

Pakistan's Large-Scale Manufacturing ("LSM") growth contracted by 24.99% during March 2023 vs. the last year. Likewise, on a Month-on-Month comparison ("M-o-M"), the LSM growth decreased by 9.09% compared to the previous month of February 2023 (Base Year 2015-16).

The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $6.10 billion at the end of May 2023.

As per the SBP, the remittances sent by Overseas Pakistani workers decreased by 12.85% to $2.21 billion in April 2023 vs. $2.54 billion in March 2023 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 463 billion in April 2023 and missed the target set for April by PKR 123 billion.

The Net foreign currency reserves held by the SBP stood at $4.19 billion as of 19th May 2023.

The Broad Money (M2) stock from 1st of July 2022 to 12th May 2023 has reached to PKR 2,026 billion, as compared to an expansion of PKR 1,512 billion last year in the same period.

According to the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 36.4% on a year-on-year ("Y-o-Y") basis in April 2023 vs. 13.4% last year.

As per the PBS, Pakistan's exports decreased by 9.91% to $2.14 billion in April 2023 vs. $2.37 billion in March 2023 on a M-o-M basis.

Pakistan's net FDI has depreciated by 23.2% or $354 million to $1.17 billion, provisionally, during Jul-April FY23, as compared to $1.52 billion during Jul-April FY22.

The total net Foreign Investment declined by 90.3% or $1.48 billion to $160 million on a Y-o-Y basis in Jul-April FY23 as against the amount of $1.63 billion in Jul-April FY22.

The country has posted a Current account deficit ("CAD") of $3.258 billion in FY23's Jul-April period.

Economy At a Glance

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	March	↓	(24.99)%	26.29%
Central Government Debt	March	↑	PKR 57.12 Trillion	PKR 43.01 Trillion
Credit to Private Sector	Jul – 12th May	↓	PKR 76 Billion	PKR 1,345 Billion
Roshan Digital Account	April	↓	US$ 136 Million	US$ 245 Million
Worker's Remittances	April	↓	US $2,211 Million	US $3,125 Million
Currency in Circulation	Jul – 12th May	↑	PKR 1,335 Billion	PKR 1,007 Billion
Net Government Sector borrowing	Jul – 12th May	↑	PKR 3,385 Billion	PKR 1,847 Billion
National CPI (Base Year 2015-16)	April	↑	36.4%	13.4%
FBR Tax Collection	Jul-March	↑	PKR 5,638 Billion	PKR 4,874 Billion
Foreign Exchange Reserves with SBP	As of 19th May	↓	$4.19 Billion	$10.09 Billion
Foreign Direct Investments	Jul-April	↓	$1.17 Billion	$1.57 Billion
Trade Deficit in Goods	Jul- April	↓	US$ (23.70) Billion	US$ (39.27) Billion
Current Account Deficit	Jul- April	↓	$(3,258) Million	$(13,654) Million

1. Large Scale Manufacturing

According to the PBS, Pakistan's LSM sector showed a contraction of almost 25.0% in March 2023 on a Y-o-Y basis vs. March 2022. Likewise, on a M-o-M basis, the overall output growth declined by 9.09%, compared to the month of February 2023. Moreover, during the Jul-March period of the Fiscal year 2022-23, the growth rate of large industries contracted by 8.11%.

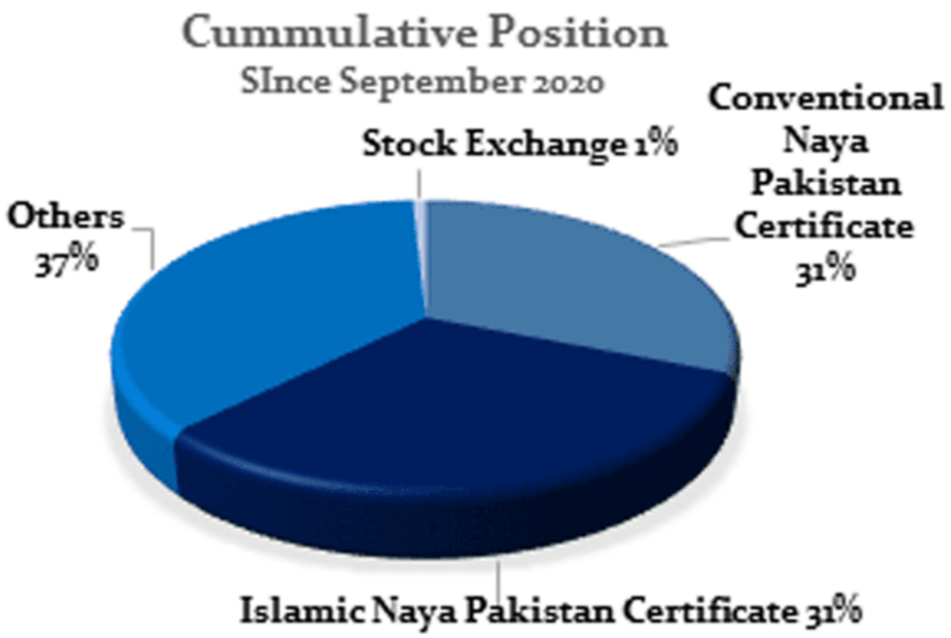
Out of 22 major industries, only 4 industries posted a surge in production during the Jul-March months of FY23 as compared to FY22 for the same period. These include wearing apparel, leather products, furniture, and other manufacturing section. However, the output in Food, beverages, tobacco, textile, 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-March 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 19.49% and 10.70%, while garment showed growth of 31.68% in the period of Jul-March 2022-23. Whereas, the cement industry declined by a rate of 13.16%.

