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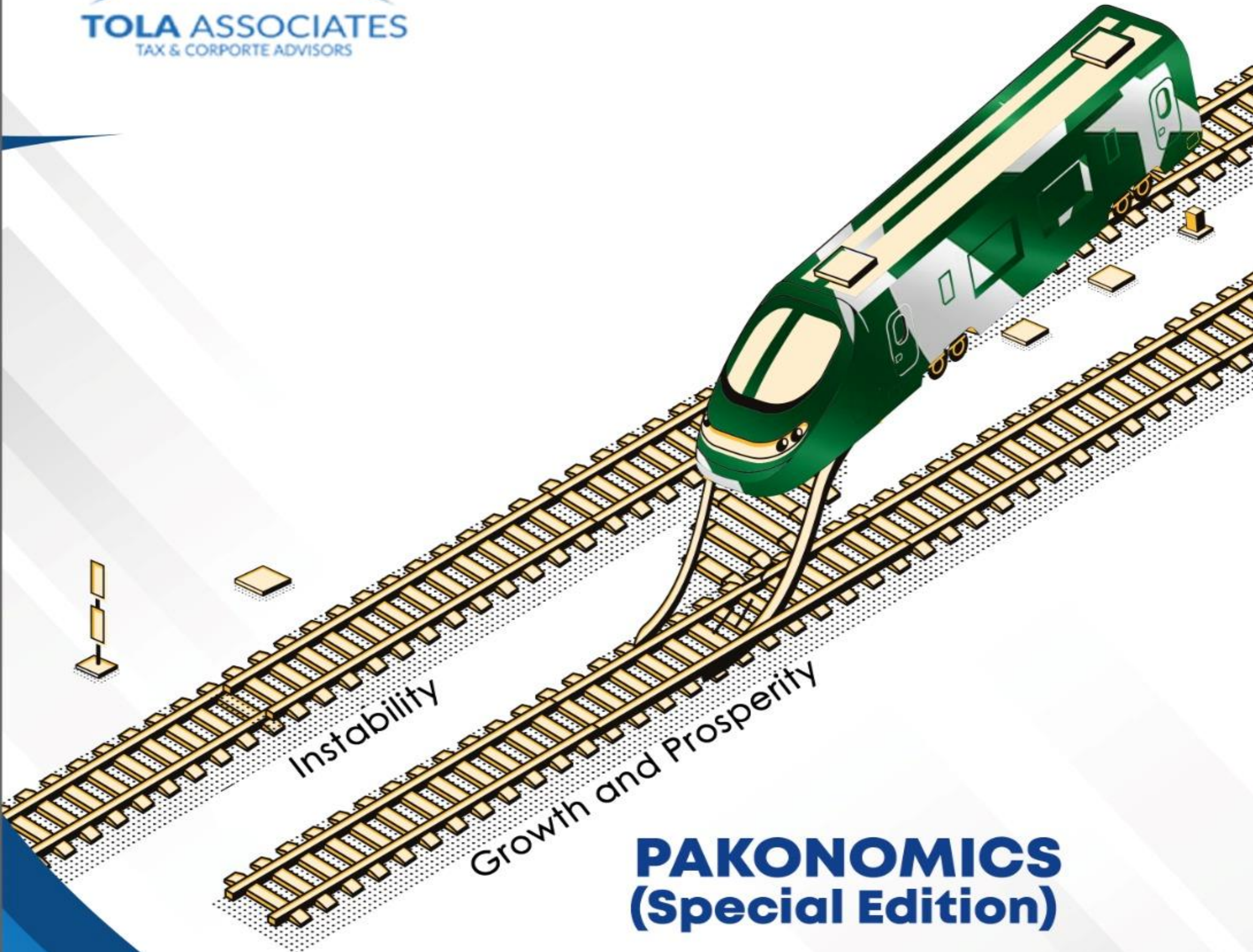

PAKONOMICS (Special Edition)

ECONOMIC SURVEY
2022-23

Adress :
408, 4th Floor, Continental Trade Centre Clifton Block-8, Karachi

Email & Website :
connect@tolaassociates.com
www.tolaassociates.com

Phone:
+92-21-35303294-6

PREAMBLE:

Asalam-o-alaikum everyone! Hope this publication finds you in good health. It is no secret that the economy of Pakistan is trying to climb out of an extremely precarious situation, amidst a global recession, and the supply chain disruptions that have occurred due to; (a) The disastrous floods; and (b) Political turmoil. Among these uncertainties and supply chain disturbances, the Pakistani economy has been marred with economic instability. However, on the domestic front, it is a pleasant sight to witness the Prime Minister initiate talks about having a Grand National Dialogue and signing a Charter of Economy. We strongly believe that political stability and a Charter of Economy are the need of the hour.

The outgoing Fiscal Year 2022-23 has witnessed tough economic situations. To decipher and analyze the major fundamentals of our economy for this Fiscal Year, we hereby offer our analysis through this document titled "**Pakonomics (Special Edition) Economic Survey 2022-23"** on the major Economic developments that have taken place in the during the outgoing Fiscal Year. Moreover, this publication further analyzes the trend in agricultural and industrial production, money supply, inflation, foreign exchange reserves, balance of payment, debt profile, savings, investment and other relevant macroeconomic factors that have a bearing on the Budget. This Publication also gives a glimpse of what is to come ahead in the coming Fiscal Year. We hope this publication will assist our readers in a better understanding of the macroeconomic Indicators which influence the economy of Pakistan.

Towards the end, we would like to reiterate that tough times never last, and that our prayers are with Pakistan to recover from the economic turmoil it has witnessed due to various factors discussed hereafter.

Kind Regards,

Muhammad Amayed Ashfaq Tola
President
Tola Associates
m.amayed@tolaassociates.com

You can also contact the following contributors to this publication:

1. Muhammad Furqan:
furqan@tolaassociates.com

2. Sardar M. Ahsan Ahmed:
ahmedahsan559@gmail.com

Design by Salman Ahmed

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ECONOMIC SURVEY 2022-23

PAKISTAN ECONOMY - A BIRD'S-EYE VIEW:

Economic Indicators	Period	Status	Current Year	Last Year
Real GDP Growth **(Const. Base 2015-16)**	Jul-June	↓	0.29%	6.10%
Agriculture Sector	Jul-June	↓	1.55%	4.27%
Industrial Sector	Jul-June	↓	(2.94)%	6.83%
Services Sector	Jul-June	↓	0.86%	6.59%
Inflation (General CPI)	Jul-May	↑	29.16%	11.26%
Current Account Deficit	Jul-April	↓	$(3,258) Million	$(13,654) Million
Imports of Goods	Jul-May	↓	USD 51.15 Billion	USD 72.28 Billion
Exports of Goods	Jul-May	↓	USD 25.36 Billion	USD 28.87 Billion
Worker's Remittances	Jul-April	↓	USD 22.74 Billion	USD 26.14 Billion
Overall Debt and Liabilities	March	↑	PKR 72.97 Trillion	PKR 53.59 Trillion
Central Government Debt	March	↑	PKR 59.24 Trillion	PKR 44.38 Trillion
External Debt and Liabilities	March	↑	PKR 35.68 Trillion	PKR 23.71 Trillion
FBR Tax Collection	Jul-May	↑	PKR 6,210 Billion	PKR 5,349 Billion
Foreign Exchange Reserves	As of 27th May	↓	USD 4.09 Billion	USD 9.72 Billion
Exchange Rate (PKR/USD)	As of 7th June	↑	PKR 286.88	PKR 201.52
Investments (% of GDP)	Jul-June	↓	13.60%	15.70%
National Saving (% of GDP)	Jul-June	↑	12.50%	11.10%
Currency in Circulation	Jul-20th May	↑	PKR 1,230 Billion	PKR 879 Billion

- In the 106th meeting of the National Accounts Committee ("NAC"), the provisional estimations suggest a modest GDP growth rate of 0.29% in FY23. Looking ahead, the projected GDP for the FY24 is estimated at 3.5%, indicating a more optimistic outlook for the country's economic performance in the upcoming year.

- For the outgoing Fiscal Year, the growth rates for the agricultural, industrial, and services sectors have been estimated at 1.55%, -2.94%, and 0.86% respectively. Looking ahead to the next Fiscal Year, the growth targets for all three sectors are set at Agriculture (3.4%), Industry (3.4%), and Services (3.6%), highlighting the government's aim for a balanced and sustainable growth across these sectors.

- During FY23 in Pakistan, the agriculture sector suffered a significant 3.20% decline in important crops due to the devastating floods in Balochistan and Sindh. Cotton production decreased by 41.1%, while rice production declined by 21.5%.

- The decline in industrial sector in Pakistan is mainly driven by a 4.41% decrease in the mining and quarrying sector, including natural gas and crude oil production. The LSM industry, measured by the QIM, experienced a significant decline of 7.98% from July 2022 to March 2023.

- The services sector in Pakistan has achieved a modest growth, demonstrating the resilience of the economy. Moreover, the Wholesale and Retail Trade industry experienced a decline of 4.46%, it can be attributed to factors such as a decline in the Commodity producing sectors.

- Based on the data published by the PBS, the CPI inflation recorded a substantial increase of 29.01% year-on-year during the period of July to May 2023, compared to 11.26% in the same period of the previous fiscal year. Looking ahead, inflation is projected to reach 21% for the FY24, indicating a slowdown, relatively.

- A significant positive development has been observed with the CAD during the July to April period of FY23, as it reached a manageable size of USD 3.258 billion. This represents a remarkable decline of 76% compared to the CAD recorded in the same period of the previous Fiscal Year, which stood at USD 17.4 billion. Looking ahead, the CAD for the next Fiscal Year is projected to be 1.7% of the GDP.

- One of the primary factors contributing to this successful management of the CAD is a substantial reduction in unnecessary imports, which have decreased by 29.22% from USD 72 billion in FY22 to USD 51 billion in FY23.

- Moreover, a decline in exports of 12.14% has been observed in FY23 as compared to FY22, which can be attributed to a slump in both the industrial and agricultural sectors. However, it is important to note that the export to import ratio has improved significantly in FY23.

- As per the SBP, the remittances sent by Overseas Pakistani workers decreased by 13.0% to USD 22.74 billion in Jul-April FY23 vs. USD 26.14 billion in FY22.

- As per the SBP, the total debt and liabilities reached PKR 72.97tr in March 2023. This represents an increase of 36.17% or PKR 19.39tr compared to the previous year. Furthermore, as a percentage of GDP, the overall debt and liability ratio rose to 92%, increase from 80% recorded in March 2022.

- Similarly, the Gross public debt which is the submission of the government's domestic, external and debt from IMF, has risen to PKR 59.25tr in March 2023, from PKR 44.38tr in March 2022.
- As per the official statistics of the FBR, the FBR has collected tax revenue worth PKR 6,210 billion in Jul-May period of FY23. Tax revenue collection has increased by 16.10% or PKR 861 billion. However, the FBR requires PKR 1,430 billion more in the remaining month of FY23 in order to achieve their revised tax collection target of PKR 7.64tr.
- The net SBP reserves stand at USD 4.09 billion as of 26th May 2023, decreasing by 2.44% or $102 million compared to last week's reserves of USD 4.19 billion on 19th May 2023. Moreover, when compared to the reserves held by the SBP during the same period last year (which were then USD 9.72 billion), the Net reserves have gone down by 58.0% or USD 5.632 billion, amidst external debt repayments.
- In the Inter-bank market, the National currency value stood at a level of PKR 286.88/USD as of 7th of June 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.
- Moreover, investment as a percent of GDP has declined to 13.60% in FY23 from 15.70% in FY22. Moreover, both the Public investment and private investment declined to 3.1% and 8.8% in FY23, from 3.5% and 10.5% in FY23, respectively. It may be noted that investment as a percent of GDP for FY24 is projected at 15.1%.
- The Currency in circulation stock from 1st of July 2022 to 20th May 2023 has reached to PKR 1,230 billion, as compared to an expansion of PKR 879 billion last year during the same period.

OVERVIEW OF ECONOMY:

The National Accounts Committee ("NAC") has recently revealed the provisional estimates of the GDP growth rate, that stands at 0.29% compared to the revised estimates of 6.1% in FY 2021-22 ("FY 22") of the previous year. It is worth noting that last year's growth was primarily driven by consumption and import-oriented activities rather than inclusive growth. The reasons for the sluggish growth rate of 0.29% in the ongoing Fiscal Year can be attributed to multiple factors. Firstly, the country was hit by disastrous floods, causing widespread damage to infrastructure, agricultural lands, and displacing a significant population. This natural disaster had a detrimental impact on various sectors of the economy, leading to a slowdown in growth.

Furthermore, political uncertainty has also played a role in impeding economic progress. The volatile political landscape, characterized by frequent protests and a charged political environment, along with policy instability, has created an environment of uncertainty for businesses and investors. This uncertainty has hampered investment and economic activities, contributing to the sluggish growth rate observed in FY 23. Additionally, in 2023, the global recession added to Pakistan's economic challenges, as the worldwide economic downturn had a ripple effect on various economies, including Pakistan, leading to a reduced demand for exports and decreased foreign investment. These external factors further constrained the growth potential of the Pakistani economy.

