Pakonomics
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Highlights

The Ministry of Finance ("MoF") has recently unveiled the data concerning the Fiscal performance for the Fiscal Year 2022-23 ("FY23"). Notably, the total Budget deficit escalated to 7.7% of GDP for FY 23. Concurrently, the primary deficit was recorded at 0.8% of GDP for FY 23.

In terms of the Federal Government's operational outcomes, the Federal Budget Deficit experienced a substantial increase, reaching PKR 6.67 trillion. This substantial deviation from the target was largely attributed to expenditures associated with debt servicing and defense requirements, which exceeded the Federal Government's net revenue by a significant margin of 59%.

In the Inter-bank market, the National currency value stood at a level of PKR 302.00/USD as of 28th of August 2023. This is the first time the USD to PKR parity rate has breached the 300/USD level. Since assuming office, the interim Government has witnessed the currency parity depreciate at a level that is unsustainable.

Pakistan's Large-Scale Manufacturing ("LSM") growth contracted by 14.96% during June 2023 vs. June 2022. On the contrary, on a Month-on-Month ("M-o-M") comparison, the LSM growth has increased by 0.98% compared to the previous month of May 2023.

The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $6.49 billion at the end of July 2023.

As per the SBP, the remittances sent by Overseas Pakistani workers decreased by 7.33% to $2.03 billion in July 2023 vs. $2.19 billion in June 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 538 billion in the first month of FY24, and achieving the target by over PKR 4 billion.

The Net foreign currency reserves held by the SBP stood at $7.93 billion as of 18th August 2023.

The Broad Money (M2) stock from 1st of July 2022 to 12th August 2023 has contracted to PKR 716 billion, compared to a contraction of PKR 706 billion last year in the same period.

As per the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 28.3% on a year-on-year ("Y-o-Y") basis in July 2023 vs. 24.9% last year.

As per the PBS, Pakistan's exports decreased by 12.2% to $2.07 billion in July 2023 vs. $2.36 billion in June 2023 on a M-o-M basis.

Pakistan's net FDI has appreciated by almost 17% or $13 million to $88 million provisionally during the starting month of July2023, as compared to $75 million during July 2022.

The total net Foreign Investment surged by 32% or $25.5 million to $104 million on a Y-o-Y basis in July FY24 as against the amount of $78.5 million in July FY23.

The country has posted a Current account deficit ("CAD") of $809 million during the month of July FY24.

Economy At a Glance

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	June	↓	(14.96)%	11.59%
Central Government Debt	June	↑	PKR 60.84 Trillion	PKR 47.83Trillion
Credit to Private Sector	Jul – 12th Aug	↓	PKR (716) Billion	PKR (706) Billion
Roshan Digital Account	July	↓	US$ 188 Million	US$ 137 Million
Worker's Remittances	July	↓	US $2,027 Million	US $2,524 Million
Currency in Circulation	Jul – 12th Aug	↓	PKR (442) Billion	PKR 402 Billion
Net Government Sector borrowing	Jul – 12th Aug	↓	PKR (94) Billion	PKR 56 Billion
National CPI (Base Year 2015-16)	July	↑	28.3%	24.9%
FBR Tax Collection	July	↑	PKR 538 Billion	PKR 462 Billion
Foreign Exchange Reserves with SBP	As of 18th August	↑	$7.93 Billion	$7.81 Billion
Foreign Direct Investments	July	↑	$88 Million	$75 Million
Trade Deficit in Goods	July	↓	US$ (1,637) Million	US$ (2,731) Million
Current Account Deficit	July	↓	$(809) Million	$(1,261) Million

1. Large Scale Manufacturing

According to the PBS, Pakistan's LSM sector showed a contraction of 14.96% in June 2023 on a Y-o-Y basis vs. June 2022. Contrary, on a M-o-M basis, the overall output growth increased by 0.98%, compared to the month of May 2023. However, during the Jul-June period of the FY23, the growth rate of large industries contracted by 10.26%.

