Pakonomics
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Highlights

The SBP has maintained the policy rate at 22% in its Monetary Policy Committee's ("MPC") meeting held on 14th September 2023. Moreover, the SBP stated that the decision to keep interest rates unchanged has been made on the basis of the recent decline in inflation, which has dropped from a peak of 38% in May to 27.4% in August 2023.

In the Inter-bank market, the National currency value stood at a level of PKR 287.74/USD as of 28th of September 2023. The USD to PKR parity rate has been decreasing after hitting 307.10 level since 5th September.

Pakistan's Large-Scale Manufacturing ("LSM") growth contracted by 3.62% during July 2023 vs. July 2022. Likewise, on a Month-on-Month ("M-o-M") comparison, the LSM growth has decreased by 1.09% compared to the previous month of June 2023.

The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $6.62 billion at the end of August 2023.

As per the SBP, the remittances sent by Overseas Pakistani workers increased by 3.15% to $2.09 billion in August 2023 vs. $2.03 billion in July 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 669 billion in the second month of FY24, and achieving the monthly target by over PKR 20 billion.

The Net foreign currency reserves held by the SBP stood at $7.70 billion as of 15th September 2023.

The Broad Money (M2) stock from 1st of July 2022 to 15th September 2023 has contracted to PKR 401 billion, compared to a contraction of PKR 90 billion last year in the same period.

As per the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 27.4% on a year-on-year ("Y-o-Y") basis in August 2023 vs. 27.3% last year.

As per the PBS, Pakistan's exports decreased by 6.32% to $4.34 billion in Jul-Aug FY24 vs. $4.73 billion in Jul-Aug FY23 on a cumulative basis.

Pakistan's net FDI has appreciated by 16% or $32.5 million to $234 million provisionally during the starting two months of FY24, as compared to $201 million during same period FY23.

The total net Foreign Investment surged by 48% or $84.0 million to $260 million on a Y-o-Y basis in Jul-Aug FY24, as against the amount of $176 million in same period of FY23.

he country has posted a Current account deficit ("CAD") of $935 million during the month of Jul-Aug FY24. month of July FY24.

Economy At a Glance

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	July	↓	(1.09)%	(2.69)%
Central Government Debt	July	↑	PKR 61.75 Trillion	PKR 50.57 Trillion
Credit to Private Sector	Jul – 9th Sept	↓	PKR (284) Billion	PKR (85) Billion
Roshan Digital Account	July	↓	US$ 130 Million	US$ 187 Million
Worker's Remittances	July	↓	US $2,093 Million	US $2,744 Million
Currency in Circulation	Jul – 9th Sept	↓	PKR (621) Billion	PKR 307 Billion
Net Government Sector borrowing	Jul – 9th Sept	↑	PKR 1,425 Billion	PKR 261 Billion
National CPI (Base Year 2015-16)	August	↑	27.40%	27.30%
FBR Tax Collection	Jul-Aug	↑	PKR 1,208 Billion	PKR 956 Billion
Foreign Exchange Reserves with SBP	As of 15th September	↓	$7.70 Billion	$8.35 Billion
Foreign Direct Investments	Jul-Aug	↑	$234 Million	$201 Million
Trade Deficit in Goods	Jul-Aug	↓	US$ (3,799) Million	US$ (6,302) Million
Current Account Deficit	Jul-Aug	↓	$(935) Million	$(2,035) Million

1. Large Scale Manufacturing

According to the PBS, Pakistan's LSM sector showed a contraction of 1.09% in July 2023 on a Y-o-Y basis vs. July 2022. Contrary, on a M-o-M basis, the overall output growth decreased by 3.62%, compared to the month of June 2023.