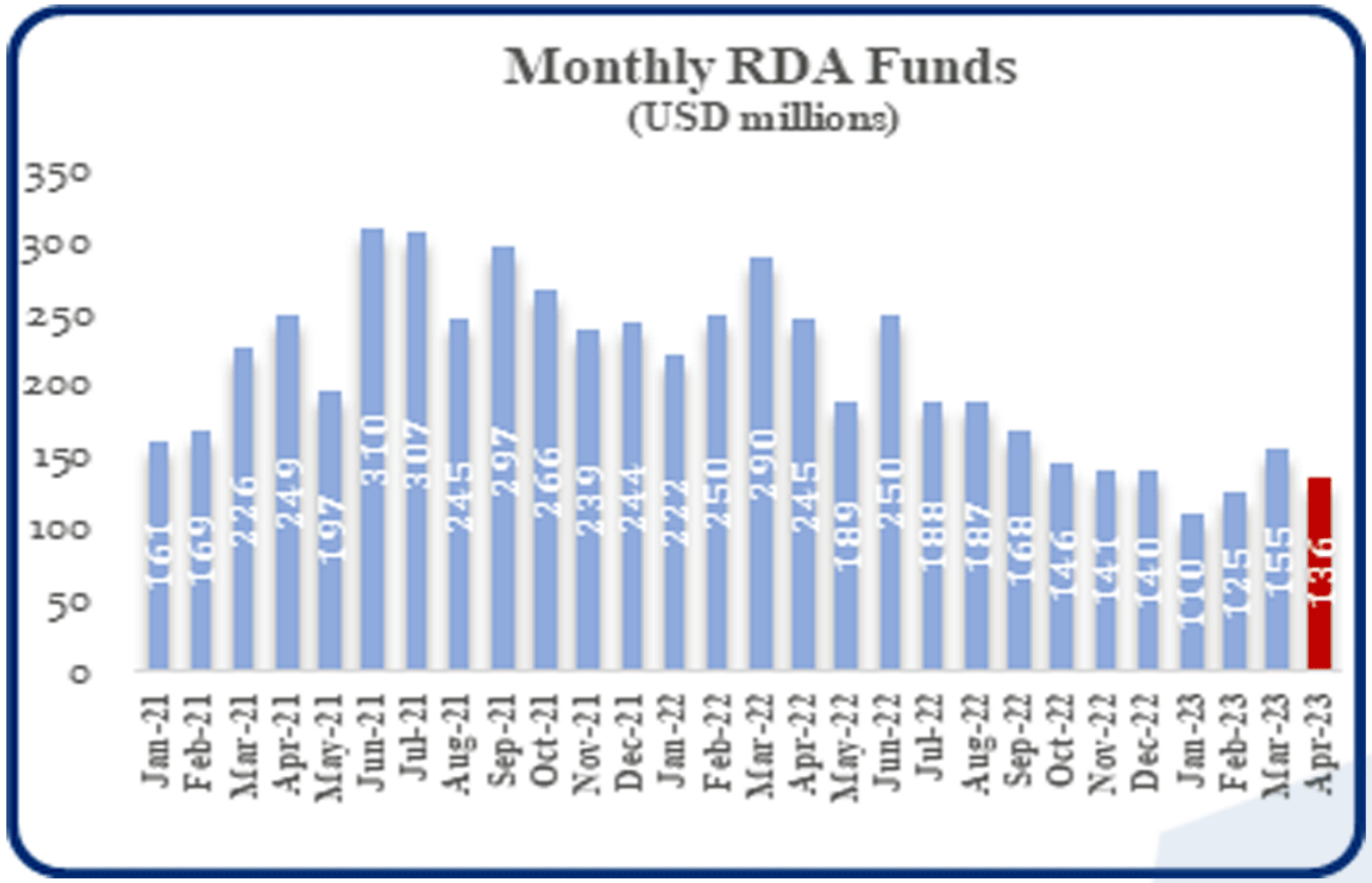
LSM (%)	Weight	Mar-23	Feb-23	Mar-22	Jul-Mar 2022-23
Textile	18.2	(30.74)	(19.67)	5.31	**(16.03)**
Food	10.7	(42.46)	(2.43)	82.20	**(8.71)**
Coke & Petroleum Products	6.7	(16.06)	(6.35)	8.07	**(10.24)**
Chemicals	6.5	(16.75)	(14.05)	18.99	**(6.29)**
Wearing Apparel	6.1	11.03	(2.99)	78.49	**31.68**
Pharmaceuticals	5.2	(28.10)	(25.47)	12.39	**(23.20)**
Non-Metallic Minerals Products	5.0	(22.19)	(1.33)	4.20	**(10.75)**
Beverages	3.8	1.39	4.97	(5.95)	**(3.39)**
Iron and Steel Products	3.4	(5.07)	(9.19)	11.24	**(4.02)**
Automobiles	3.1	(67.97)	(64.08)	29.16	**(42.48)**
Tobacco	2.1	(49.69)	(10.61)	(1.51)	**(23.78)**
Electrical Equipment	2.0	(24.50)	(24.40)	0.68	**(11.15)**
Paper & Board	1.6	(19.85)	(0.09)	21.89	**(5.42)**
Leather Products	1.2	(6.85)	(1.62)	(2.67)	**2.47**
Other Transport Equipment	0.7	(48.40)	(31.18)	(16.79)	**(38.91)**
LSM Growth for Feb 2023 (Y/Y)					**(24.99)%**
LSM Growth of Feb 2023 vs. Jan 2023 (M/M)					**(9.09)%**
LSM Growth for July-Feb 2022-23 (Y/Y)					**(8.11)%**

(Source: PBS)

2. Roshan Digital Account ("RDA")

The cumulative inflow of deposits under the RDA have reached $6.10 billion since its announcement in September 2020. Out of the $6.10 billion, approximately two-thirds, $3.82 billion or 63% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 561,617 accounts have been opened from 175 countries in more than two years.