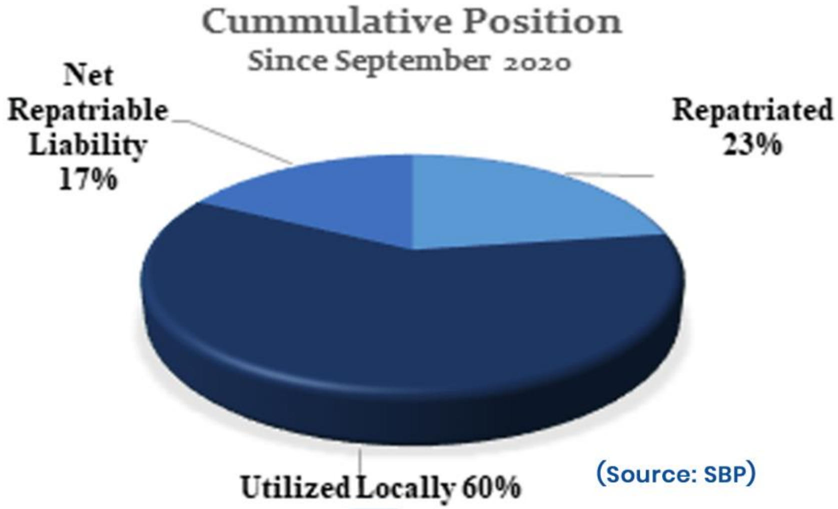
Out of 22 major industries, only 4 industries posted a surge in production during the Jul-June months of FY23 as compared to FY22 for the same period. These include wearing apparel, leather products, furniture, and other manufacturing section. However, the output in Food, beverages, tobacco, textile, 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-June 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 22.09% and 12.39%, while the garment sector showed growth of 27.16% in the period of Jul-June FY23. Whereas, the cement industry declined by a rate of 13.67%.

LSM (%)	Weight	June-23	May-23	June-22	Jul-June 2022-23
Textile	18.2	(19.78)	(25.97)	(3.63)	**(18.68)**
Food	10.7	6.28	9.50	(10.65)	**(6.90)**
Coke & Petroleum Products	6.7	(28.80)	(21.85)	(9.19)	**(13.39)**
Chemicals	6.5	(7.20)	(14.21)	5.04	**(6.96)**
Wearing Apparel	6.1	40.95	12.86	47.13	**27.16**
Pharmaceuticals	5.2	(46.77)	(38.61)	85.64	**(28.85)**
Non-Metallic Minerals Products	5.0	(24.32)	0.53	24.32	**(12.10)**
Beverages	3.8	(23.54)	(5.34)	12.80	**(6.43)**
Iron and Steel Products	3.4	(9.01)	(5.83)	14.11	**(5.12)**
Automobiles	3.1	(71.73)	(68.6)	23.46	**(49.99)**
Tobacco	2.1	(44.01)	(22.37)	70.38	**(28.36)**
Electrical Equipment	2.0	(26.57)	(24.64)	2.58	**(15.46)**
Paper & Board	1.6	(27.21)	(5.80)	42.13	**(8.66)**
Leather Products	1.2	(3.84)	(0.31)	4.92	**1.29**
Other Transport Equipment	0.7	(48.15)	(34.95)	(13.63)	**(40.44)**
LSM Growth for June 2023 (Y/Y)					**(14.96)%**
LSM Growth of June 2023 vs. May 2023 (M/M)					**0.98%**
LSM Growth for July-June 2022-23 (Y/Y)					**(10.26)%**

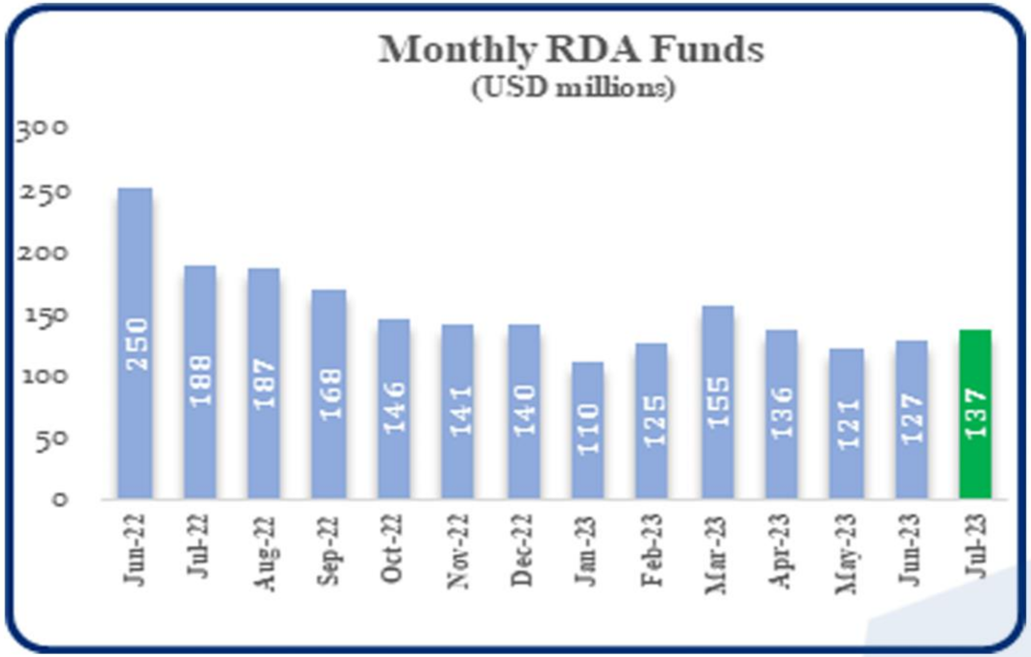
(Source: PBS)

2. Roshan Digital Account ("RDA")

The cumulative inflow of deposits under the RDA have reached $6.49 billion since its announcement in September 2020. Out of the $6.49 billion, approximately $3.88 billion or almost 60% have been utilized locally and almost 23% or $1.47 has been repatriated from the total received amount under the RDA. Some 596,268 accounts have been opened from 175 countries in more than two and a half years.