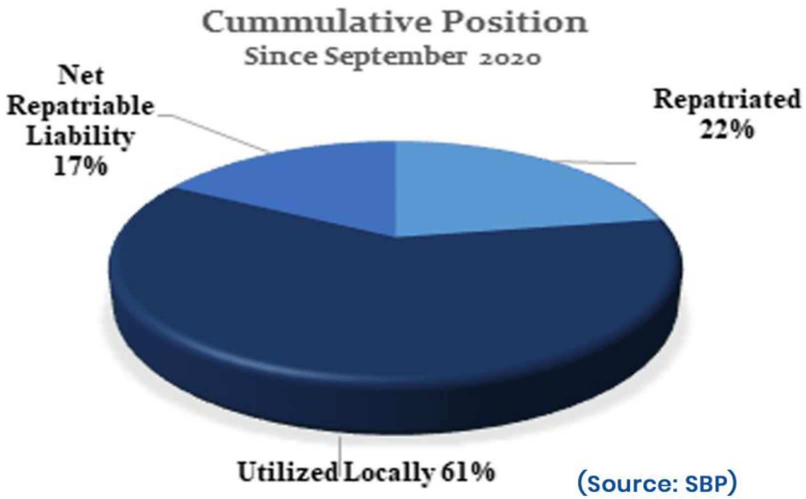
Out of 22 major industries, only 9 industries posted a surge in production during the first month of FY24 as compared to FY22 for the same period. These include food, tobacco, wearing apparel, chemicals, pharmaceutical, rubber products, non-metallic mineral products, machinery and equipment, and other manufacturing section. However, the output in beverages, textile, wood products, leather product, coke and petroleum, iron & steel products, paper & board, fabricated metal, computer, electronics and optical products, electrical equipment, automobiles, transport equipment, and furniture has decreased during the July 2023 month of FY24 month under review, compared to the preceding Fiscal Year for the same month, data from the PBS has revealed. Sector-wise, important groups such as cotton yarn, and cotton cloth contracted by 29.88% and 17.52%, while the garment sector showed growth of 30.84% in the period of July FY24. Moreover, the cement industry increase by a rate of 38.60%.

LSM (%)	Weight	July-23	June-23	July-22
Textile	18.2	(22.00)	(25.97)	(2.25)
Food	10.7	10.00	9.50	(14.77)
Coke & Petroleum Products	6.7	(2.26)	(21.85)	(5.20)
Chemicals	6.5	(5.91)	(14.21)	(1.27)
Wearing Apparel	6.1	30.84	12.86	48.52
Pharmaceuticals	5.2	(54.22)	(38.61)	(35.20)
Non-Metallic Minerals Products	5.0	35.18	0.53	(33.87)
Beverages	3.8	(6.70)	(5.34)	(2.50)
Iron and Steel Products	3.4	(2.66)	(5.83)	13.16
Automobiles	3.1	(66.11)	(68.6)	(7.44)
Tobacco	2.1	53.97	(22.37)	(75.46)
Electrical Equipment	2.0	(22.38)	(24.64)	(4.98)
Paper & Board	1.6	(15.43)	(5.80)	18.62
Leather Products	1.2	(1.98)	(0.31)	16.54
Other Transport Equipment	0.7	(19.01)	(34.95)	(43.70)
LSM Growth for July 2023 (Y/Y)				(1.09)%
LSM Growth of July 2023 vs. June 2023 (M/M)				(3.62)%

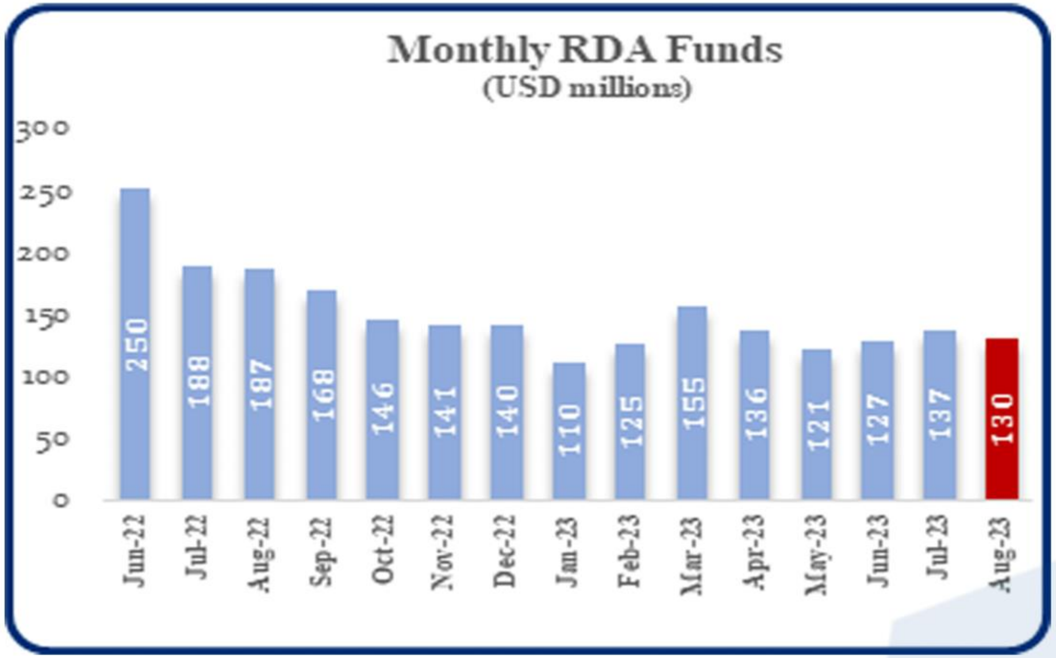
(Source: PBS)