The occurrence of these events prompted the Government to adopt policies such as monetary tightening in order to address inflationary pressures, as recommended by the International Monetary Fund ("IMF"). Despite a combination of various macroeconomic indicators indicating a contraction in the economic activity, the challenge of maintaining a balanced external sector for Pakistan amidst a global environment of inflation remained significant during the FY 23.

The table *herein*below illustrates the final estimates of Pakistan's Real GDP growth (Inflation adjusted on Base price of 2015-16) of FY21, revised estimates of FY22, provisional estimates of FY23, and forecasted growth of FY24.

Real GDP Growth (Base Year 2015-16)				
Sector	**2020-21 F**	**2021-22 R**	**2022-23 P**	**2023-24 E***
Agriculture	3.52%	4.27%	1.55%	3.4%
Industrial sector	8.20%	6.83%	(2.90)%	3.4%
Services sector	5.91%	6.59%	0.86%	3.6%
Overall	**5.77%**	**6.10%**	**0.29%**	**3.5%**
				(Source: PBS and NAC)

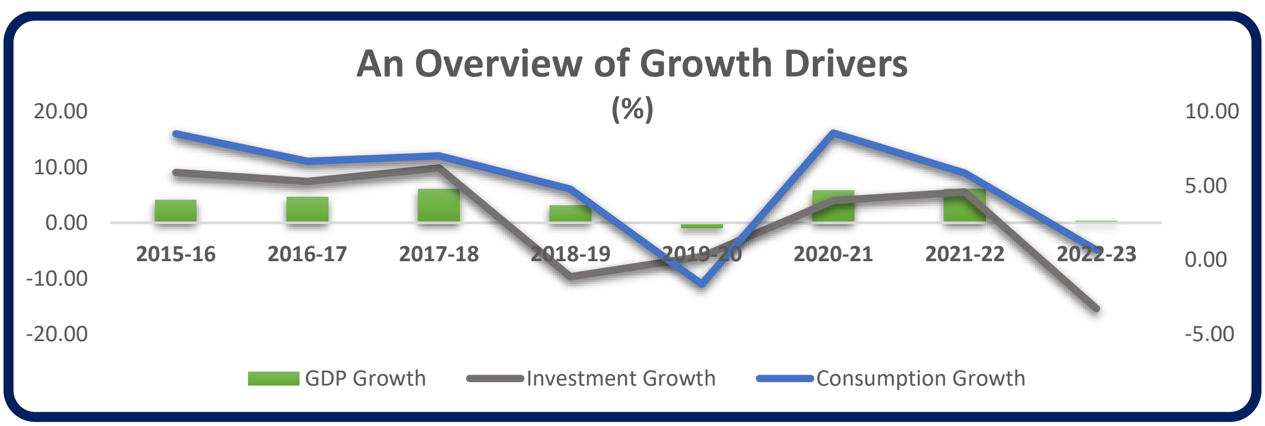
***Estimates by the Government**

Despite the detrimental effects of severe floods, the agriculture sector defied expectations by registering a growth rate of 1.55% in FY 23. This achievement is noteworthy as initial forecasts had predicted a contraction in this sector after a significant damage was caused to the fields of crops. The resilience and efforts of farmers, combined with effective recovery measures, contributed to this unexpected positive outcome. On the other hand, the industrial sector faced challenges during FY 23, leading to a contraction of 2.94%. Various factors such as reduced demand, supply chain disruptions, and the overall economic slowdown have contributed to this decline. The industrial sector's performance reflects the broader economic challenges faced by Pakistan during this period. In contrast to the industrial sector, the services sector, which represents the largest segment of the economy, managed to achieve a slight growth of 0.86%. While this growth rate may appear modest, it is an encouraging sign given the prevailing circumstances. The services sector encompasses a wide range of activities such as finance, wholesale and retail, education, and healthcare, and its resilience plays a keen role in sustaining the whole economic stability of the country.

The GDP growth rate for FY23 is lower than the official target of 5.0% projected by the Planning Commission’s in their annual report last year. However, the GDP growth had been revised down to 2.0% by the World Bank in their report titled “Global Economic Prospects 2023”. Subsequent to that, the IMF published their report titled “World Economic Outlook” in April 2023 in which provisional estimates of GDP were revised down to only 0.5% by the IMF, given the ongoing political and economic turmoil in Pakistan.

Furthermore, despite a notable 6.1% (revised estimates) expansion during the FY22, it is crucial to highlight that this growth has been primarily driven by imports and a consumption oriented approach. This particular development posed significant external sector challenges for the economy in FY 23. As can be seen, both the trade deficit and the current account deficit exceeded their annual targets, reaching alarming levels in FY 22 (Annexure II). Consequently, as Pakistan started the FY23, it, at the very outset thereof, found itself in a state of external imbalance, which adversely affected numerous macroeconomic indicators. While a growth rate of 6.1% may seem impressive on paper, the fact that it was fueled by imports suggested that a substantial portion of the economic activity was dependent on external sources in FY 22. This dependence not only exposed the economy to volatility in international markets but also put significant pressure on the country's external sector in FY 23.

The graph below illustrates the GDP growth rate correlation with Investment and Savings growth.



(Source: PBS)

The agriculture sector in Pakistan experienced an overall growth of 1.55% during the FY23. However, there was a significant decline of 3.20% in important crops due to the devastating floods in the provinces of Balochistan and Sindh. Moreover, cotton production was severely affected, witnessing a decline of 41.1%; with only 4.91 million bales produced in FY23 compared to 8.33 million bales last year. Similarly, rice production declined by 21.5%, reaching 7.32 million tons, compared to 9.32 million tons in the previous year. Despite these setbacks, positive growth was observed in wheat, sugarcane, and maize production, which partially helped compensate for the losses. Wheat production showed a growth of 5.4%, reaching a record high of 27.634 million tons in FY23, compared to 26.208 million tons last year. Sugarcane production increased by 2.8%, resulting in 91.11 million tons, compared to 88.65 million tons previously. Maize crop also experienced a positive growth of 6.9%, reaching 10.183 million tons, compared to 9.52 million tons last year. Additionally, there was a slight increase of 0.23% in other crops, mainly attributed to a rise in the production of vegetables, oil seeds, and fruits. In the livestock sector, a growth rate of 3.78% was recorded, while forestry witnessed a growth of 3.93%. The fishing industry experienced a growth rate of 1.44%. Despite the challenges posed by the floods, the agriculture sector in Pakistan managed to maintain an overall growth, with positive contributions from certain crops and the livestock sector.

Moreover, the industrial sector in Pakistan has experienced a provisional decline of 2.94%. This decline can be attributed to a decrease of 4.41% in the mining and quarrying sector, primarily due to lower production of natural gas, crude oil, and exploration activities. The Large Scale Manufacturing ("LSM") industry, which is measured by the Quantum Index of Manufacturing ("QIM") has seen a significant decline of 7.98% during July 2022 to March 2023. Various sub-sectors have contributed to this decline, including food, tobacco, textiles, coke and petroleum products, chemicals, pharmaceuticals, fertilizers, non-metallic products (including cement), iron and steel products, electrical equipment, automobiles, and other transport equipment. However, there have been some industries that have shown positive growth, such as wearing apparel, leather products, furniture, and other manufacturing. The electricity, gas, and water industry has experienced a growth of 6.03%. The overall industrial sector faces challenges in specific sub-sectors, while some industries have managed to show growth during the period of FY23.

The services sector in Pakistan has experienced a growth of 0.86%. Within this sector, the Wholesale and Retail Trade industry has declined by 4.46% primarily due to a decrease in crop output, LSM, and imports. However, the Transportation and Storage industry has shown an increase of 4.73% due to higher revenue in areas such as railways, PNSC, KICT, PIA, foreign airlines, CAA, domestic airlines, and road transport. Accommodation and food services activities have grown by 4.11%. Information and communication have increased by 6.93%, mainly due to growth in the telecommunication sector. The finance and insurance industry, however, has decreased by 3.82%, largely attributed to a high deflator. Real estate activities have grown by 3.72%. Public administration and social security activities have experienced a negative growth of

7.76% due to the high deflator. On a positive note, education has witnessed a growth of 10.44% due to increased public sector expenditure, while human health and social work activities have increased by 8.49% due to general Government initiatives. Other private services have seen a provisional growth of 5.00%. Overall, the services sector displays a mix of positive and negative growth rates across different industries and activities.

The Consumer Price Index ("CPI") has witnessed a continuous upward trajectory in the inflation rate since September 2022, when compared year-on-year ("Y-o-Y"). In September 2022, the inflation rate stood at 23.2 percent, and by May 2023, it has surged to 38.0 percent. This significant increase of 14.8 percentage points within a span of just eight months represents an unprecedented acceleration in the rate of inflation. The magnitude of this surge highlights the severity of the inflationary pressures currently experienced in the economy. During the FY 23 period, inflationary pressures remained elevated, primarily driven by a combination of factors including major domestic supply shortages in essential food items caused by the floods. This predicament is exemplified vividly by the significant increase in the price of rice, which suffered a severe decline in production. A similar pattern is observed in many other domestically produced food items, indicating the widespread impact of supply disruptions. Despite efforts taken thus far, the inflation rate remains uncontrollable, representing the most significant concern for Pakistan's economy.

A Beacon of Hope: Government's Remarkable Achievement in FY23. A noteworthy accomplishment in FY23 is the remarkable success of the Government in addressing the Current Account Deficit ("CAD") which is down to USD 3.258 in the Jul-April period of FY23, consequently creating much-needed breathing space for the Balance of Payment. One of the primary factors contributing to this success is the substantial reduction in unnecessary imports, which have decreased by 29.22% from USD 72 billion in FY22 to USD 51 billion in FY23. As a result, the Trade deficit has contracted by nearly 41% during the July-May period of FY23. Despite a decline in exports, which can be attributed to a slump in both the industrial and agricultural sectors, it is important to note that the export to import ratio has improved significantly in FY23. Comparing the export to import ratio, we observe that it stands at almost 50% in FY23, a notable increase from the 39.66% recorded in the previous FY22 (Annexure II). This indicates that the government desperately wanted a positive sign of recovery and resilience within the economy during FY23.

Similar to the efforts in addressing the External sector, the Government of Pakistan is leaving no stone unturned in providing relief to the people amidst the ongoing crisis. However, it is essential to examine the budgetary situation, which requires more progress. For the outgoing Fiscal Year, the Federal Government had set an annual budget deficit target of PKR 4,547 billion in Budget document of FY23, equivalent to 5.73% of the now estimated nominal GDP (estimated at PKR 79.34 trillion). Unfortunately, by the end of the Jul-March period in FY23, the budget deficit had already reached 78% of the annual target, amounting to PKR 3,535 billion. Historical evidence suggests that usually heavy spending occurs in the last quarter of each Fiscal Year, resulting in a significant increase in the budget deficit. In the past three Fiscal Years, as per the fiscal operations of Finance Ministry, the budget deficit in the last quarter surged by an average of 76% when compared with the first three quarters. This trend indicates that the current Fiscal Year's budget deficit may reach approximately PKR 6 trillion. However, considering the persistent rise in the inflation rate and the Government's intention to maintain a low fiscal deficit, it might not exceed Government's estimated target. It may be that for the outgoing FY23, the Government might have a budget deficit ranging from 6% to 6.5% of the GDP, considering the accumulation of Government debt until March 2023. This state of affairs is concerning, and one of the contributing factors to this high budget deficit is the low tax-to-GDP ratio. Looking ahead, achieving the tax collection target of PKR 9,000 billion for FY 23 will be challenging, given the current state of Pakistan's economy.

The Government has set 3.5% economic growth target for the next Fiscal Year (2023-24) after the NAC approved the 0.29% growth figure for the outgoing year. Whereas, the inflation is expected to be targeted at around 21.0%. Moreover, we estimate that the FBR may collect around PKR 7.1 trillion due to the current year inflation hike. However, this will still fall short compared to the IMF's target of PKR 7.64tr. Even after these economic trends, the FBR still lags behind the revenue target by PKR 400 to 500 billion from the official revised target of PKR 7.64tr agreed with the IMF.

Moreover, in FY23, the interest rate rose to 21.0% from 13.75% in last year's June 2022, in order to curtail the soaring inflation rate. However, this hike in the interest rates increased the cost of doing business and interest payments on debt. Along with that, the T-bill rate is more than 21%, which means that the Government is borrowing at a higher rate. This is mainly because of the SBP Amendment Act 2021 that does not allow the Government to borrow directly from the SBP. Furthermore, rampant parity devaluation has disrupted business activity and fuelled more inflationary pressure. To stimulate economic growth, it is advisable to operate on a low interest rate.