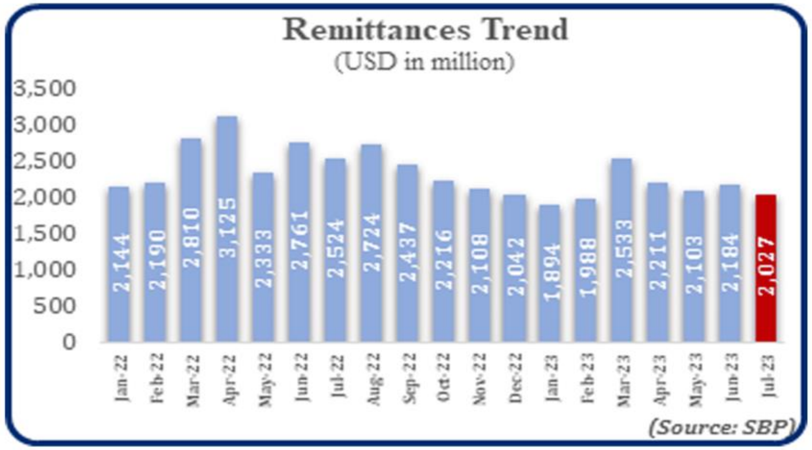


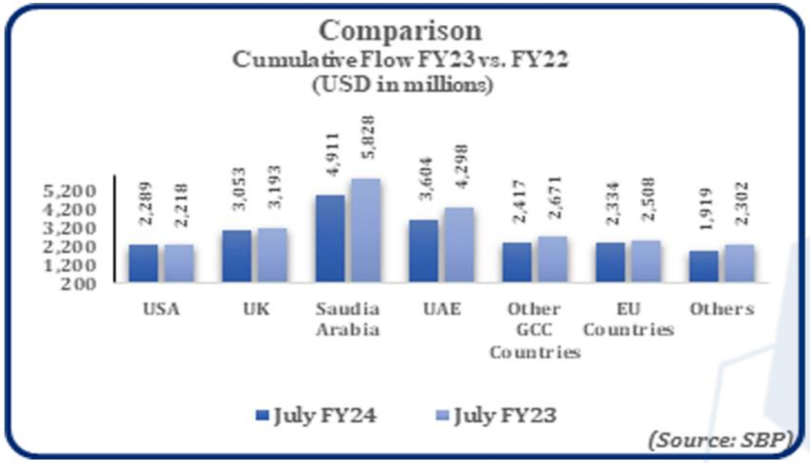
(Source: SBP)