2. Roshan Digital Account ("RDA")

The cumulative inflow of deposits under the RDA have reached $6.62 billion since its announcement in September 2020. Out of the $6.62 billion, approximately $4.01 billion or above 60% have been utilized locally and almost 22% or $1.48 has been repatriated from the total received amount under the RDA. Some 606,865 accounts have been opened from 175 countries in more than two and a half years.

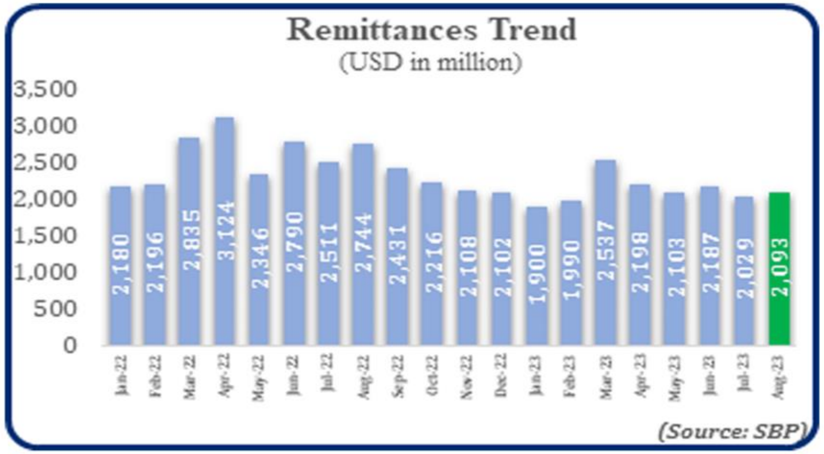


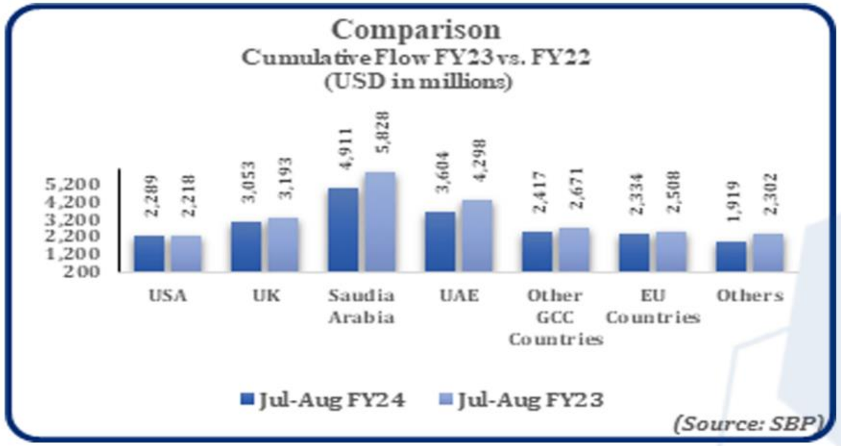
(Source: SBP)