The Recipe for a Healthy Economy: Revamping Interest Rate and Exchange Rate Policies. To foster a healthy economy, it is imperative for the Government to consider lowering the interest rate, particularly in light of the significant presence of a parallel base economy. By reducing the interest rate, the Government can alleviate the burden of debt servicing in the short, medium, and long term. The currency parity has experienced a decline, reaching a record low level of 298.93/USD in mid-May 2023, after peaking at 152.53/USD in March 2021. However, it has recently shown signs of recovery and stability, stabilizing around 285/USD in the past few weeks. Nevertheless, the decline in the value of the currency parity has been one of the driving factors behind the persistent rise in the CPI in Pakistan. In fact, the CPI reached its highest level in the country's history in May 2023. Therefore, maintaining a stable currency parity becomes an urgent necessity. It is crucial for top officials in Pakistan to thoroughly evaluate whether the economy can sustain itself with a poor exchange rate regime and a contractionary monetary policy, especially considering that the country's per capita income has declined to USD 1,568 in FY23. This evaluation underscores the need to re-evaluate both, the interest rate and exchange rate policies.

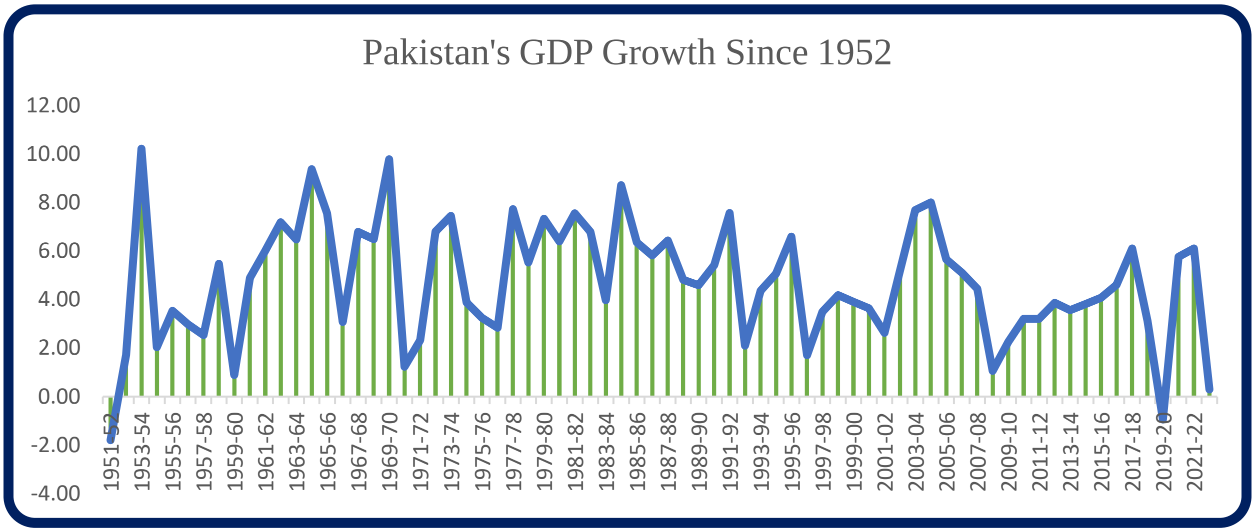
Striking a Balance: Inflation, Inclusive Growth, and Revenue Targets: One of the critical challenges for the current regime lies in effectively managing inflationary pressures while ensuring inclusive growth and economic stability. Achieving this delicate balance necessitates the strategic utilization of monetary policy tools to provide the necessary support for economic growth. However, a question arises regarding the feasibility of the ambitious tax revenue target of PKR 9tr set for FY 24. Raising the tax rate poses additional strain on sectors that are already making significant contributions, thus warranting the Government's attention towards implementing comprehensive tax reforms. These reforms are essential to enhance tax revenue collection and broaden the tax base, ensuring a more sustainable and equitable approach towards taxation.

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 competitive trade policies to enhance national exports; (e) Reducing interest rates to stimulate economic activity and minimize debt servicing.

Pakistan's Real GDP Growth Contribution			
Sectors	**2020-21 F**	**2021-22 R**	**2022-23 P**
Agriculture Sector	23.03%	22.63%	22.91%
Industrial Sector	18.96%	19.09%	18.47%
Services Sector	58.01%	58.28%	58.61%
			(Source: NAC, PBS)

The share of main sectors in the GDP are also illustrated in the table *supra*. Furthermore, the size of the Economy of Pakistan in US dollar terms, has decreased to USD 341.5 billion in 2022-23 from USD 375.44 billion in FY22, declining by almost USD 34 billion or 9.0%. Similarly, the per capita income that was USD 1,766 in the FY 22, has declined to USD 1,568 in FY 23, reflecting a decrease of USD 198 or 11.2% when compared to FY22. Moreover, Pakistan still has the lowest Per capita GDP, and is lagging behind those countries who have the highest inflation rate. (Annexure III).

The graph *infra* shows the GDP growth of Pakistan since 1952,



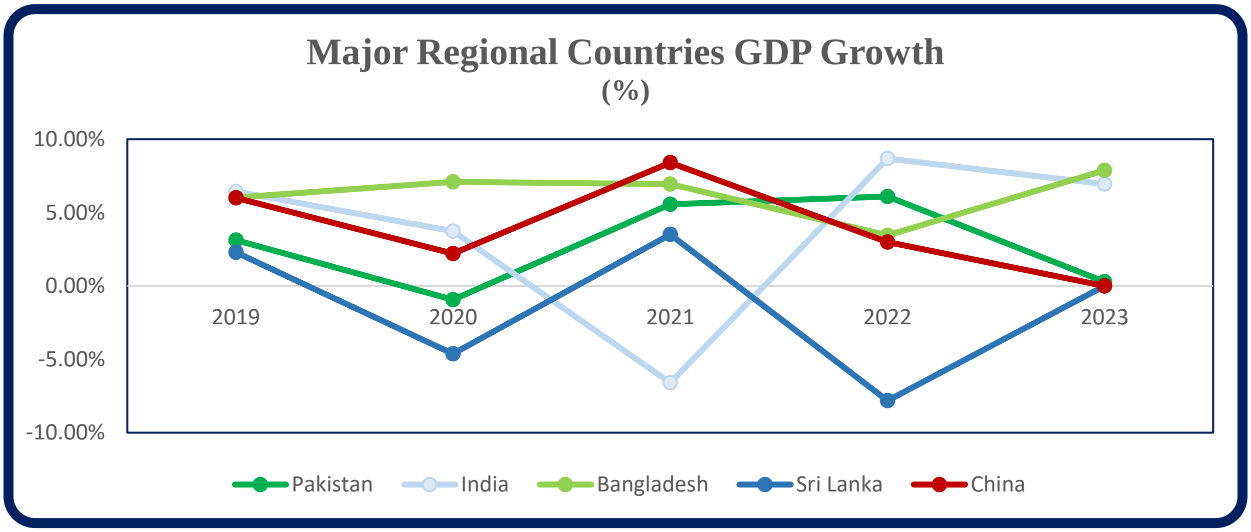
The revised growth of the GDP for the year FY22 is based upon growth estimates of the agricultural, industrial and services sectors at 4.27%, 6.83% and 6.59%, respectively. The growth for FY22 was revised upward from 5.97% to 6.10%. The sector-wise brief is as follows:

Sectors	2022-23		2021-22	
	Targets	Provisional	Provisional	Revised
Agriculture Sector	3.90%	1.55%	4.40%	4.27%
Industrial Sector	5.90%	(2.90)%	7.19%	6.83%
Services Sector	5.10%	0.86%	6.19%	6.59%
GDP Growth	5.0%	0.29%	5.97%	6.10%
				(Source: NAC)

I. GDP – GEOGRAPHICAL COMPARISON:

Pakistan's GDP growth has lagged behind in comparison to regional economies. The GDP growth of Pakistan has consistently trailed behind that of regional economies, placing it marginally ahead of Sri Lanka's economy, which is also grappling with significant political and economic crises. In contrast, countries such as Bangladesh, India, and China have exhibited robust GDP growth rates, surpassing 5% in 2023. A comparison of GDP figures from 2019 reveals a relatively low growth rate of 3.12% for Pakistan, which further deteriorated in 2020, exacerbating the country's competitiveness gap with the regional economies. Bangladesh and China, direct competitors to Pakistan in textile exports, have demonstrated consistent growth rates in recent years, capitalizing on export markets and maintaining their respective market shares. Meanwhile, India has made remarkable strides in its recovery, achieving economic growth rates of 8.68% and 6.95% in the 2022 and 2023, respectively. The disparity in GDP growth between Pakistan and its regional counterparts highlights the need for Pakistan to address the underlying factors hindering its economic progress. This may include implementing strategic measures to enhance competitiveness in the manufacturing sector, ultimately to strengthen the export sector, and attract investments. By adopting proactive policies and leveraging its unique strengths, Pakistan can strive to bridge the gap and attain a more robust GDP growth, thereby positioning itself on par with its regional peers.

The graph hereinbelow shows the GDP growth trend for the regional countries:



Period	Pakistan	India	Bangladesh	Sri Lanka	China
2023	0.29%	6.95%	7.88%	(3.00)%*	5.2%*
2022	6.10%	8.68%	3.45%	(7.82)%	3.0%
2021	5.57%	(6.60)%	6.94%	3.51%	8.4%
2020	(0.94)%	3.74%	7.10%	(4.62)%	2.2%
2019	3.12%	6.45%	6.03%	2.3%	6.0%
(Sources: Ministry of Finance ("MoF") – Pakistan; MoF – India ; MoF– Bangladesh; IMF; and Central Bank of Srilanka)					

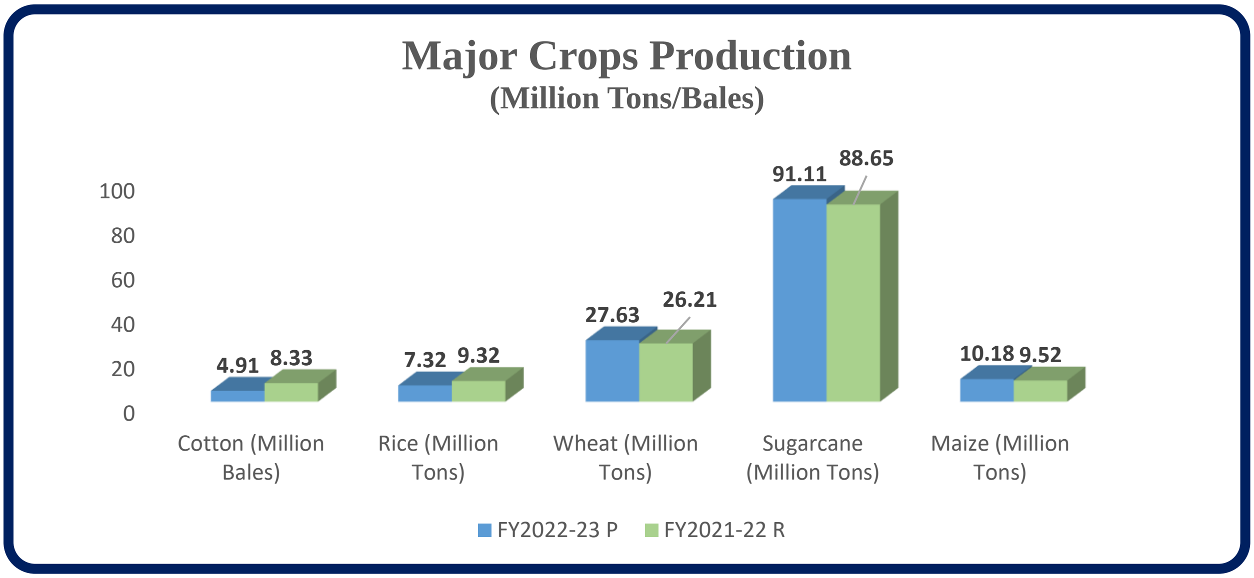
***Projected Economic Growth Figures.**

II. AGRICULTURE SECTOR:

"Performance of Agriculture Sector: Mixed Growth in Key Crops and Sub-Sectors"

For many years, the agriculture sector has been the mainstay of the Pakistan's economy. However, in recent years, its significance has somewhat depleted. From a significant contribution to GDP of more than half in 1940s, today it accounts for only 22-23% of the GDP in real terms. Since 1947, there were major ups and downs in the agricultural sector, from the Green revolution to a decline of the early 2000's. The agriculture sector has a strong forward and backward link with the rest of the sectors of the economy, such as the industrial and services sector. In addition to that, the input for the agro based industries (i.e. cigarette, sugar, beverages, leather, textile etc.) are supplied from this sector. This sector comprises of four sub-sectors which include; crops, livestock, forestry, and the fisheries sector. In FY23, the Agriculture sector secured a growth of 1.55% despite being severely affected due to the floods in the initial months of the outgoing Fiscal Year. Moreover, the agriculture sector contributed around 22.91% to the GDP and around 37.45% with regards to employment in the country.