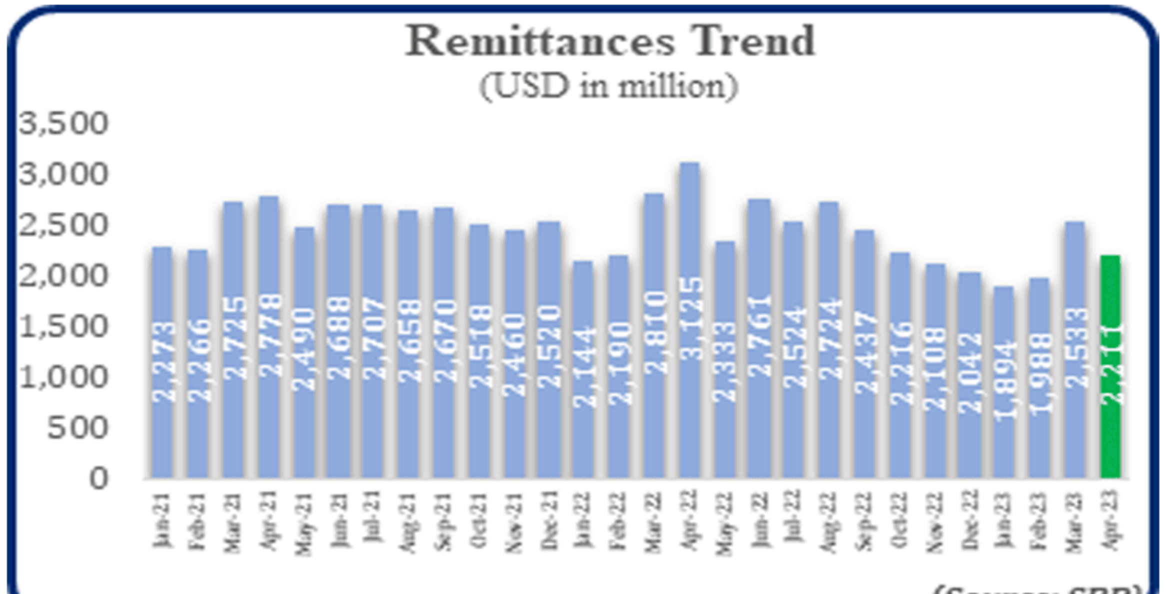




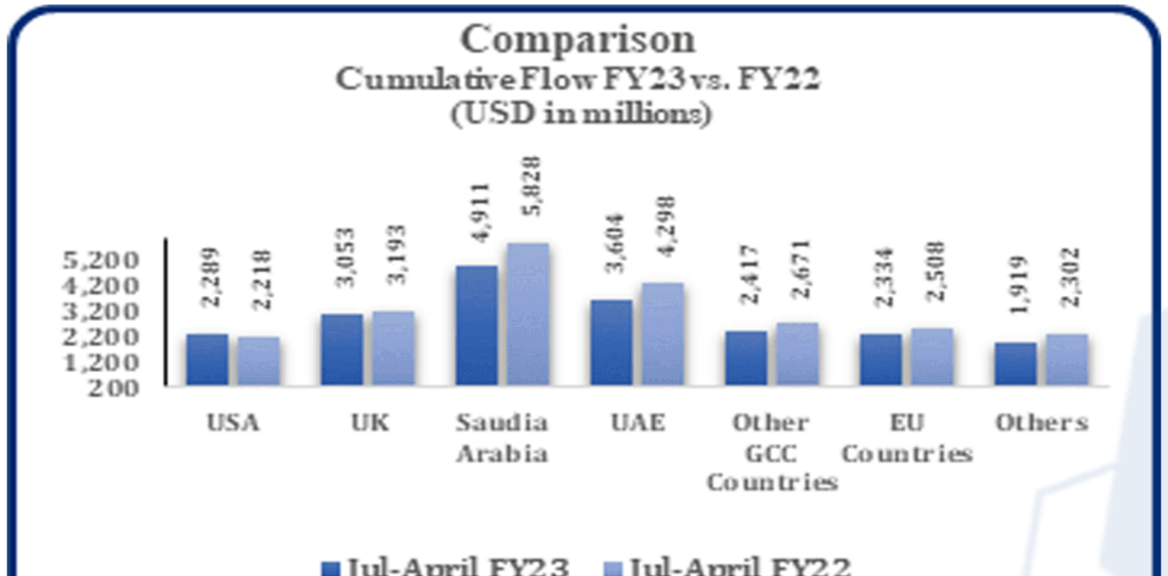
(Source: SBP)

3. Worker's Remittances

As per the SBP, the remittances sent by Overseas Pakistani workers decreased by 12.85% to $2.21 billion in April 2023 vs. $2.54 billion in March 2023 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the inflows went down by 29.25% when compared to $3.12 billion received a year ago in the same month. In addition to that, during the Jul-April period of FY23, the inflows declined by 13.0% to $22.74 billion compared to $26.1 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-April period, when it grew by 7.90%. A descriptive analysis has revealed that remittance inflows during the Jul-April period of FY23 were coming mainly from four major countries: Saudi Arabia, UAE, UK, and the USA. With almost a 24% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflows from Saudi Arabia have a negative growth of 17.33% and recorded at $5.40 billion in Jul-April period of FY23 vs. $6.53 billion during same period of FY22. An amount to the tune of $2.57 billion, or an 11.30% share, was received from the US, showing an increase of 0.23% in Jul-April of FY23 vs. Jul-April period of FY22. Worker remittances from the UK decreased by 7.23%, although it contributed 15.0% or $3.41 billion in the first ten months of FY23 over same period of FY22. On the other hand, remittance growth from UAE declined at a rate of 18.82%, while its share is almost $4.0 billion or 17.50% share in the total remittances.