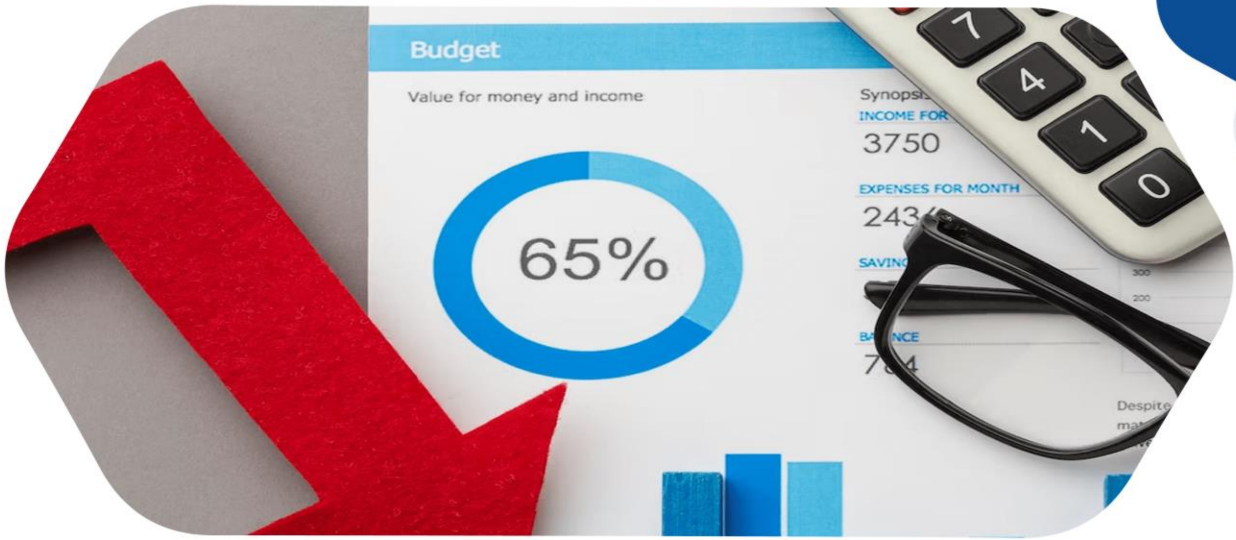


3. Worker's Remittances

As per the SBP, the remittances sent by Overseas Pakistani workers increased by 3.15% to $2.09 billion in August 2023 vs. $2.03 billion in July 2023 on a M-o-M basis. Moreover, on a Y-o-Y comparison, the remittance inflows went down by 23.74% when compared to $2.74 billion received a year ago in the same month. Notably, on a cumulative basis, the pace of growth for remittances has contracted by 21.6% in FY24 as compared to July-Aug period of FY23, when it contracted by a 3.0%. A descriptive analysis has revealed that remittance inflows during the Jul-Aug period of FY24 were coming mainly from four major countries: Saudi Arabia, UAE, UK, and the USA. With almost a 24% share in the overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflows from Saudi Arabia have recorded a negative growth of 23.1% and stand at $979 million in Jul-Aug period of FY24 vs. $1.27 billion during same period of FY23. An amount to the tune of $504 million, or a 12.2% share, was received from the US, showing a contraction of 7.6% in Jul-Aug of FY23 vs. Jul-Aug period of FY23. Worker remittances from the UK decreased by 18.0%, although it contributed 15.5% or $634 million in the Jul-Aug period of FY24 over the same period of FY23. On the other hand, remittance growth from UAE declined at a rate of 37.4%, while its share is almost $624 million or 15.1% share in the total remittances.