The graph *infra illustrates* the Major crop production of Pakistan (FY23 Provisional vs. FY22 Revised)



CASH CROP OF PAKISTAN			
Crops	**FY2022-23 P**	**FY2021-22 R**	**Growth/(Contraction) (%)**
Cotton (Million Bales)	4.91	8.33	(41.06)
Rice (Million Tons)	7.32	9.32	(21.46)
Wheat (Million Tons)	27.63	26.21	5.42
Sugarcane (Million Tons)	91.11	88.65	2.77
Maize (Million Tons)	10.18	9.52	6.93
			(Source: NAC)

In the agriculture sector, there has been a provisional contraction of 3.20% in the important crops in FY23, primarily driven by a decrease in the production of Cotton by 41%, from 8.33 million bales to 4.91 million bales, and Rice by 21.5%, from 9.32 million tons to 7.32 million tons. This outgoing year was wrecked with heavy floods in the Provinces of Balochistan and Sindh, thereby, both important crops were badly damaged by these floods. However, the loss in important crops to some extent has been compensated by Wheat, with a growth of 5.4% from 26.208 million tons to 27.634 million tons, Sugarcane with a growth of 2.8% from 88.65 million tons to 91.11 million tons, and Maize with a growth of 6.9% from 9.52 million tons to 10.183 million tons in FY23. Additionally, other crops have posted modest growth of 0.23%, attributable to a slight increase in the production of pulses, vegetables, fodder, oilseeds, and fruits. The livestock sector has shown a provisional growth of 3.78% in FY23, while the forestry and fishing sectors have recorded growth of 3.93% and 1.44%, respectively.

The following table describes the flow of the agriculture sector and the shares of the sub-sectors of the agriculture sector in the GDP:

Agriculture Sector		
Sub Sectors	**Provisional Growth/(Contraction) 2022-23 (%)**	**Share in GDP (%)**
1. Crops (i+ii+iii)	(2.49)	7.72
i. Important Crops	(3.20)	4.18
ii. Other Crops	0.23	3.32
iii. Cotton Ginning	(23.01)	0.22
2. Livestock	3.78	14.36
3. Forestry	3.93	0.51
4. Fishing	1.44	0.32
Overall Growth	1.55	22.91
		(Source: PBS)

The share of the agriculture sector in the GDP is 22.91% in FY23. Whereas, the share of the agriculture sector in Pakistan's GDP was 22.63% in FY22. It is imperative to note that despite the wreck caused by the floods, the share of the agriculture sector went up in FY23, even though it has been on the verge of decline since FY20, wherein its share was 23.53% of the GDP, as per the revised figures of PBS. Despite a decline in growth of important crops due to decrease of production in rice and cotton crops, the share of important crops in the GDP has been maintained over 4%. Similarly, the Livestock sector has around a 63% share in the agriculture sector and contributes 14.36% in the GDP. The same grew by 3.93% according to PBS estimates. Moreover, growth of the livestock sector and poultry sector might have been impacted due to a drop in demand and rising inflationary pressures and other disease impacts. On the other hand, the Forestry sector has a low contribution in the GDP, worth merely 0.51%. Wildlife and forest are inseparable, as there is a huge proportion of forest, which means naturally there will be wildlife. The Government needs to initiate programs to reduce desertification, illegal poaching and forest degradation. This can lead to Pakistan improving in the performance of these departments, and would not only provide protection to forests and wildlife, but it would also promote eco-tourism in Pakistan. Similar to Forestry, the Fishing sector is struggling to put forth significant contribution in the economic growth. This sector can be beneficial to boost National Exports. As per PBS, its share amounts to 1.5% to 1.8% of the total Exports. All this sector needs is modernization of infrastructure. In addition to that, the Government should move towards Shrimp farming to increase the exports.

Moreover, the growth rate of the agriculture sector has been revised from the initial estimate of 4.40% in FY22 to 4.27%. Within the agriculture sector, the 'crops' sub-sector has experienced improvement, with the growth thereof increasing from 6.58% to 8.19% in revision of the data. However, the growth of important crops has declined from 7.24% to 5.41%, primarily attributed to a decrease in Maize output by 10.5%. On the other hand, other crops have shown improvement, with growth rising from 5.44% to 11.93%, driven by an increased production of green fodder (12%), fruits (10%), and dates (49%). The livestock sub-sector has witnessed a decline in growth from 3.26% to 2.25%, primarily due to an increase in fodder, which serves as an input for the livestock industry. Forestry has also experienced a decline, with growth decreasing from 6.13% to 4.07%, mainly attributed to a reduction in timber production, reportedly.

Overall, the agriculture sector exhibits a mixed picture, with some crops experiencing a significant decline, whilst others show positive growth. It is important for policymakers to closely monitor and address the challenges faced by specific crops, particularly Cotton and Rice, in order to stimulate growth and enhance productivity. Additionally, continued investment and support in the livestock, forestry, and fishing sub-sectors can contribute to the overall resilience and sustainable growth of the agriculture sector.

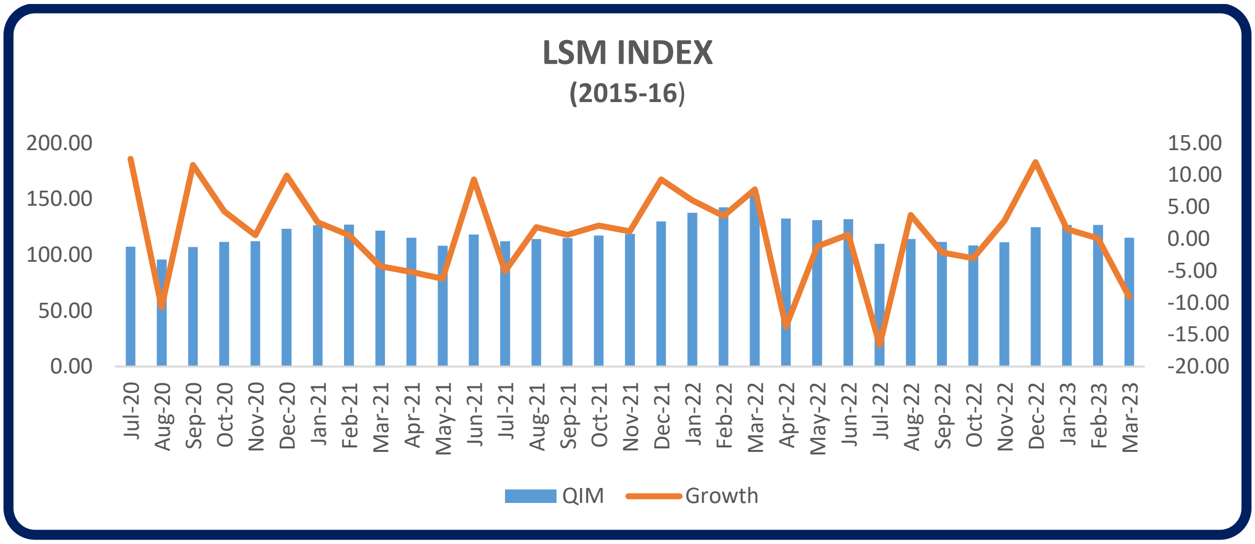
III. INDUSTRIAL SECTOR:

Industrial Sector: A declining share and challenging growth

The industrial sector's contribution to the GDP has contracted to 18.47% in FY23, down from 19.90% in FY22. This decline is concerning as the industrial sector plays a pivotal role in economic development, job creation, and maintaining the country's economic surplus. Currently, the industrial sector accounts for 25.38% of total employment and has been a key driver of GDP growth in previous years (Annexure IV). As per the estimates of the NAC, the provisional growth in the industrial sector stands at negative 2.94%. Within this sector, mining and quarrying have experienced a decline of 4.41% due to reduced production of natural gas, crude oil, and increased exploration costs. LSM, guided by the "QIM, has seen a negative growth rate of 7.98%. This contraction can be attributed to declines in various sub-sectors such as, *inter-alia*: (a) Food (-8.71%); (b) Tobacco (-23.78%); (c) Textile (-16.03%); (d) Coke and Petroleum Products (-10.24%); (e) Chemicals (-6.29%); (f) Pharmaceuticals (-23.20%); (g) Fertilizers (-9.54%); (h) Non-metallic products including cement (-10.75%); (i) Iron and Steel Products (-4.02%); (j) Electrical equipment (-11.15%); (k) Automobiles (-46.01%); and other transport equipment (-38.91%).

On a more positive note, the electricity, gas, and water industry have shown a growth of 6.03%, primarily driven by higher output, reportedly. However, the construction industry has registered a negative growth rate of 5.53%. This decline is mainly attributed to conservative reporting of construction-related expenditures by both private and public sector enterprises, along with an unusual increase in the relevant deflator, namely the Wholesale Price Index ("WPI") for building materials, as per the NAC.

The chart *infra* shows the QIM indices and growth in LSM Industries.



The table below shows the Provisional Growth of the Industrial sector in FY23 and the share of the sub-sectors of the Industrial sector, in the GDP.

Industrial Sector		
Sub Sectors	**Provisional Growth/(Contraction) 2022-23 (%)**	**Share in GDP (%)**
1. Mining and Quarrying	(4.41)	1.59
2. Manufacturing (i + ii + iii)	(3.91)	12.01
i. Large Scale	(7.98)	8.57
ii. Small Scale	9.03	2.15
iii. Slaughtering	6.31	1.28
3. Electricity Generation and Distribution and Gas Distribution	6.03	2.49
4. Construction	(5.53)	2.38
Overall Growth/(Contraction)	(2.94)	18.47
		(Source: PBS)

The shrinking share of the industrial sector in the GDP, coupled with weak growth rates across various sub-sectors, calls for strategic interventions and supportive policies to stimulate industrial activity, attract investments, and promote innovation. By addressing the underlying issues faced by the industrial sector, the Government can revive growth, enhance productivity, and create a conducive environment for sustainable economic development.

To foster strong economic growth, Pakistan should focus on developing its secondary level of economy and not resort to transitioning to a tertiary economy prematurely. It is crucial for Pakistan to realize its full potential at the secondary stage before shifting towards a services-based economy. Premature de-industrialization has resulted in increased borrowing and negatively impacted

Pakistan's economic outlook, as evident from the outlook reports on Pakistan's economy (Annexure I and II). The Government should prioritize the development of the secondary sector for the next five to ten years, fully capitalizing on industrialization, and gradually transition towards a balanced growth trajectory. It is essential to avoid endorsing any populist policies and instead adopt a strategic approach for sustained and balanced economic growth.

Moreover, the revised estimates of FY22 indicate that the industrial sector's growth stands at 6.83%, slightly lower than the provisional estimate of 7.19%. Within the sector, Mining and Quarrying experienced contracted more than the provisional estimates of FY22. It declined from 4.47% to 7.00% due to reduced production of Natural Gas, Crude Oil, Other minerals, and exploration cost. On the other hand, LSM, determined by the QIM, has shown improvement, with growth increasing from 10.48% to 11.90%. However, the Electricity, gas, and water supply industry have witnessed a decline from 7.86% to 3.14% due to downward revisions in output, reportedly. The construction sector, which is based on construction expenditures incurred by various industries, has experienced a revised growth estimate of 1.90%, lower than the provisional estimate of 3.14%. This decline can be attributed to reduced activity in public sector enterprises engaged in electricity and transport, as well as general Government expenditure.

IV. SERVICE SECTOR:

"Service Sector Dominance: Driving Innovation and Prosperity in Pakistan"

The share of services sector in the GDP stood at 58.61% in FY23 as per the new base year 2015-16, showing a minor increase from 58.28% in FY22, supported by close backward and forward linkages with economic value added and output of commodity producing sectors (agriculture and industrial sectors). The Commodity producing sectors during FY22 shrunk by 0.51%, thereby, the performance of dependent services also had witnessed a negative impact. Consequently, the growth rate of the dependent services sector has gone down to 0.86% in FY23 from 6.59% in FY22. Therefore, Services posted lower outturns in its sub-sectors such as, *inter-alia*: (1) Wholesale and retail trade; (2) Financial and Insurance Activities; (3) Information and Communication and; (4) Public Administration and Social Security.

As per the provisional data of the PBS of FY23, Wholesale and Retail Trade sector, which is the largest sector of the service sector and depends highly on output of agriculture, Manufacturing and Imports, contracted by 4.46%. In contrast, the Transport, Storage and Communication sector grew by 4.73% due to an increase in the use of railways, air transport and communication. The finance and insurance sector showed an overall decrease of 3.82% owing to a decline in deposits, loans and insurance. The provisional growth in the Information and Communication sector rose by 6.93%, due to the incredible rise in IT exports which is reported by the SBP at USD 1.89 million in FY23. While, provisional growth in the Hotels and restaurants services, Real estate services, Education, Health and Other private services was registered at 4.11%, 3.72%, 10.44%, 8.49%, and 5.00%, respectively. Whereas, the public administration services contracted by 7.76% in FY23.

The table *hereinbelow* indicate the provision growth of the services sector, and the share of the sub-sectors of the services sector, in the GDP.