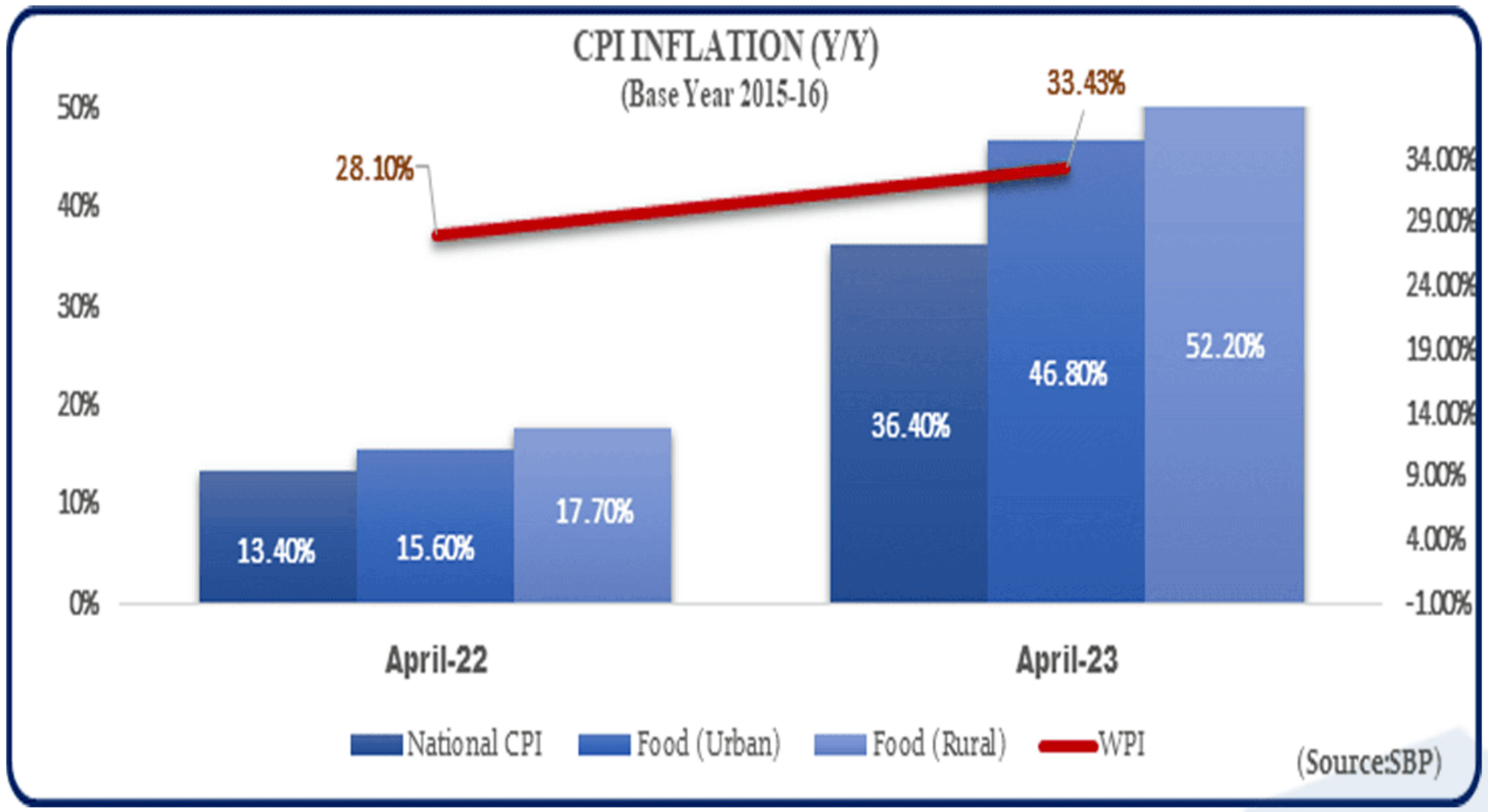
(Source: SBP)



(Source: SBP)