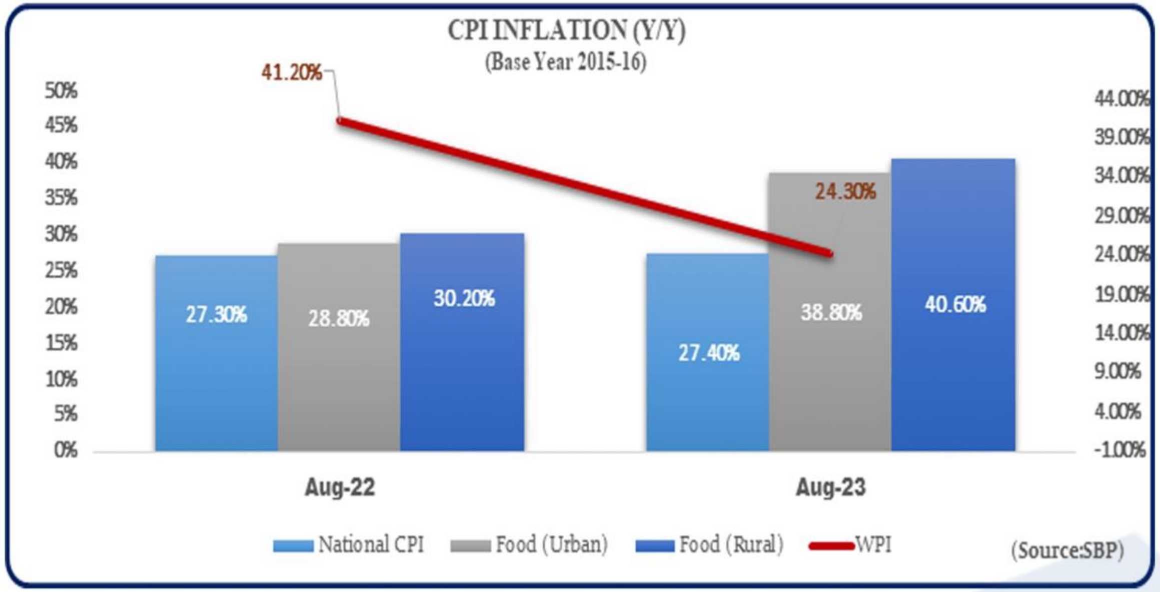






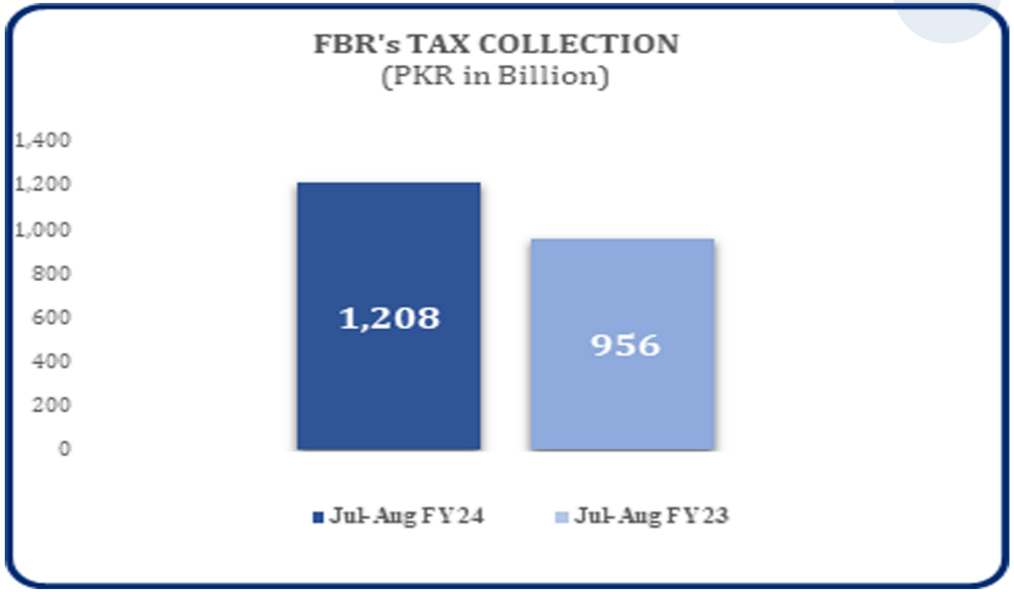
4. Consumer Price Index Inflation

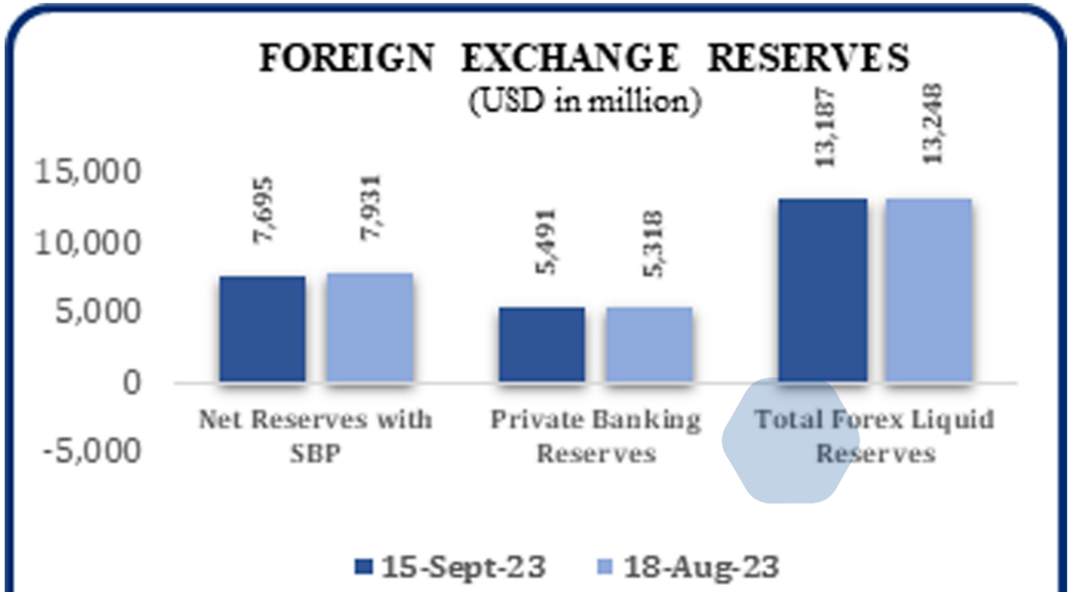
The monthly rate of inflation eased down to 27.4% in August 2023 on a Y-o-Y basis in Pakistan. However, the inflation rate has persisted due to a hike in the prices of non-perishable food items. In the previous month (July 2023), the CPI stood at 28.3%. Moreover, Food inflation in Urban and rural areas also declined by 38.8% and 40.6% in month of August 2023. In addition to that, the wholesale price index ("WPI") stood at 24.3% on a Y-o-Y basis, while in July 2023, the WPI had been recorded at around 23.1%. Whereas, on a monthly basis, the National CPI has recorded a rise of 1.7%. Similarly, the Food inflation in rural and urban areas has also risen by 0.6% and 0.8%, compared to July 2023, respectively. Furthermore, in August 2023, the Core inflation, which is calculated by excluding energy and food items, increased by 18.4% and 25.9% 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 669 billion worth of tax revenue in the second month of FY24. Moreover, the FBR has surpassed two months target set, which was PKR 1,183 billion. As per the FBR, despite the prevailing economic challenges in the nation, the FBR has effectively exceeded the tax revenue goal for Jul-Aug FY24 which is PKR 1,208 billion. Moreover, it has demonstrated a substantial growth of 26.3% in comparison to the same period of FY23. Despite refund disbursements totaling PKR 42 billion, the FBR achieved their monthly target. As per the statement of FBR, the ongoing month has witnessed an impressive 41% rise in income taxes, reflecting a noteworthy trend. Whereas, Sales tax collection in the FY24 reached PKR 473 billion, indicating a 16% growth compared to the previous fiscal Year.





(Source: SBP)