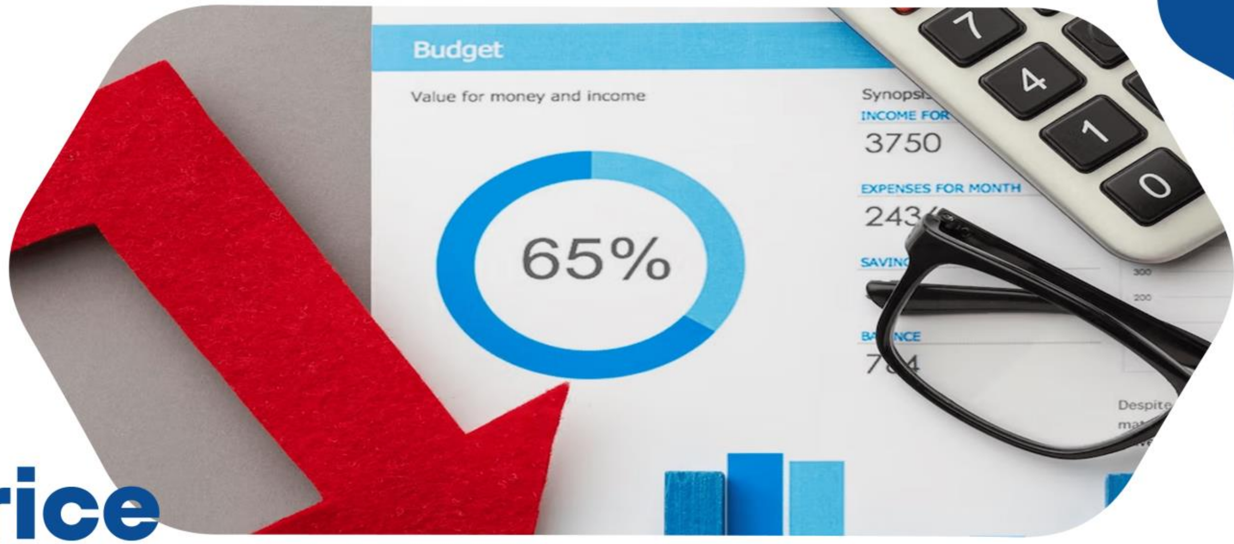


3. Worker’s Remittances

As per the SBP, the remittances sent by Overseas Pakistani workers decreased by 7.33% to $2.03 billion in July 2023 vs. $2.19 billion in June 2023 on a M-o-M basis. Moreover, on a Y-o-Y comparison, the remittance inflows went down by 19.3% when compared to $2.51 billion received a year ago in the same month. A descriptive analysis has revealed that remittance inflows during the July month of FY24 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 recorded a negative growth of 15.7% and stand at $487 million in the month of July of FY24 vs. $577 million during same month of FY23. An amount to the tune of $238 million, or an 11.7% share, was received from the US, showing a decrease of 4.1% in the first month of FY24 vs. the same month of FY23. Worker remittances from the UK decreased by 25.2%, and its contribution is 15.1% or $306 million in the July period of FY24 as compared to the same period of FY23. On the other hand, remittance growth from UAE declined at a rate of 30.9%, while its share is almost $456 billion or 15.5% share in the total remittances.