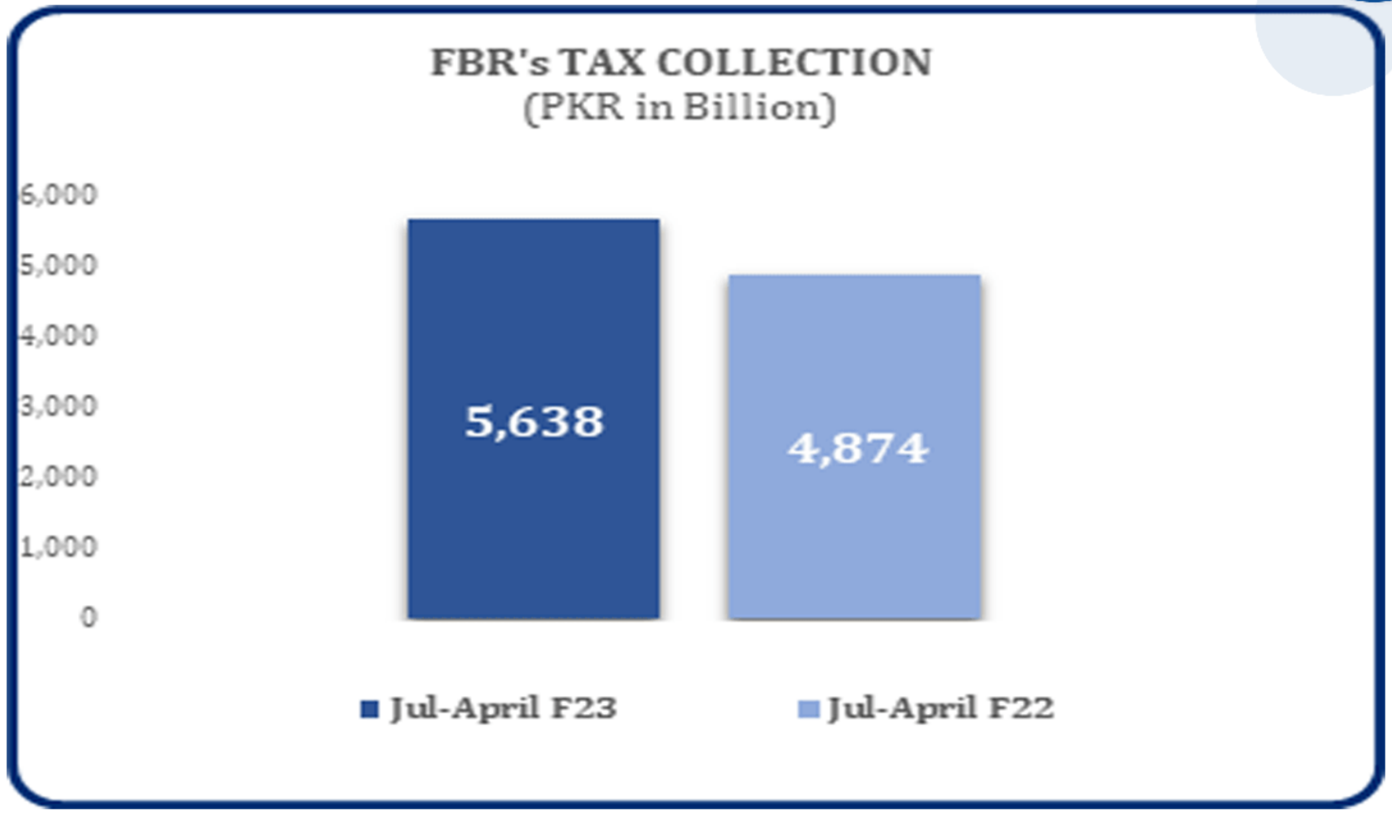
4. Consumer Price Index Inflation

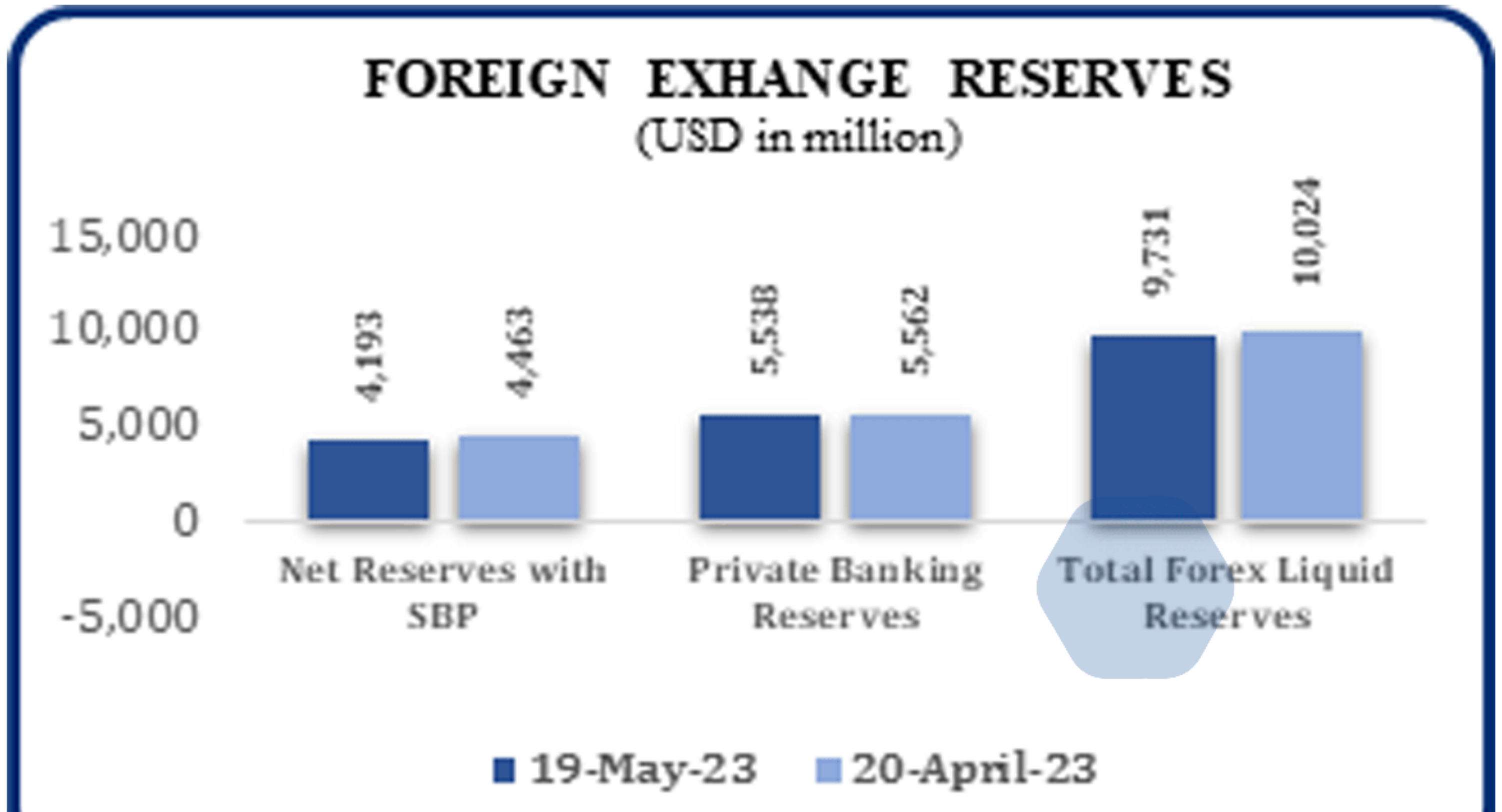
The monthly rate of inflation spiked to 36.8% in April 2023 on a Y-o-Y basis in Pakistan, making it the highest year on year inflation rate in nearly 59 years. In the previous month (March 2023), the CPI stood at 35.4%. The current inflation hike is mainly due to high costs of non-perishable food items and fuel prices. Food inflation in Urban and rural areas accelerated by nearly 46.8% and 52.2% in month of April 2023. In addition to that, the wholesale price index ("WPI") stood at 33.43% on a Y-o-Y basis, while in March 2023, the WPI had been recorded at around 37.5%. Whereas, on a monthly basis, the National CPI has recorded a rise of 2.4%. Similarly, the Food inflation in urban and rural areas increased by 3.4% and 4.2%, respectively, compared to April 2023. In April 2023, the Core inflation, which is calculated by excluding energy and food items, increased by 24.9% and 28.6% in urban and rural areas on a Y-o-Y basis, respectively.