6. Foreign Exchange Reserves

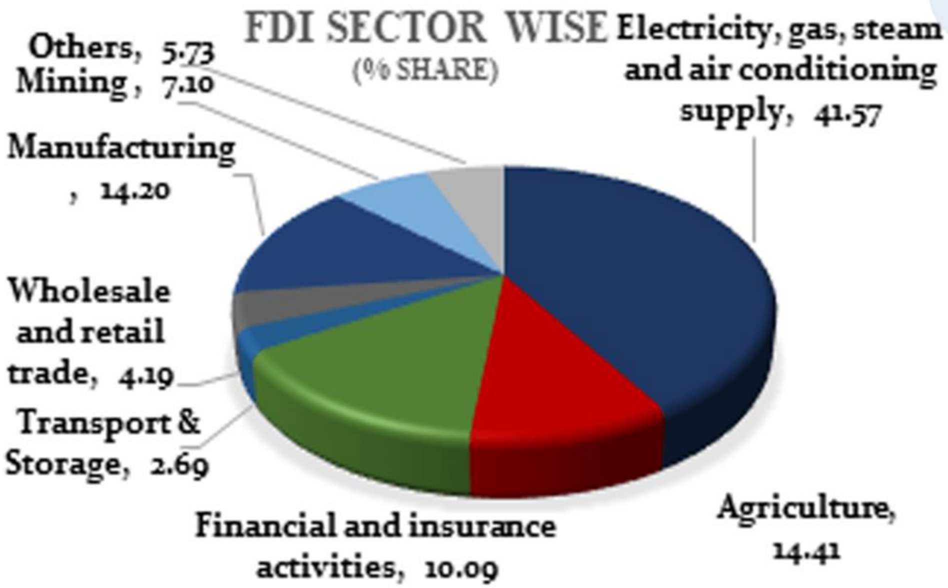
The Net reserves of the SBP stood at $7.70 billion as of 15th September 2023, increasing by 0.7% or $56.4 million compared to last week's reserves of $7.64 billion on 8th September 2023.

Moreover, when compared to last month reserves (which were then $7.93 billion on 18th August 2023), the Net reserves have gone down by 3.0% amidst external debt repayments, as per the SBP.

Moreover, Pakistan has, in the previous month, 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 16% or $32.5 million to $234 million provisionally during the starting two months of FY24, as compared to $201 million during same period FY23. Whereas, the total net Foreign Investment surged by 48% or $84.0 million to $260 million on a Y-o-Y basis in Jul-Aug FY24 as against the amount of $176 million in same period of FY23. This Pie chart shows the percentage share of flows in different sectors of the Economy in the period of Jul-Aug FY24.



(Source: PBS)

8. Balance Of Trade In Goods

As per the PBS, Pakistan's trade deficit shrunk by a good margin of almost 40% to $3.799 billion during the period of Jul-Aug of FY24 vs. the same period of FY23 amidst a steep deduction in the import bill. As far as Exports are concerned, the same decreased by 6.32% to USD 4.43 billion in FY24's period of Jul-Aug compared to USD 4.73 billion in same period of FY23. Similarly, on a monthly basis, the exports increased by 14% to $2.37 in August 2023 from $2.07 billion in July 2023. Additionally, the country's trade deficit surged by a massive margin of 32% to $2.16 in Aug 2023 from $1.64 in July 2023 on a M-o-M basis.

9. Balance Of Payment

Pakistan's economy has experienced a current account deficit in the initial two months of FY 24, after achieving a surplus consecutively for the last fourth months of FY23. Following the deficit in July 2023 of $775 million, the CAD was recorded at a deficit of $160 million in the month of August 2023. Whereas, on a year-on-year basis, the CAD reduced by 54%, when compared to a CAD of $2.035 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 well-being. The reduction in Pakistan's CAD can be attributed to the stability of the PKR, which has controlled import costs and inflation, along with a deliberate curtailment of imports, resulting in a more balanced trade position.

(USD in millions)	FY24 P (Jul-Aug)	FY23 (Jul-Aug)
Current account Balance	(935)	(2,035)
Capital Account Balance	19	17
Financial Account Balance	(3,432)	(399)
Net FDI in Pakistan	(277)	(134)
Net Portfolio investment	(26)	22
Net incurrence of Liabilities	3,175	(8)
Overall Balance	(2,210)	1,365
SBP Gross Reserve	7,909	9,021