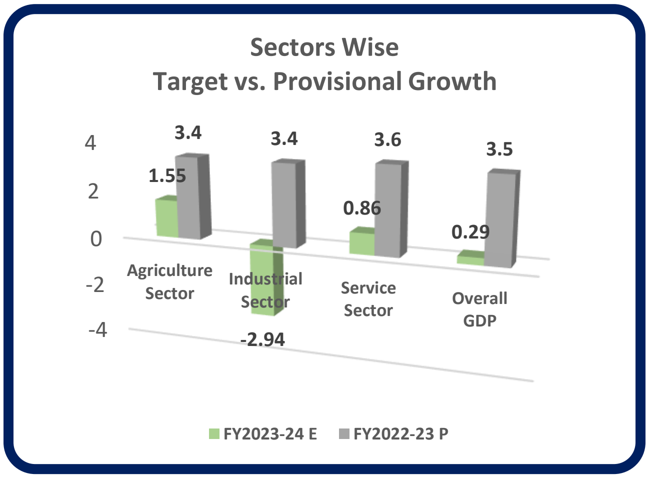
Service Sector		
Sub Sectors	**Provisional Growth/(Contraction) 2022-23 (%)**	**Share in GDP (%)**
1. Wholesale and Retail trade	(4.46)	18.00
2. Transport , storage , and communication	4.73	10.67
3. Accommodation and Food Services Activities)	4.11	1.46
4. Information and Communication	6.93	3.05
5. Financial and Insurance Activities	(3.82)	1.81
6. Real Estate Activities (OD)	3.72	5.75
7. Public Administration and Social Security	(7.76)	4.39
8. Education	10.44	3.04
9. Human Health and Social Work Activities	8.49	1.67
10. Other Private services	5.00	8.79
Overall Growth	0.86	58.61
		(Source: PBS)

Moreover, in the revised estimates of FY22, the services sector has experienced growth, with an improvement from 6.19% to 6.59%. Wholesale and Retail Trade have shown progress, with the growth rate enhancing from 10.04% to 10.32%. This can be attributed to an increase in the LSM output in FY22, which contributes to the Gross Value Added ("GVA") of the Wholesale and Retail Trade. On the other hand, the Transport and Storage sub-sector has declined from 5.42% to 4.09% in its revised estimates due to a decline in output in sectors such as railways, Karachi Port Trust ("KPT"), Karachi International Container Terminal ("KICT"), Shipping custom clearing agents, and International freight forwarders. Accommodation and Food services activities and Real estate activities have remained unchanged with respect to their initial estimations. Information and Communication has witnessed an increase from 11.90% to 16.32%, driven by rising revenue in entities such as the Pakistan Telecommunication Authority ("PTA"), mobile companies, and IT-related activities. Finance and Insurance activities have also experienced improvement in growth, rising from 4.93% to 7.18%, as per the updated data on loans and deposits. Public administration and social security (General Government Services) have seen an increase from the budgeted figures of 1.23% to 1.81% in the revised estimates for FY 22. Moreover, Education has decreased from 8.65% to 5.66% as per to the availability of updated data. Furthermore, Human health and social work activities have expanded from 2.25% to 2.68%, as per the revise data, reportedly. Lastly, Other Private Services have improved from 3.76% to 4.77%, driven by enhancements in administrative support services, as well as professional, scientific, and technical activities.

V. PAKISTAN'S ECONOMIC GROWTH PROJECTIONS FOR 2023-24:

As per the Planning Commission, the pace of the overall GDP growth is expected to lift up in FY24. The GDP growth of the country for FY24 is targeted at 3.5% out of which, Agriculture, Industry and Services sector are expected to post a 3.40%, 3.40% and 3.60% growth, respectively.

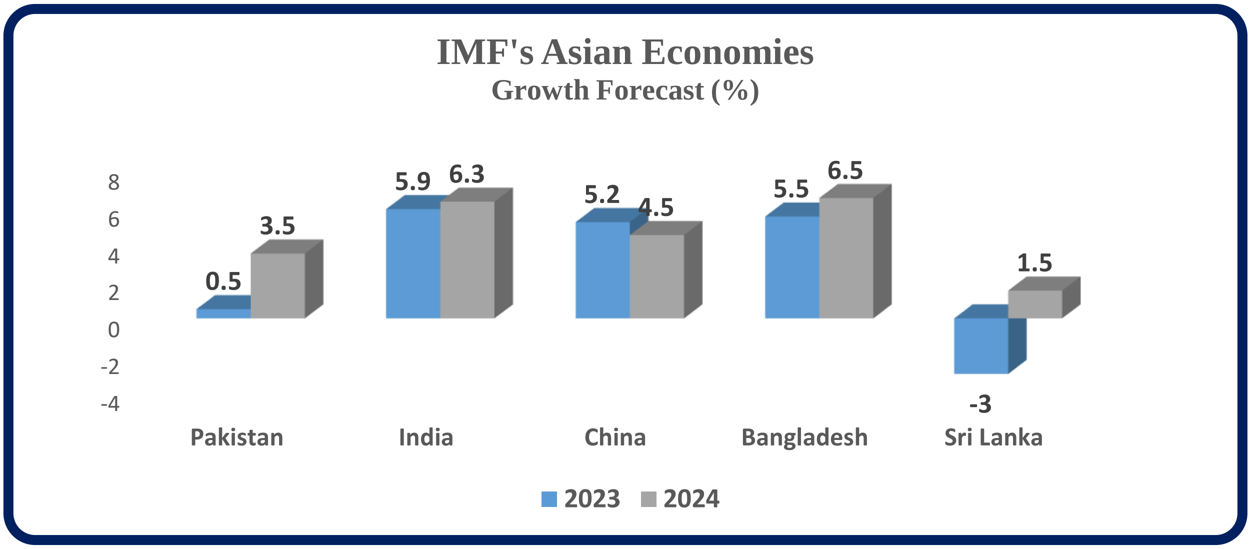
Sector/Industry	Target for 2023-24
Agriculture Sector	3.40%
Industrial Sector	3.40%
Services Sector	3.60%
Overall GDP	3.50%
	(Source NAC)



GDP Components	Provisional estimates of NAC 2022-23 (%)	Target for 2023-24 (%) (2015-16 Base prices)
A. Agriculture	1.55	3.50
Important crops	(3.20)	3.00
Other crops	0.23	3.50
Cotton Ginning	(23.01)	7.20
Livestock	3.78	3.60
Forestry	3.93	3.00
Fishing	1.44	3.00
B. Industrial sector	(2.94)	3.40
Mining and Quarrying	(4.41)	1.20
Manufacturing (i+ii+iii)	(3.91)	4.30
i. Large Scale	(7.98)	3.20
ii. Small Scale	9.03	8.80
iii. Slaughtering	6.31	3.80
Electricity generation and distribution	6.03	2.20
Construction	(5.53)	1.50
Commodity Producing Activities (A+B)	(0.51)	3.40
C. Services Sector	0.86	3.60
Wholesale and Retail trade	(4.46)	2.80
Transport, storage and communication	4.73	3.50
Accommodation and Food Services	4.11	4.10
Information and Communication	6.93	5.00
Finance and Insurance	(3.82)	3.70
Real Estate Activities (OD)	3.72	3.60

Public Administration and Social Security	(7.76)	3.20
Education	10.44	3.00
Health & Social Activities	8.49	3.00
Other private Services	5.00	5.00
GDP Growth Rate	0.29	3.50

As per the IMF, Pakistan's growth forecast for 2023-24 is approximately 3.5%. This growth is primarily attributed to the recovery stage following a global recession and uncertain domestic circumstances. However, the IMF has made a slight downward revision of world's economic growth in its latest "World Economic Outlook", and has lowered the prediction for 2023 from 2.9% (as forecasted in January) to 2.8%. A year ago, the IMF projected a growth rate of 3.4%. Both the IMF and the World Bank have expressed concerns about an extended period of stagnation in the global economy. Furthermore, the IMF has lowered its projected GDP growth for Asian developing countries to 5.1% in 2024, a slight decrease compared to the GDP growth rate of 5.3% witnessed in FY23.



IMF's Asian Economies Forecasted GDP Growth/(Contraction) %		
Countries	**2023**	**2024**
Pakistan	0.5	3.5
India	5.9	6.3
China	5.2	4.5
Bangladesh	5.5	6.5
Sri lanka	(3.0)	1.5

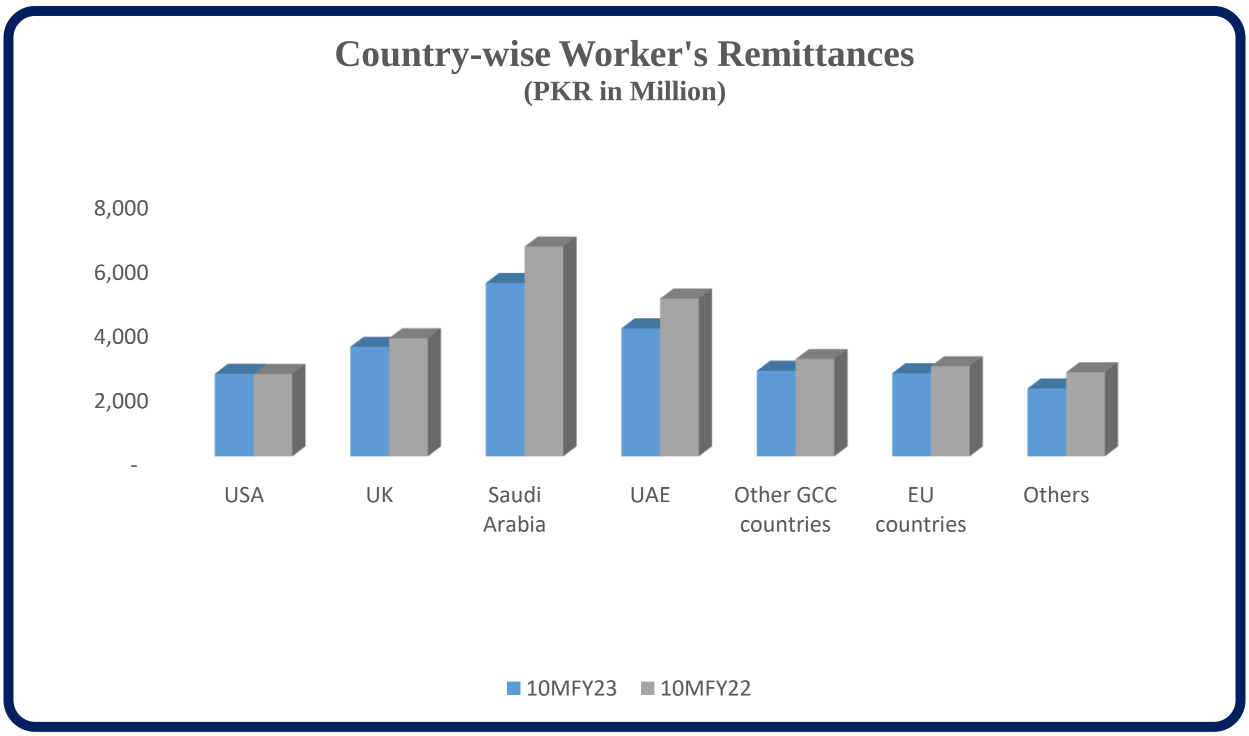
ECONOMIC SURVEY 2022-23

- According to the proposed annual plan of the Planning Commission for FY24, the GDP growth will revive on the back of the moderate agriculture and industrial production, and is envisaged at 3.50% for FY24, supported by the Agriculture sector growth of 3.40%, manufacturing sector growth at 4.30% and services sector growth at 3.60%.
- The targeted 3.50% growth rate for FY24 is anchored upon ensuring quality growth without triggering fiscal and external sector imbalances.
- Moderate growth projections in Agriculture sub sectors; particularly crops and a high growth target for the cotton ginning will create export earnings. Along with that the Government needs a technological advancement in the agriculture sector.
- The growth targets are subject to addressing the external sector vulnerabilities; particularly considering the extent of the global slowdown and the expected abatement of global inflation in commodity prices and the stability of exchange rate movements, along with, consistent economic policies and well-aligned monetary and fiscal policies.
- Further, monetary easing will also improve the fiscal position. The inflation is expected to remain in double-digits, as global inflationary pressures as well as post-flood impacts will not taper off that quickly.
- Lower Interest rates may decrease the Gross debt of the Government.
- The external sector will further improve upon import compression measures. Moreover, the export outlook will be impacted by global demand compression and increasing.
- Pakistan's exporters may face a challenging domestic and external environment. The import demand is likely to increase due to a revival in the aggregate demand side.
- However, the IMF has projected the CAD of Pakistan to be at 2.4% of the GDP in next fiscal year, due to a decline in global commodity demand in FY24. The reduced demand for commodities at the global level will likely lead to a decrease in Pakistan's import bill for commodities such as oil, gas, and other raw materials.
- The CAD target for FY24 is set at 1.7% of GDP, as per the Ministry of Planning.

VI. WORKER'S REMITTANCES:

On a cumulative basis, worker's remittances have declined this year comparatively to FY22. At USD 22.74 billion in July-April FY23, the worker's remittances dropped by 13.0% over the same period last year. Pakistani emigrants sent home a record USD 31.28 billion during the last fiscal year (FY 22). The remittances were expected to decrease in the outgoing Fiscal Year given the political tension in the economy. It may be noted that in absence of measures that will ease political tensions, there is potential for increased pressure on the PKR. Political unrest may compel overseas Pakistanis to restrict the amount of money they send back to their families, which may defer the restoration of stability in the rupee-dollar exchange rate. Furthermore, the political and economic situation would be a key factor to determine remittances in the upcoming Fiscal Year. In addition to that, the Government's digitalization initiatives have helped in boosting remittances in the recent past; however, the quantum of monthly inflows is marginally declining. Remittances are consistently in the "$2.5 billion plus" zone for the last two years. We hope that remittances will rise again soon.