5. FBR Tax Revenue Collection

As per data published by the FBR, the FBR has collected tax revenue worth PKR 463 billion in April 2023, recording a shortfall of PKR 123 billion in the monthly target set for April of PKR 586 billion. Moreover, overall tax revenue collection shortfall has accumulated to PKR 400 billion during the Jul-April period. When compared with the tax collection of last year during the same period, the tax collection grew by 15.68% or PKR 764 billion. As per Mr. Shahbaz Rana's article titled "Tax shortfall widens to Rs400b" published on 29th April 2023, in the Express Tribune, out of the PKR 5.64tr collected by the FBR, PKR 2.5tr or 44% pertains to income tax. Whereas, Sales tax collection amounted to PKR 2.1tr in ten months, out of which 64% has been collected at import stage.





(Source: SBP)

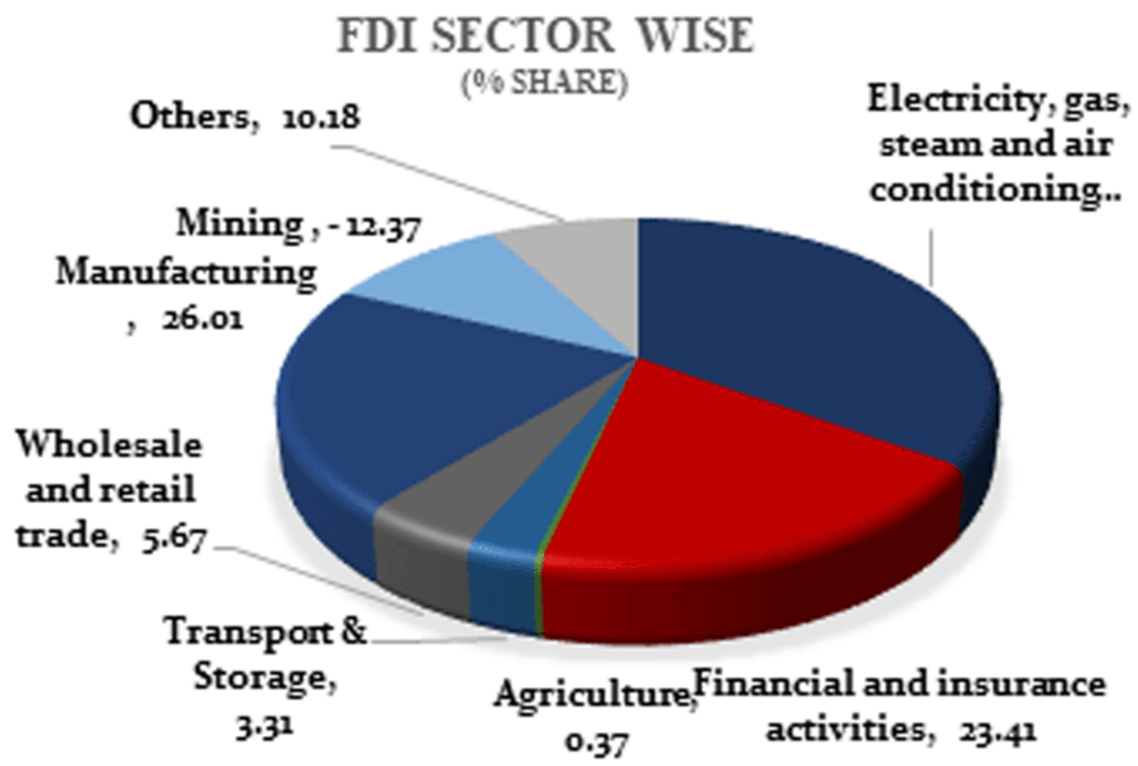
6. Foreign Exchange Reserves

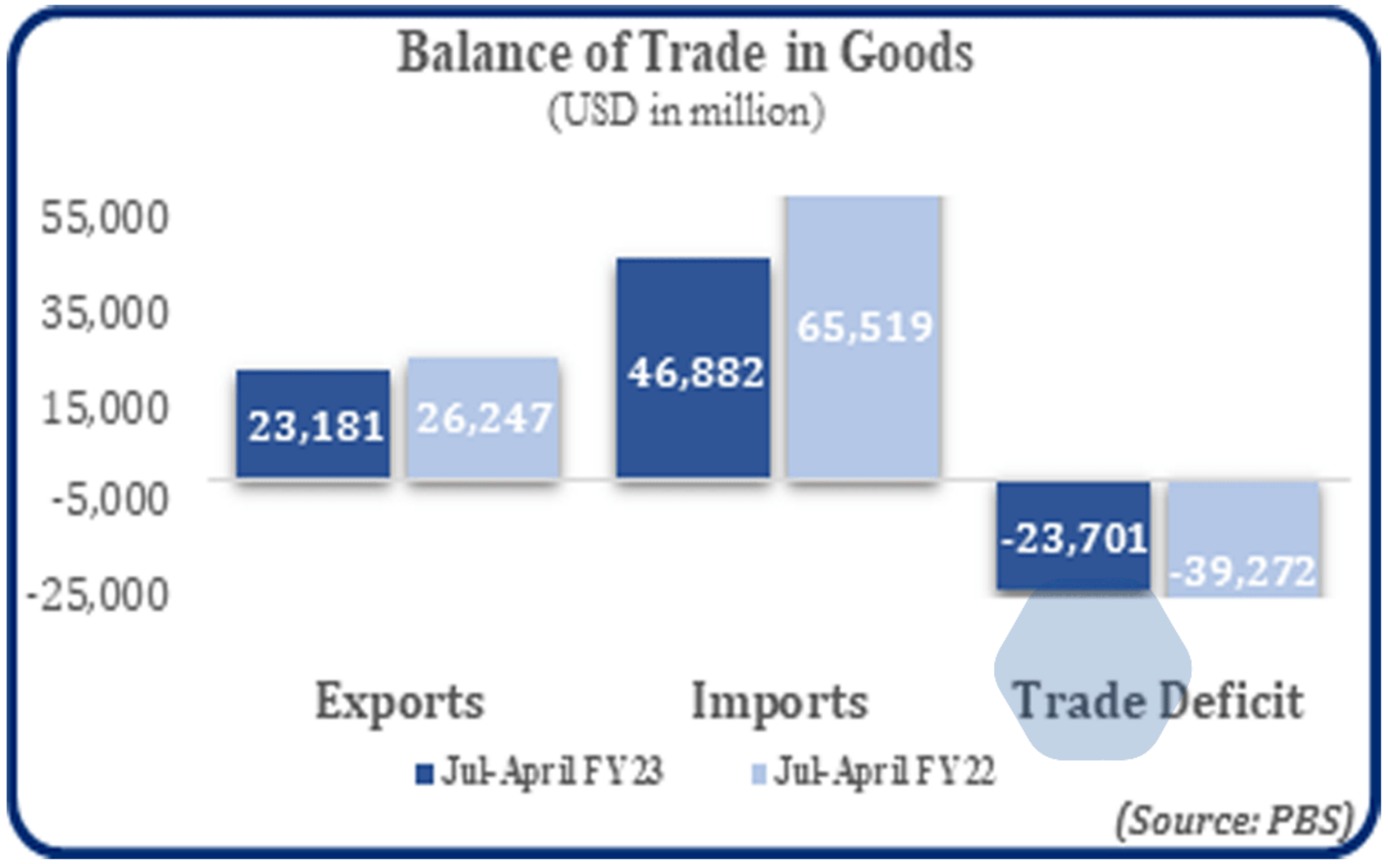
The Net reserves of the SBP stood at $4.19 billion as of 19th May 2023, decreasing by 2.76% or $119 million compared to last week's reserves of $4.31 billion on 12th May 2023. Moreover, when compared to last month reserves (which were then $4.46 billion), the Net reserves have gone down by 6.04%, amidst 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 the issuance of the $1 Billion Pakistan International Sukuk Bond issuance), the Net foreign exchange reserves have been declining.

7. Foreign Direct Investment