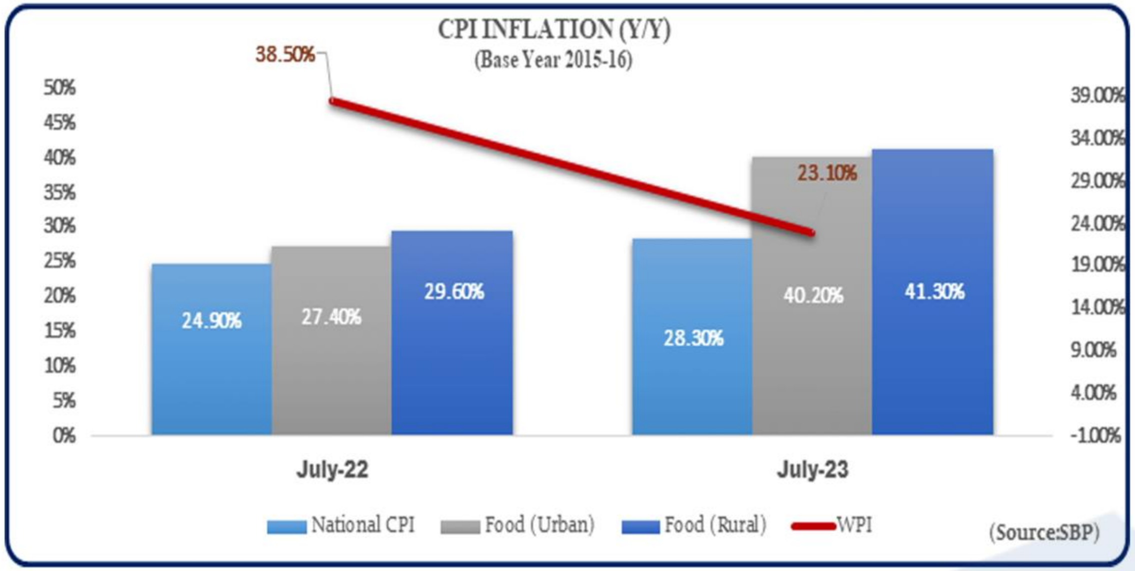






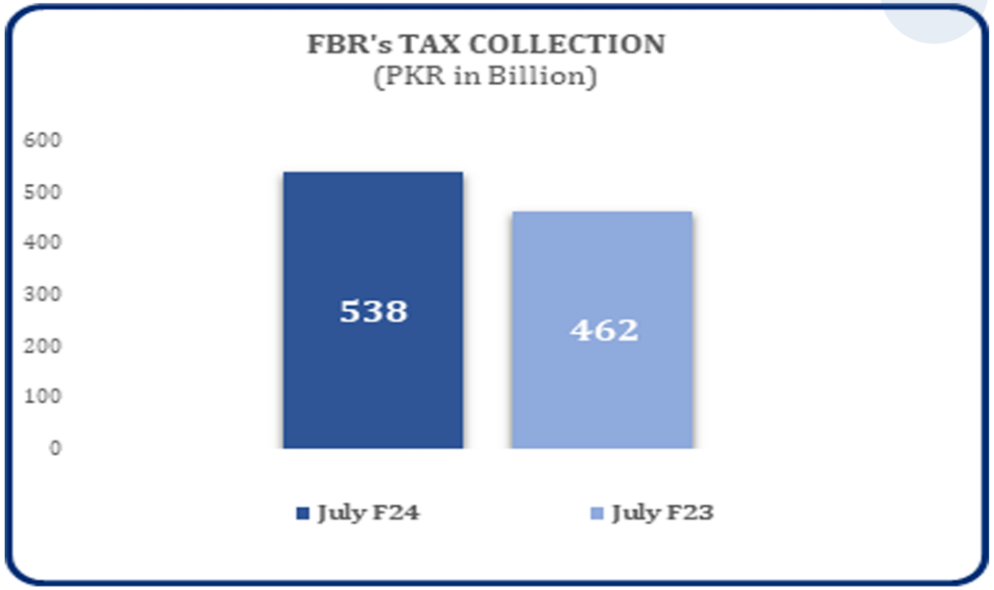
4. Consumer Price Index Inflation

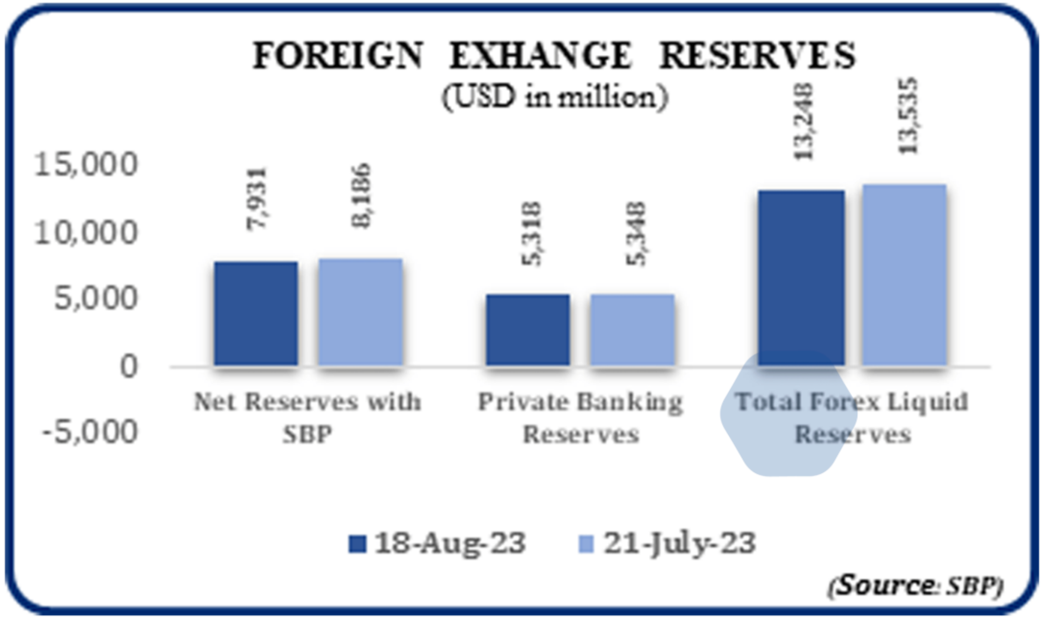
The monthly rate of inflation eased down to 28.3% in July 2023 on a Y-o-Y basis in Pakistan. However, the inflation rate has persisted due to a hike in the prices of non-perishable food items. In the previous month (June 2023), the CPI stood at 29.4%. Moreover, Food inflation in Urban and rural areas also declined by 40.2% and 41.3% in month of July 2023. In addition to that, the wholesale price index ("WPI") stood at 23.1% on a Y-o-Y basis, while in June 2023, the WPI had been recorded at around 22.4%. Whereas, on a monthly basis, the National CPI has recorded a rise of 3.5%. Similarly, the Food inflation in rural and urban areas also rises to 3.5% and 3.7%, compared to June 2023, respectively. Furthermore, in July 2023, the Core inflation, which is calculated by excluding energy and food items, increased by 18.4% and 24.6% in urban and rural areas on a Y-o-Y basis, respectively.



5. FBR Tax Revenue Collection

As per the data published by the FBR, the FBR collected PKR 538 billion worth of tax revenue in the starting month of FY24. Moreover, the FBR surpassed the monthly target set for July, which was PKR 534 billion. As per the FBR, despite the prevailing economic challenges in the nation, the FBR has effectively exceeded the tax revenue goal for July 2023. Moreover, it has demonstrated a substantial growth of 16.6 percent in comparison to the same month of FY23. Despite refund disbursements totaling PKR 49 billion, the FBR achieved their monthly target. As per the statement of FBR, the ongoing month has witnessed an impressive 30% rise in income taxes, reflecting a noteworthy trend. While, Inland Revenue Taxes have exhibited a positive expansion of 18% in comparison to the same period last July.