The chart and table below chart shows the significant flows from key economic regions for the outgoing fiscal year.



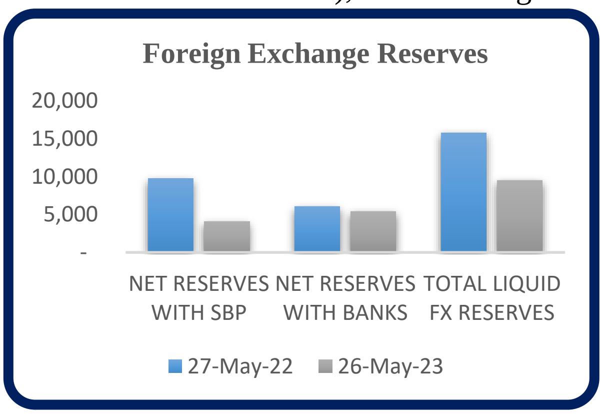
Country-wise Worker's Remittances						
($ million)	Apr-23	Mar-23	M/M change	10MFY23	10MFY22	Y/Y change (%)
USA	276	323	(14.62)	2,571	2,565	0.23
UK	361	420	(14.11)	3,412	3,678	(7.23)
Saudi Arabia	489	564	(13.29)	5,400	6,532	(17.33)
UAE	382	408	(6.29)	3,988	4,912	(18.82)
Other GCC countries	249	298	(16.31)	2,667	3,030	(11.98)
EU countries	257	297	(13.47)	2,590	2,806	(7.68)
Others	196	227	(13.54)	2,114	2,620	(19.33)
Total	2,210	2,537	(12.87)	22,742	26,143	(13.01)

(Source: SBP)

VII. FOREIGN EXCHANGE RESERVES:

The reserves held by the SBP stand at USD 4.09 billion as of 26th May 2023, decreasing by 2.44% or $102 million compared to last week's reserves of USD 4.19 billion on 19th May 2023. Moreover, when compared to the reserves for the same period last year (which were then USD 9.72 billion), the Net reserves have gone down by 58.0% or USD 5.632 billion, due to external debt repayments. To improve Pakistan's foreign reserves, the Government should focus on promoting exports, attracting foreign investment, strengthening remittances, and exploring bilateral partnerships. Additionally, measures such as enhancing the tourism sector, rationalizing imports, improving tax collection, efficient debt management, strengthening the financial sector, and diversifying export markets can contribute to bolstering the foreign reserves.

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), the net foreign exchange reserves have been declining.



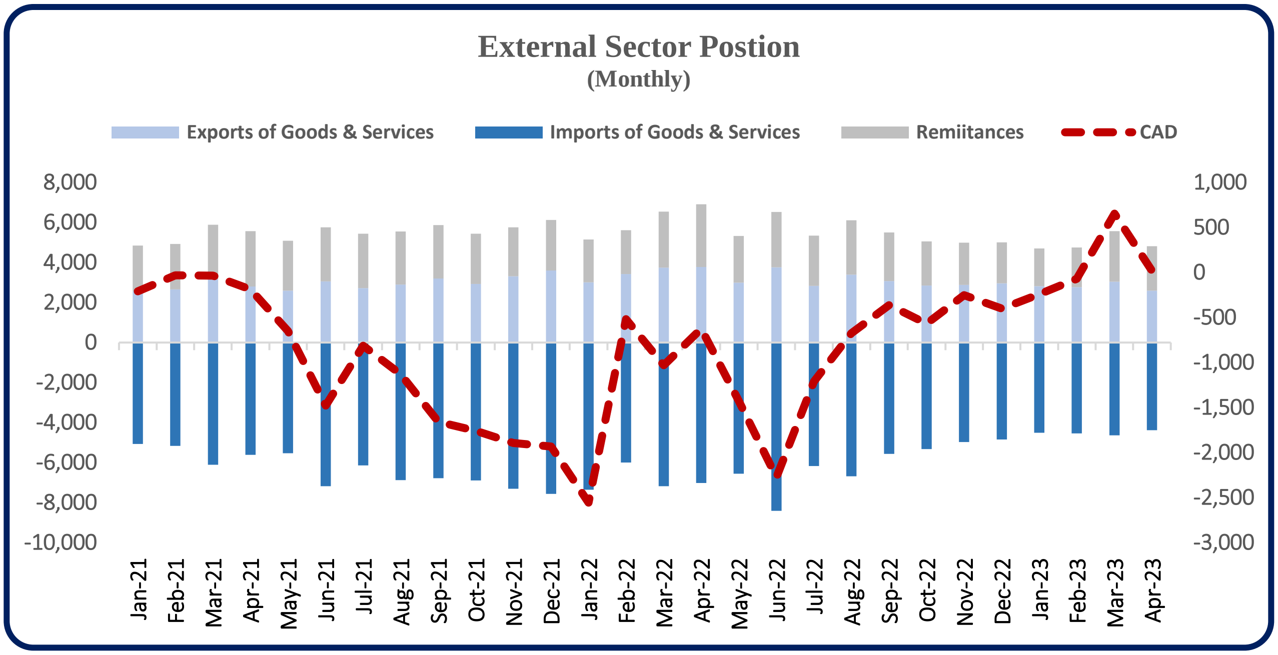
(USD in million)	26-May-2023	27-May-2022
Net Reserves with SBP	9,723	4,091
Private Banking Reserves	6,049	5,422
Total Forex Liquid Reserves	15,771	9,513

(Source: SBP)

VIII. CURRENT ACCOUNT DEFICIT:

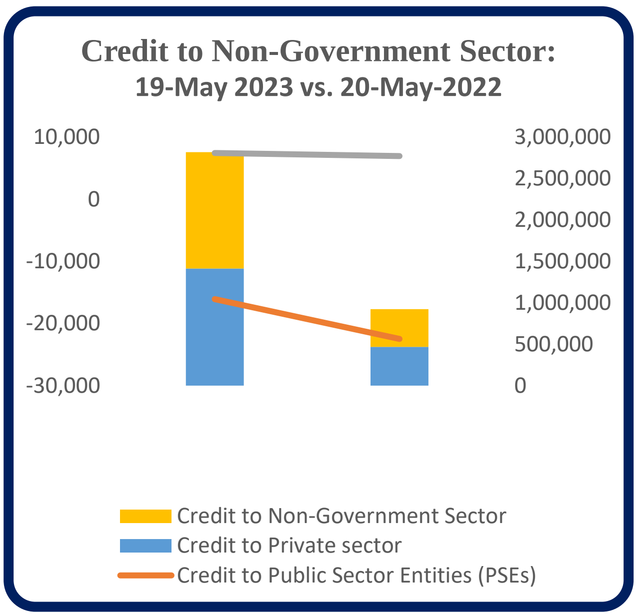
According to the SBP, Pakistan's Current Account Deficit ("CAD") has declined to USD 3,258 million against the huge deficit of last year of USD 13,654 million at the end of April 2022. It is crucial to note that the CAD has declined by $10.4 billion. The CAD has declined primarily due to effective policy measures to curtail unnecessary import bills and to reduce trade deficit. Moreover, Pakistan's economy has experienced a significant surplus in its current account balance consecutively, following the month of March 2023, totaling a $18 million surplus in April 2023, after 28-months of deficit. 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 feasible and represents a positive development for the country's economic outlook. 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. Moreover, on numerous occasions, various individuals have stated that that these policy measures are creating hurdles in Pakistan's exports potential. However, the data suggests that, Pakistan's exports to import ratio is relatively higher than the last seven years (Annexure II).

($ in million)	Apr-23 Provisional	Mar-23 (Revised)	Percentage Change	Jul-Apr FY23	Jul-Apr FY22	Percentage Change
Current account Balance	**18**	**750**	(97.60)	**(3,258)**	**(13,654)**	(76.14)
Capital Account Balance	**10**	**11**	(9.09)	**358**	**182**	96.70
Financial Account Balance	**(309)**	**205**	(250.73)	**1,871**	**(8,140)**	(122.99)
Net FDI in Pakistan	**(89)**	**(125)**	(28.80)	**104**	**(1,348)**	(107.72)
Net Portfolio investment	**(8)**	**(2)**	300.00	**1,008**	**(140)**	(820.00)
Net incurrence of Liabilities	**(94)**	**311**	(130.23)	**(1,906)**	**9,335**	(120.42)
Overall Balance	**(385)**	**(636)**	(39.47)	**4,586**	**5,820**	26.91
SBP Gross Reserve	**4,559**	**4,299**	6.05	**4,559**	**10,752**	135.81
						(Source: SBP)



IX. CREDIT TO NON-GOVERNMENT SECTOR:

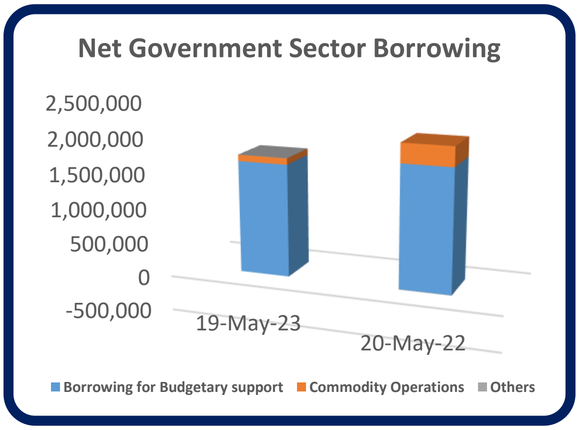
The Private sector credit-off has risen to PKR 27.898 billion, as of 19th May 2023 vs. PKR 1,414 billion last year.



(PKR in million)	Monetary Impact since 1st July to	
	19-May-23	20-May-22
Credit to Private sector	27,898	1,413,866
Credit to Public Sector Entities (PSEs)	243,906	(16,077)
Credit to NBFIs	61,196	7,440
Credit to Non-Government Sector	333,000	1,405,229
		(Source: SBP)

X. NET GOVERNMENT SECTOR BORROWING:

As per the SBP, the net Government sector borrowing stood at PKR 3,017 billion in the current fiscal year vs PKR 1,765 billion last year from 1st of July to 19th May FY23 and 20th May FY22 respectively.



(PKR in million)	Monetary Impact since 1st July to	
	19-May-23	20-May-22
Borrowing for Budgetary support	3,017,098	1,765,189
Commodity Operations	367,600	281,431
Others	559	-4,591
Net Government Sector Borrowing	3,385,257	2,042,029

XI. FISCAL OPERATIONS:

In terms of Pakistan's fiscal operations, it is crucial to establish whether the taxation system should be the driving force behind the economy or if the economy should shape the taxation system. Under the current IMF program, consolidating the fiscal deficit is a key objective in addressing Pakistan's fiscal challenges, stimulating economic growth, and alleviating the external sector crisis whilst maintaining necessary buffers. Despite that, the implementation of IMF policies, including an increased policy rate, has negatively impacted Pakistan's spending capacity, exacerbating the country's macroeconomic crisis. Rather than focusing on expanding the tax base, the FBR has resorted to imposing additional taxes on existing taxpayers.