Pakistan's net FDI has depreciated by 23.2% or $354 million to $1.17 billion provisionally during Jul-April FY23, as compared to $1.52 billion during Jul-April FY22. Whereas, the total net Foreign Investment declined by 90.3% or $1.48 billion to $160 million on a Y-o-Y basis in Jul-April FY23 as against the amount of $1.63 billion in Jul-April 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 39.65% to almost $23.70 billion during the period of Jul-April of FY23 vs. the same period of FY22 amidst a steep reduction in import bills. As far as Exports are concerned, the same has decreased by 11.68% to USD 23.18 billion in FY23's period of Jul-April compared to USD 26.25 billion in same period of FY22. Whereas, on a monthly basis, the exports decreased by 10.0% to $2.13 in April 2023 from $2.37 billion in March 2023. Additionally, the country's trade deficit went down by a healthy margin of almost 40.4% to $860 million in April 2023 from $1.44 in March 2023 on a M-o-M basis.

9. Balance Of Payment

Pakistan's economy has experienced a significant surplus in its current account balance consecutively, following the month of March 2023, totaling a $18 million in April , after 28-months of deficit amidst a notable decline in import bills. This represents a considerable improvement from the deficit of $640 million recorded in April 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 April in the ongoing FY23, the CAD has declined by $10.4 billion, to $3.26 billion, compared to a relatively large deficit of $13.65 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 5-6 billion in FY23.