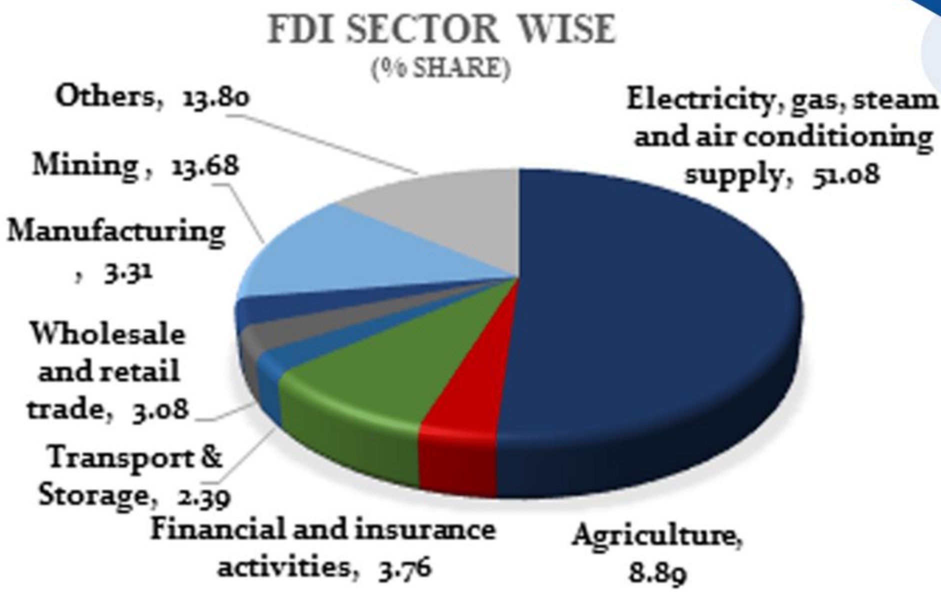


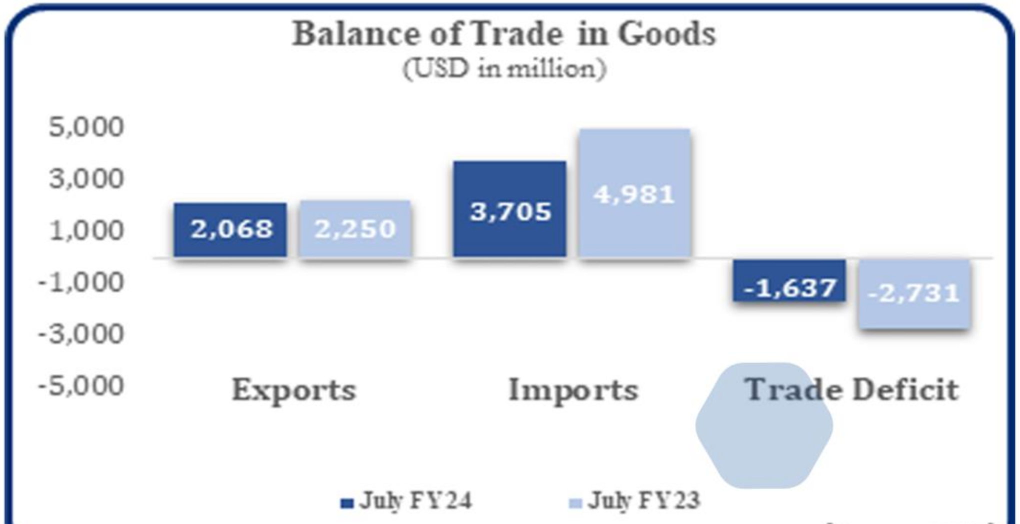
6. Foreign Exchange Reserves

The Net reserves of the SBP stood at $7.93 billion as of 18th August 2023, decreasing by 1.55% or $125 million compared to last week's reserves of $8.06 billion on 11th August 2023. Moreover, when compared to last month reserves (which were then $8.19 billion on 21st July 2023), the Net reserves have gone down by 3.1% amidst external debt repayments, says SBP. Moreover, in the previous month, Pakistan received $2 billion from Saudi Arabia, $1.2 billion from the IMF under the $3 billion SBA and $1 billion from the United Arab Emirates, as per the SBP statement.

7. Foreign Direct Investment

Pakistan's net FDI has appreciated by almost 17% or $13 million to $88 million provisionally during the starting month of July FY24, as compared to $75 million during July FY23. Whereas, the total net Foreign Investment surged by 32% or $25.5 million to $104 million on a Y-o-Y basis in July FY24 as against the amount of $78.5 million in July FY23. This Pie chart shows the percentage share of flows in different sectors of the Economy in the period of July FY24.