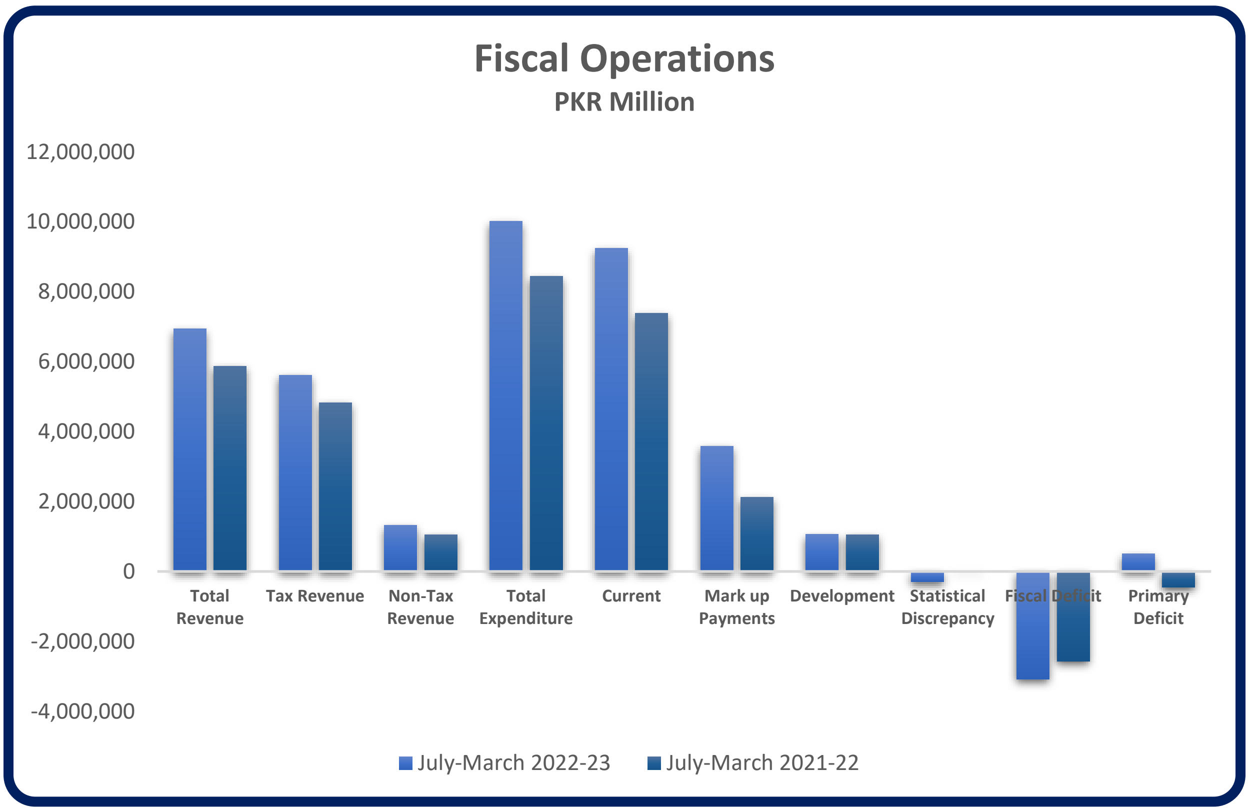
Moreover, the FBR has not been able to cash-in on the hike in the inflation rate in outgoing fiscal year, in terms of revenue generation, as they have struggled to collect the ongoing FY23's target set by IMF at PKR 7.64tr. Official figures show that from July to May of FY23, FBR's tax revenue stood at PKR 6,210 billion – 16.10% or PKR 861 billion higher against last year's collection of PKR 5,349 billion. The FBR still needs PKR 1.4tr more to reach the revised tax revenue target for FY23. Reaching the revised revenue target seems unlikely in the remaining two months. In our view, FBR's tax revenue collection may reach around PKR 7,100 billion for the outgoing fiscal year.

ECONOMIC SURVEY 2022-23

Last year in September 2022, the IMF and Pakistan have reached a Staff-Level Agreement under the IMF's Extended Fund Facility which revived Pakistan's 'suspended' IMF program. The plan envisages FBR's tax collection target of PKR 9,000 billion for 2023-24 which would be 17.80% higher than the revised tax revenue target for FY 2022-23 of PKR 7,640 billion and 26.76% higher than the likely achievable target of PKR 7,000 billion for FY2022-23. If the inflation is projected at 21.0% and GDP growth at 3.5% in the upcoming fiscal year, then the FBR might easily collect PKR 8.8tr worth of tax revenue target given that FBR collects at least PKR 7.1tr in the outgoing Fiscal Year. Therefore, only additional tax revenue measures worth PKR 100-200 billion may be required in the forthcoming budget.

Pakistan has an excellent potential to enhance its tax revenue collection and can easily finance its debts and deficits. Unfortunately, the economy of Pakistan is plagued by a huge parallel base economy (such as traders and agriculturalists which are approximately 44.5% of the nominal GDP) that does not contribute significantly towards the tax collection.

The following chart shows Pakistan's fiscal operation for the first three quarters:



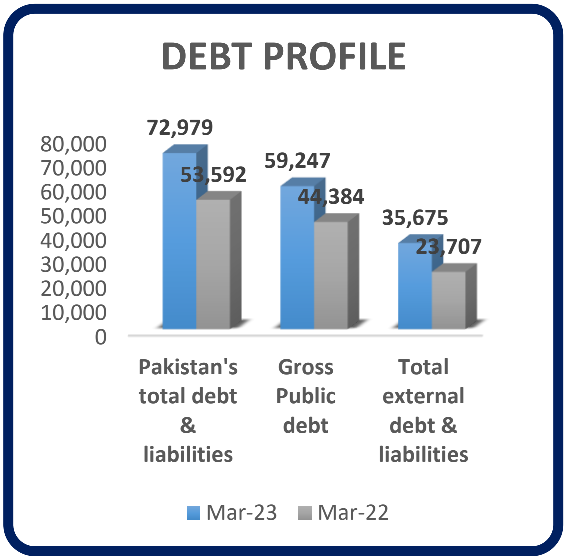
Consolidated Fiscal Operations			
PKR in Million	**July-March**		**Percentage Change**
Fiscal-Side	**2022-23**	**2021-22**	
Total Revenue	**6,938,244**	**5,874,151**	**18.11%**
Tax Revenue	**5,617,739**	**4,821,904**	**16.50%**
Non-Tax Revenue	**1,320,505**	**1,052,247**	**25.49%**
Total Expenditure	**10,016,917**	**8,439,793**	**18.69%**
Current	**9,244,595**	**7,378,029**	**25.30%**
Mark up Payments	**3,582,447**	**2,118,481**	**69.10%**
Development	**1,060,446**	**1,051,099**	**0.89%**
Statistical Discrepancy	**(288,124)**	**10,665**	**(2801.58)%**
Fiscal Deficit	**(3,078,673)**	**(2,565,642)**	**20.00%**
Primary Deficit	**503,774**	**(447,161)**	**212.66%**
			(Source: Finance Ministry)

(PKR. In Billion)	July-May 2022-23	July-May 2021-22	Percentage change Y/Y
FBR's Tax collection	6,210	5,349	16.10%
			(Source: FBR Press Release)

XII. PAKISTAN'S DEBT PROFILE:

Total debt and liabilities stood at 92% of the GDP at the end of March 2023, as against 80% of the GDP in the corresponding period last year. However, in nominal terms, it increased by almost 36%. The total debt and liabilities stood at PKR 72.98 trillion by the end of March 2023, compared to PKR 53.59 trillion at the end of March 2022 due to a hike in the policy rate and swelling debt ratios. Whereas, the Public debt rose by 33.48% to PKR 59.24 trillion from PKR 44.38 trillion, the public debt of Pakistan consisted of the domestic and external debt of the Government. Moreover, the debt owed to the IMF has spiraled up by almost 55% to PKR 21.25 trillion to PKR 18 trillion, In order to control the swelling debt, the Government need to identify the reasons. The policy should be to reduce the primary deficit as much as the Government can, the interest rate should be cut down to limit debt servicing, and the external balance of payment situation must be managed carefully in order to avoid a rampant devaluation of the domestic currency. Without effective public debt management, fiscal consolidation and consistent stabilization policies, Pakistan's debt sustainability is likely to remain a key concern for policy-makers.

Pakistan's total debt and liabilities profile is provided as under:



Pakistan's Total Debt & Liabilities			
(PKR in billion)	**Mar- 23**	**Mar-22**	**% change**
Pakistan's total debt & liabilities	72,979	53,592	36.17
% of GDP	92%	80%	
Gross Public debt	59,247	44,384	33.49
% of GDP	75%	66%	
Total external debt & liabilities	35,675	23,707	50.49
% of GDP	45%	35%	
Nominal GDP	79,336*	66,950	
Source: SBP			

Provisional GDP estimated by NAC

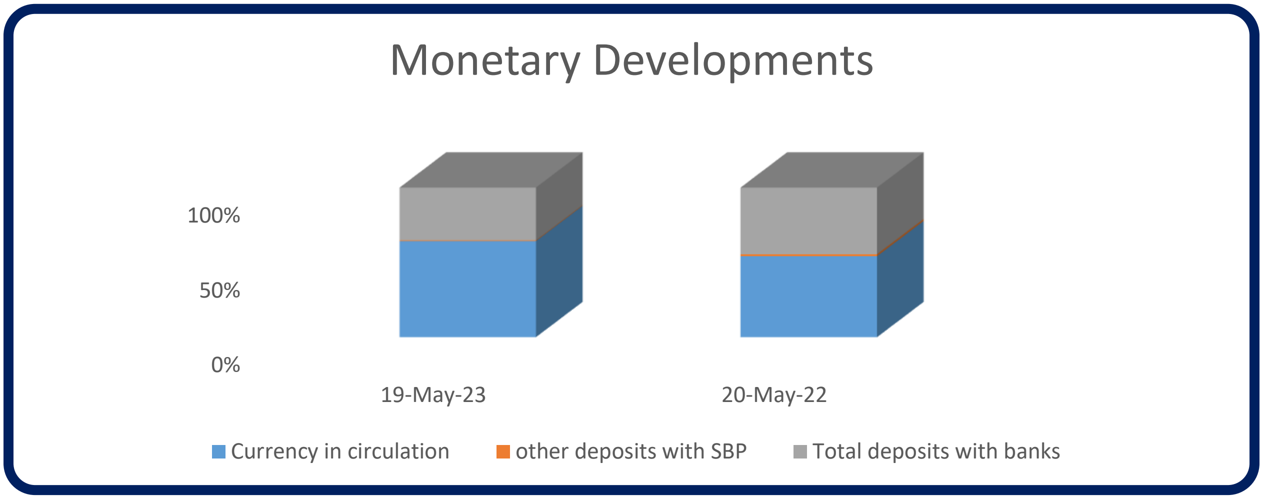
XIII. SAVINGS VERSUS INVESTMENT GAP 2022-23:

The investment-to-GDP ratio has decreased from 15.7% of GDP in FY22 to 13.6% in FY23 as per the report of the Planning commission, mainly because of a decrease in private investment which inched down from 10.5% to 8.8% of GDP in FY23. Furthermore, public investment has stagnated at 3.1% of the GDP from 3.5% of GDP, despite a 14.1% increase in nominal terms. However, in real terms, private investment has contracted marginally by 0.4%.

% of GDP(mp)	Fiscal Year 2023-24	Fiscal Year 2022-23	
	Target	Provisional	Target
Total Investment	15.1	13.6	14.7
A. Fixed Investment	13.4	11.9	13.0
i. Public	3.2	3.1	3.3
ii. Private	10.2	8.8	9.7
National savings	13.4	12.5	12.5
External resources inflow net	1.7	1.1	2.2
(Source: Planning Commission)			

XIV. MONETARY DEVELOPMENTS:

In the FY23, the SBP has implemented a significant increase in the policy rate, raising it to 21.0% from 13.75% over the course of 12 months, with the aim of curbing escalating inflation. Throughout most of the FY 23, the SBP adopted a tight monetary policy to counter the impact of the steep devaluation of the domestic currency and stimulate the external sector. However, the devaluation of the Pakistani Rupee against the US Dollar remained unchecked, leading to substantial depreciation in the first half of the preceding fiscal year. The Monetary Policy Committee acknowledged the appropriateness of the current monetary policy stance in anchoring inflation expectations and maintaining financial stability. The challenge lies in striking a balance between promoting economic growth and ensuring stability, effectively utilizing monetary policy tools to support growth while managing the inflationary pressures. Notably, the Money Supply ("M2") growth stood at 6.94% during the period from July 1st, 2022, to May 19th, 2023, compared to 6.68% in the corresponding period of the previous year.



(Million Rupees)	Monetary Impact since 1st July to	
Components	19-May-23	20-May-22
Currency in circulation	1,230,331	878,580
other deposits with SBP	8,746	21,426
Total deposits with banks	676,055	723,095
M2	1,915,132	1,623,101
Growth (As of 1st July)	6.94%	6.68%
		(Source: SBP)

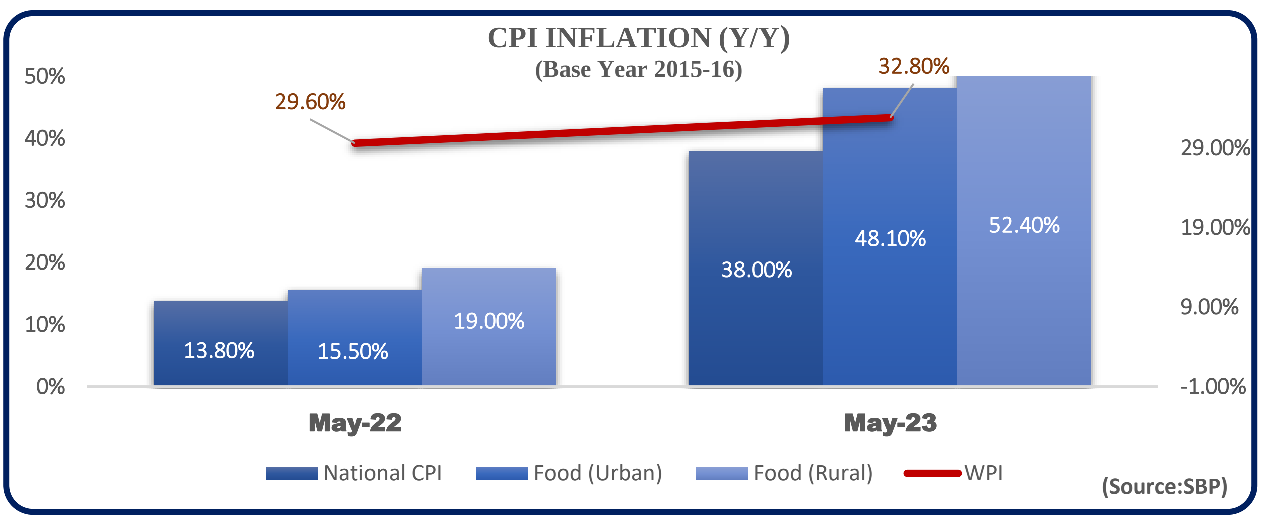
Period	Increase/-Decrease In (PKR in Billion)					
	Currency in circulation		Demand Deposits		Time Deposits	
	Total	Month Avg	Total	Month Avg	Total	Month Avg
July 2013 to June 2018	2,450	41	4,486	75	(127)	(2)
July 2018 to April 2022	2,873	64	6025	134	173	4
May 2022 to May 2023	901	69	2,729	210	(230)	(18)