(USD in millions)	FY23 P (Jul-April)	FY22 (Jul-April)
Current account Balance	(3,258)	(13,654)
Capital Account Balance	358	182
Financial Account Balance	1,871	(8,140)
Net FDI in Pakistan	104	(1,348)
Net Portfolio investment	1,008	(140)
Net incurrence of Liabilities	(1,906)	9,335
Overall Balance	5,820	4,586
SBP Gross Reserve	4,559	10,752

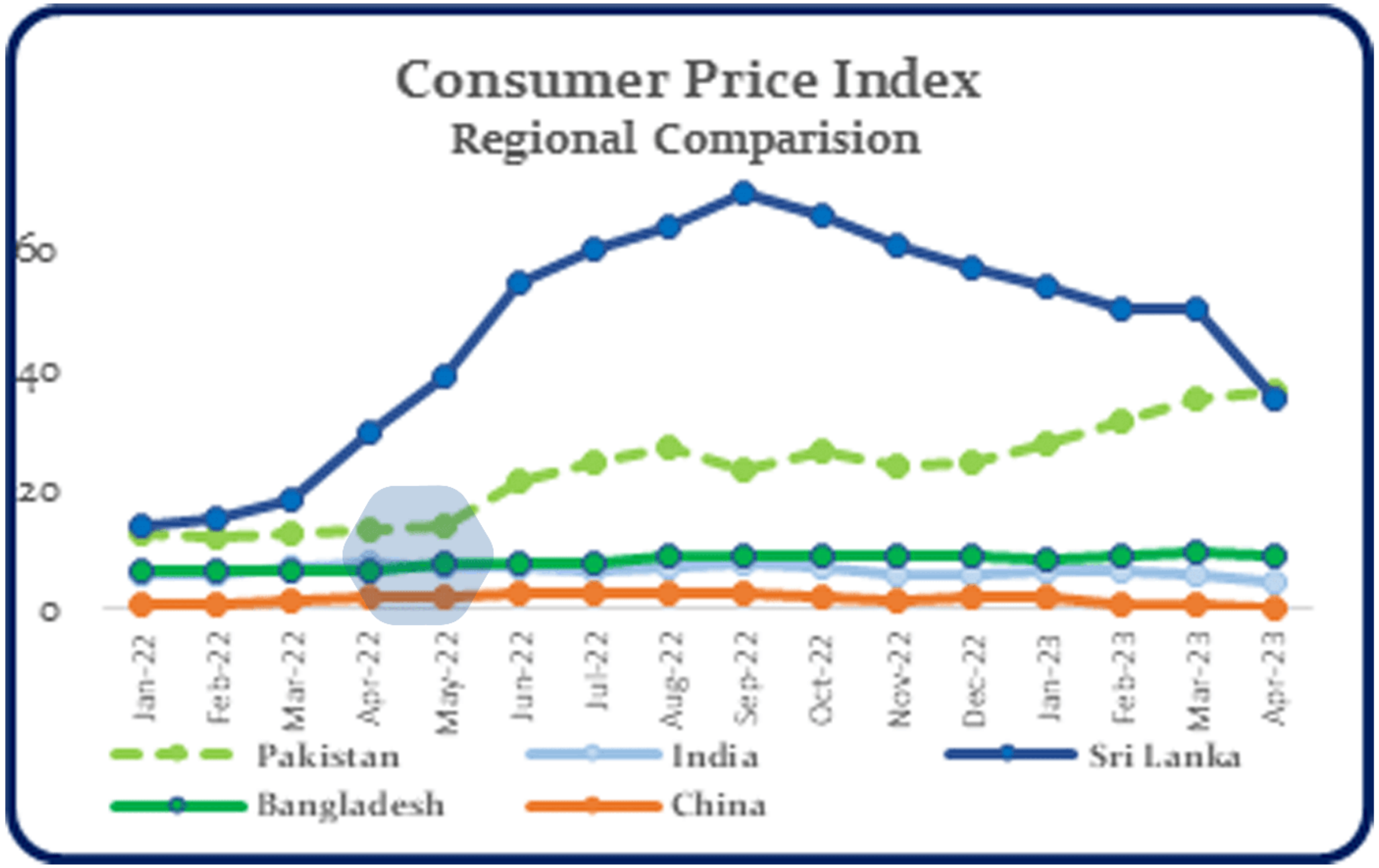
(Source: SBP)

10. Regional Analysis

Compared to other countries in the region, Pakistan and Sri Lanka have experienced double-digit inflation on a Y-o-Y basis, whilst 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 three 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 26th May)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	36.4	285.15	(41.15)
India	4.70	82.72	(6.60)
Bangladesh	9.24	107.16	(22.16)
China	0.10	7.10	(5.27)
Sri Lanka	35.3	298.00	17.0

(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 28.3 percent in the first ten months, with an even higher rate of 36.4 percent in April 2023. While the 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 April or may potentially be even higher. Thus, the expected inflation rate for 2022-23 may be above 28 percent for the outgoing fiscal year.

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.

The Finance Ministry will present the Pakistan's annual budget 2023-24 on 9th June 2023. Moreover, the Government will aim to sustain an inclusive GDP growth in the next Fiscal Year. Therefore, the Government may unveil a fiscally expansionary budget of around PKR 14-15tr for FY24. Moreover, at this time, high markup payments will be a huge task for the government.

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 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. However, the FBR achieving its tax target worth of PKR 7.64tr might be a tough ask given the collection of around PKR 2.0tr is required in the remaining two months of FY23.

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.

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.