(Source: PBS)

8. Balance Of Trade In Goods

As per the PBS, when comparing on a year-on-year basis, Pakistan's trade deficit shrunk by a good margin of almost 40% to $1.64 billion during the month of July of FY24 vs. the same month of FY23 amidst a steep reduction in import bills. As far as exports are concerned, the same have decreased by 8.09% to $2.07 billion in the month July 2023 compared to $2.25 billion when compared with July 2022. Whereas, on a monthly basis, the exports and imports have contracted by 12.2% and 12.18%, respectively, when compared with $2.36 billion and $4.22 billion in June 2023, respectively. In addition to that, the country's trade deficit went down by a value of 12.13% from $1.86 billion in June 2023 to?

9. Balance Of Payment

Pakistan's economy has experienced a deficit in its current account balance, after achieving a surplus consecutively for the fourth month. Following the surplus in June 2023 of $504 million, the CAD was recorded at a deficit of $809 million month of July 2023. Whereas, on a year-on-year basis, the CAD reduced by 36%, when compared to a CAD of $1.26 billion in the same month of the previous Fiscal year. Pakistan must put in significant efforts to address its external sector, if Pakistan's aims to reduce the CAD to $6 billion as targeted by the Ministry of Planning. Failure to do so could have adverse implications for Pakistan's overall economic wellbeing. Given the concern surrounding exchange market volatility, achieving a sustainable level of the CAD in alignment with the growth target of 3.5% appears quite challenging for the economy of Pakistan.

(USD in millions)	FY24 P (July)	FY23 (July)
Current account Balance	(809)	(1,261)
Capital Account Balance	7	11
Financial Account Balance	(3,354)	672
Net FDI in Pakistan	(93)	(46)
Net Portfolio investment	(22)	14
Net incurrence of Liabilities	3,172	(1,036)
Overall Balance	(2,483)	1,765
SBP Gross Reserve	8,259	8,606

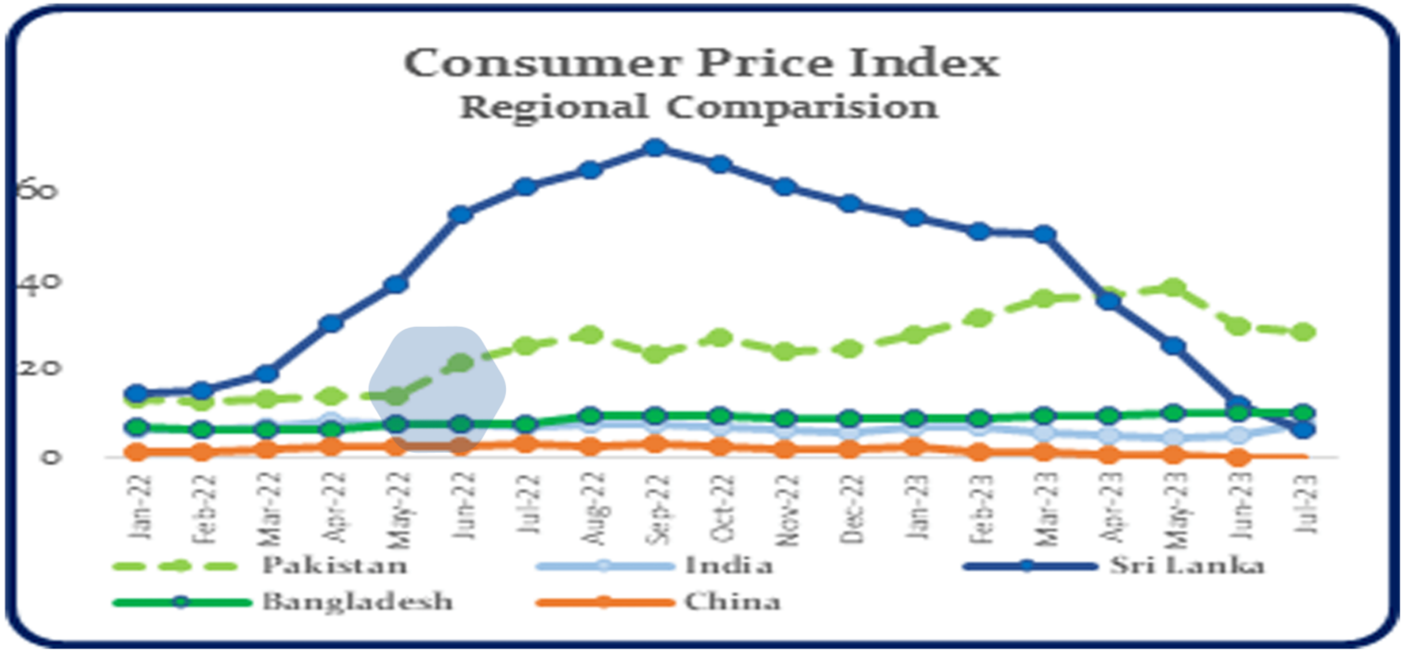
(Source: SBP)