XV. INFLATION:

Year on Year ("Y-o-Y") Comparison:

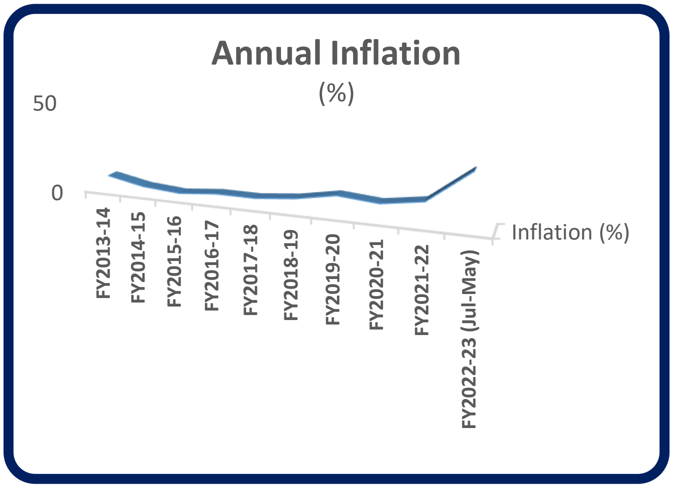
In a recent report, the PBS reported a staggering surge in the CPI. Last month's CPI escalated to an unprecedented 38% when compared to the corresponding period the previous year. This substantial inflationary figure has not only shattered all previous records but has also surpassed the Ministry of Planning Development & Special Initiatives projected figure (11.5%) by a significant margin. In the previous month (April 2023), the CPI stood at 36.8%. 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 48.10% and 52.40% in May 2023. In addition to that, the wholesale price index ("WPI") stood at 32.80% on a Y-o-Y basis, while in April 2023, the WPI had been recorded at around 33.43%. In April 2023, the Core inflation, which is calculated by excluding energy and food items, increased by 20.0% and 26.9% in urban and rural areas on a Y-o-Y basis, respectively.

(Base year 2015-16) Period	CPI	Food		Core CPI		WPI
	National	Urban	Rural	Urban	Rural	
May-22	13.80%	15.50%	19.00%	9.70%	11.50%	29.60%
May-23	38.00%	48.10%	52.40%	20.00%	26.90%	32.80%
						(Source: PBS)



ECONOMIC SURVEY 2022-23

Across Pakistan, a surge in inflation continues making life extremely difficult for the masses and making living standards vulnerable for most of the people. The average inflation in Pakistan rose to 29.16% in Jul-May FY23, compared to 11.29% a year ago. The average inflation since FY14 is as under:



Period	Inflation (%)
FY2022-23 (Jul-May)	29.16
FY2021-22	12.2
FY2020-21	8.9
FY2019-20	10.7
FY2018-19	6.8
FY2017-18	4.7
FY2016-17	4.8
FY2015-16	2.9
FY2014-15	4.5
FY2013-14	8.6
	(Source: PBS)

ECONOMIC SURVEY 2022-23

Annexure I

PAKISTAN's ECONOMY PHASE 1						
Macro Indicators	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
GDP Growth (%)	3.86	3.56	3.81	4.07	4.61	6.10
Inflation (CPI %)	7.40	8.60	4.50	2.90	4.80	4.70
Tax to GDP Ratio (%)	9.80	10.20	11.00	10.40	10.40	10.80
FBR Tax Collection (PKR Billions)	2,049	2,375	2,588	3,112	3,361	3,842
FEX Reserve (USD Millions)	11,020	13,990	18,202	21,766	21,403	16,384
SBP (USD Millions)	6,008	9,033	13,088	16,820	16,145	9,765
Commercial Bank (USD Millions)	5,011	4,957	5,112	4,946	5,258	6,617
Overall Debt & liabilities (% of GDP)	72.70	72.70	71.10	68.99	70.64	76.24
Foreign Debt (PKR Billions)	4,311	4,791	5,073	5,418	5,919	7,796
Domestic Debt (PKR Billions)	9,521	10,907	12,880	13,626	14,849	16,416
REER	N/A	N/A	N/A	N/A	121.26	107.27
CAD (USD Millions)	(2,496)	(3,130)	(2,815)	(4,961)	(12,270)	(19,195)
Exports (USD Millions)	24,460	25,110	23,667	20,787	20,422	23,212
Imports (USD Millions)	44,950	45,073	45,826	44,685	52,910	60,795
Cotton (USD/lb)******	0.852	0.629	0.679	0.642	0.686	0.896
Workers' Remittances	13,922	15,837	18,721	19,917	19,351	19,914
Textile Exports (USD Millions)	12,832	13,658	13,540	12,756	12,457	13,377
Textile Exports (% of Total Exports)	52.46	54.39	57.21	61.37	61.00	57.63
Export to Import Ratio (%)	54.42	55.71	51.65	46.52	38.60	38.18
(Source: SBP, PBS, Trading Economics and MOF)						

Annexure II

PAKISTAN'S ECONOMY PHASE 2					
Macro Indicators	2018-19	2019-20	2020-21	2021-22	2022-23 P
GDP Growth (%)	3.12	(0.94)	5.77	6.10	0.29
Inflation (CPI %)	6.80	10.70	8.90	12.20	29.2*
Tax to GDP Ratio (%)	9.70	9.30	9.40	10.10	7.83
FBR Tax Collection (PKR Billions)	3,829	3,998	4,764	6,143	6,210
FEX Reserve (USD Millions)	14,482	18,886	24,398	15,450	9,513
SBP (USD Millions)	7,285	12,132	17,299	9,815	4,091
Commercial Bank (USD Millions)	7,196	6,754	7,099	5,635	5,422
Overall Debt & liabilities (% of GDP)***	91.8	93.8	85.8	89.3	N/A
Foreign Debt (PKR Billions)	11,055	11,825	12,439	16,747	22,047
Domestic Debt (PKR Billions)	20,732	23,283	26,265	31,085	35,076
REER	92.44	94.51	101.03	94.86	85.57**
CAD (USD Millions)	(13,434)	(4,449)	(2,820)	(17,405)	(3,125)****
Exports (USD Millions)	22,958	21,394	25,304	31,782	23,181****
Imports (USD Millions)	54,763	44,553	56,380	80,136	46,882****
Cotton (USD/lb)***'**	0.643	0.609	0.875	0.988	0.795
Workers' Remittances (USD Millions)	21,740	23,131	29,450	31,279	22,742
Textile Exports (USD Millions)	13,581	12,799	14,415	18,442	14,111****
Textile Exports (% of Total Exports)	59.16	59.83	56.97	58.03	60.87****
Export to Import Ratio (%)	41.92	48.02	44.88	39.66	49.45****

**Inflation is of FY23's Jul-May period.*
***Annual REER is average of June month, whereas, in FY23 it's an average of month of April 2023.*
**** Debts data is latest, as of March 2023. ****Trade, textile export and CAD data of FY23 as of Jul-April*
******Cotton price is as of June 30th.*

Annexure III:

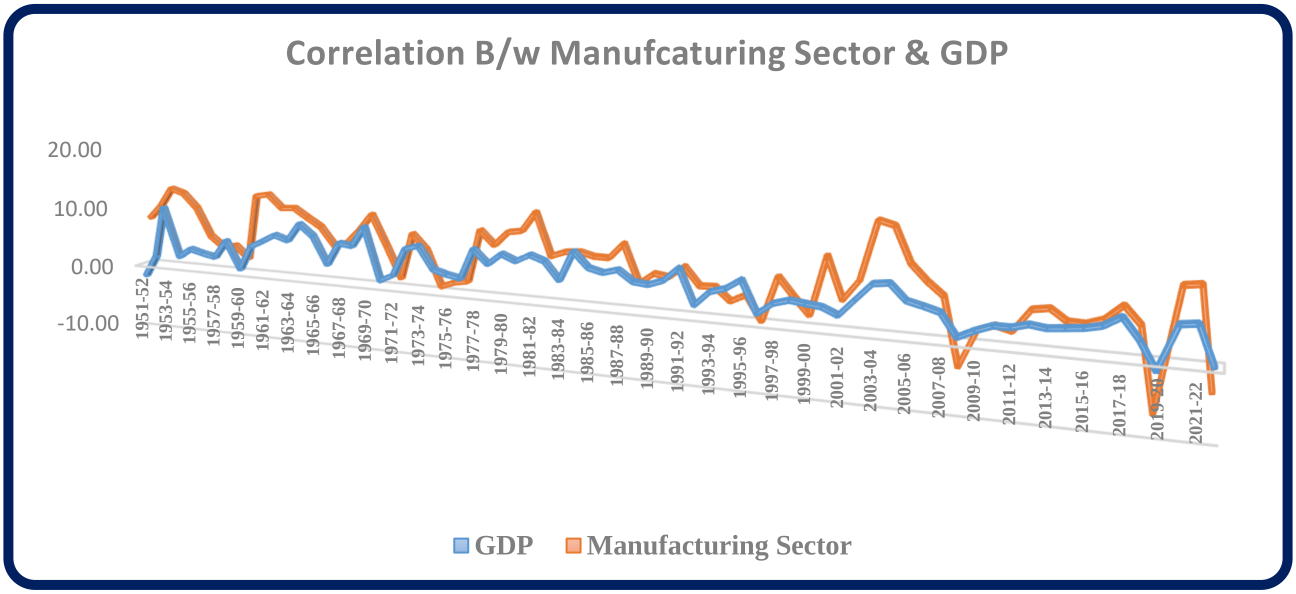
KEY MACROECONOMIC INDICATORS							
S. No.	**Country**	**GDP 2023 F (%)**	**CPI Y-o-Y (%)**	**Policy Rate (%)**	**Real Interest Rate (%) (Policy rate – CPI)**	**Current Account Deficit 2022 (% of GDP)**	**Per Capita GDP (Current USD)**
1	Argentina	**0.20**	**109.0**(April)	97.00	(12.00)	(0.70)*	10,636
2	Iran	**2.00**	**53.4**(Feb)	18.0	(35.40)	4.7*	4,091
3	Turkiye	**2.70**	**43.68**(April)	8.50	(35.18)	(5.4)*	9,661
4	Pakistan	**0.50**	**38.0**(May)	21.00	(17.00)	(4.60)**	1,568
5	Egypt	**3.70**	**30.6** (April)	18.25	(12.35)	(3.5)*	3,699
6	Srilanka	**(3.00)**	**25.2** (May)	13.00	(12.20)	(1.90)*	4,014
7	Hungary	**0.50**	**24.0** (April)	13.00	(11.00)	(8.10)*	18,728
8	Ukraine	**(3.00)**	**17.9** (April)	25.00	7.10	5.00**	4,836
9	Poland	**0.30**	**13.0** (May)	6.75	(6.25)	(3.20)*	18,000
10	Czech	**(0.50)**	**12.7** (April)	7.00	(5.70)	(2.20)*	26,821
11	Chile	**(1.00)**	**9.9** (April)	11.25	1.35	(9.0)*	16,265
12	Bangladesh	**5.50**	**9.24** (April)	6.00	(3.24)	(2.74)**	2,458
13	UK	**(0.30)**	**8.7** (April)	7.5	(1.20)	(5.60)*	46,510
14	Italy	**0.70**	**7.6** (April)	3.75	(3.85)	(0.70)*	35,657
15	Netherlands	**1.00**	**6.1** (May)	3.75	(2.35)	5.50*	57,768
16	Belgium	**0.70**	**5.2** (May)	3.75	(1.45)	(3.40)*	51,247
17	USA	**1.60**	**4.9** (April)	5.25	0.35	(3.60)*	70,249
18	Brazil	**0.90**	**4.18** (April)	13.75	9.57	(2.90)*	7,507
19	India	**5.90**	**4.7**(April)	6.50	1.8	(1.23)**	2,257
20	Russia	**(0.70)**	**2.3** (April)	7.50	5.20	10.30*	12,195
21	China	**5.20**	**0.1** (April)	3.65	3.55	(2.3)*	12,556

Note 1: GDP 2023 growth forecast gathered from IMF's World Economic Outlook April 2023.

Note 2: CPI, and Policy rate data extracted from Trading Economics

Note 3: *CAD Extracted from the IMF website.
***** CAD Extracted from the websites of Central Banks.***

Annexure IV:



Correlation B/w Manufcaturing Sector & GDP
20.00
10.00
0.00
-10.00
GDP
Manufacturing Sector

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