10. Regional Analysis

Compared to other countries in the region, Pakistan has experienced a double-digit inflation on a Y-o-Y basis, whilst Sri lanka has shown signs of recovery with inflation rapidly declining. The Pakistani economy is facing a fragile situation, which is reflected in the rising CPI, and it might continue in coming months amidst unprecedented decline in the PKR parity value. On the other hand, the Sri Lankan rupee has been relatively stable against the US dollar, resulting in a decline in CPI in Sri Lanka over the last five months. In addition to that, India's stable currency has limited the impact of rising inflation on their economy, despite their food inflation surging which elevated their inflation rate in July 2023. Furthermore, China encountered a deflation rate of 0.3%, illustrating that the impacts of price volatility are relatively inconspicuous in their nation despite subdued consumer demand. Nevertheless, this situation could potentially give rise to challenges in terms of job generation and impede the pace of economic activity in China.

Country	CPI (%)	Local Currency Units per USD (As of 28th Aug)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	28.3	302.00	(36.86)
India	7.44	82.60	(3.31)
Bangladesh	9.69	109.00	(14.85)
China	(0.3)	7.29	(5.77)
Sri Lanka	6.3	323.75	8.80

(Source: Trading Economics)



Outlook

Regarding the inflation rate, there has been a renewed escalation in the prices of petrol and electricity due to the ongoing depreciation of the PKR currency and elevated global crude oil prices. The potential for an increase in gas tariffs also looms. Moreover, the upward trajectory of petrol and electricity costs is expected to persist for a certain duration. This is attributed to the upward movement of international oil prices, coupled with Pakistan's commitment to the International Monetary Fund to progressively augment the petroleum development levy, phase out residual energy product subsidies, and mitigate the energy sector's circular debt.

The FY24 began with numerous positive developments including a $3 billion Stand-By Facility ("SBF") from the IMF. However, recent weeks have seen concerns arise. July 2023 witnessed inflation at 28.3%, exceeding projections, and key international commodities experienced notable price hikes. Exports and remittances dropped by 12.2% and over 7.33% respectively, contrary to optimistic IMF forecasts. Imports were low, potentially affecting production and economic growth. These developments collectively challenge the favorable outlook. Moreover, the criteria for determining the market exchange rate is that the gap between the open market and inter-bank exchange rates should not surpass 1.25%. However, by mid of August, this difference has notably exceeded the stipulated benchmark. Thereby, the caretaker Government must act promptly to meet the IMF performance criteria by September's end, as failure to do so may lead to potential issues in relation to the implementation of the SBF with the IMF, which may erode market confidence in Pakistan's economic prospects.

Emerging from a notable downturn that led to a modest $1.45 billion FDI in the FY23, Pakistan's net FDI is now set for a robust resurgence. The prospects for FDI inflows in the ongoing FY24 are remarkably promising, with forecasts pointing to a substantial surge to approximately $2.8 billion. This projected upswing in FDI even surpasses the levels witnessed in 2021-22. For a concise overview of investment opportunities in Pakistan and the conducive business environment, including valuable tax insights, designed to attract potential investors keen on contributing to Pakistan's growth story, you can read the 5th Edition of our publication "Doing Business in Pakistan – A compendious study on statutory stipulations" by clicking on the link below.

Doing Business in Pakistan (5th Edition)

Link: https://cutt.ly/VweWRmpY

The substantial burden of debt servicing is exerting significant strain on Pakistan's Fiscal operations, leading to an annual escalation in the Fiscal deficit. This phenomenon is primarily driven by two formidable factors: exchange rate parity and interest rates. In the context of Pakistan's economic formula, it becomes imperative for the Government to adeptly manage the exchange rate parity and navigate interest rate adjustments. Failure to address these challenges compounds the pressure on Fiscal and Debt management endeavors. The repercussions of devaluation are evident in the surge of the Government's external debt in FY22 (PKR 3,857 billion) and FY23 (PKR 6,309 billion), fueled by depreciated exchange rates (286.39 PKR/USD in FY23 and 204.38 PKR/USD in FY22). To gain a comprehensive insight, we encourage you to explore our succinct report regarding Pakistan's external Government debt scenario.

Economy Alert - Pakistan's Government Debt Profile

Link: https://cutt.ly/VweWRmpY

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.