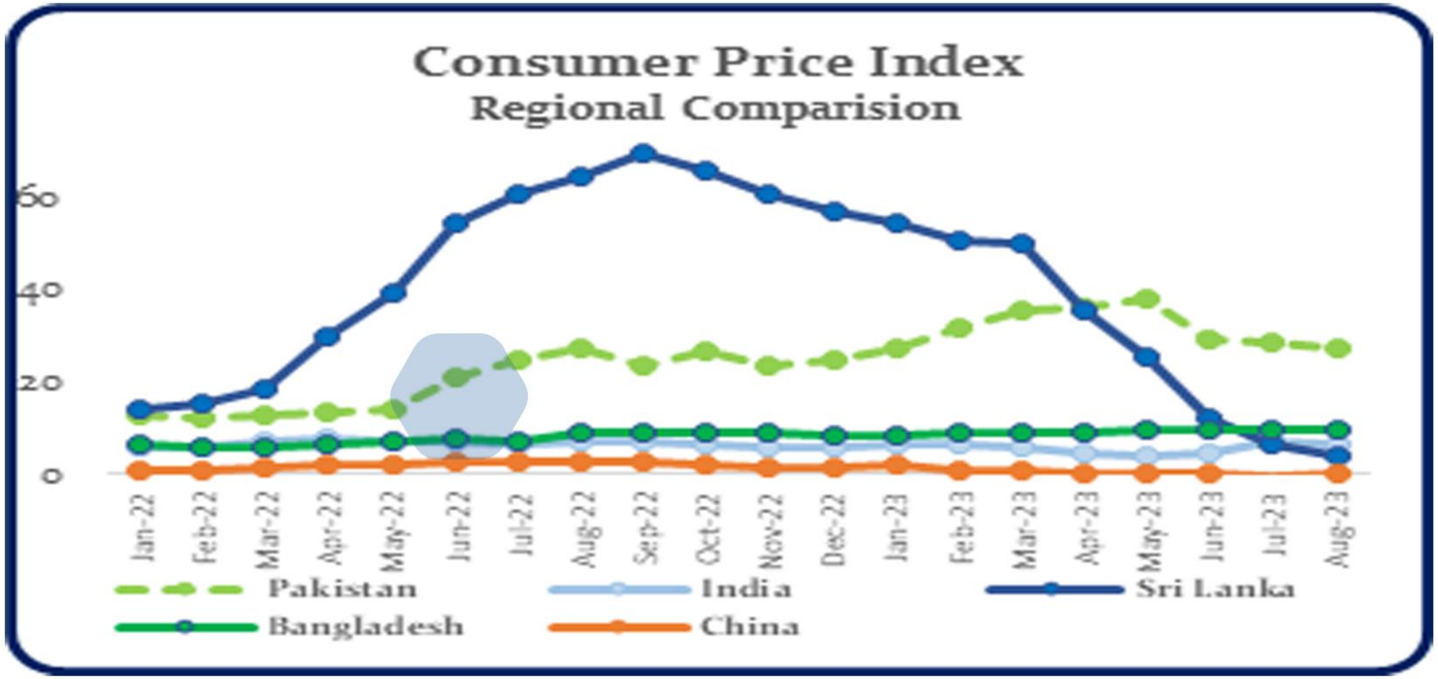
(Source: SBP)

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 slightly stable due to currency stability, which is reflected in the declining in CPI, and it might continue in the coming months amidst a rise in the parity value of the PKR. 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 six 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 August 2023. Furthermore, China encountered a slight inflation of 0.1 after deflation 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 Sep)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	27.38	287.74	(24.00)
India	6.83	83.15	(2.07)
Bangladesh	9.92	110.00	(7.53)
China	0.10	7.31	(2.90)
Sri Lanka	4.00	323.75	9.82

(Source: Trading Economics)



Outlook

Efforts by the Pakistani Government to combat illegal trade have led to a strengthening of the Pakistani Rupee (PKR) in the international markets. This currency appreciation is expected to result in a downward revision of petrol prices in the coming months. This, in turn, may contribute to easing the inflation rate, benefiting consumers and providing greater stability in the cost of living.

Given the current economic circumstances, there is a pressing need to lower the interest rate to further support Pakistan's economic recovery. As Pakistan's LSM growth is declining, the return to significant positive growth in the large-scale manufacturing sector is essential for directly raising the GDP growth rate, and indirectly stimulating activity in sectors like transport, wholesale and retail trade, and finance. It will also imply higher demand for inputs like electricity and gas and contribute to reducing the high level of unemployment in the country.

As per media reports, the interim government of Pakistan has devised an economic revival strategy that includes raising taxes on key sectors, reducing expenditures, and addressing energy sector issues. Reportedly, the plan aims for fiscal consolidation of over 3% of GDP, achieved by eliminating tax exemptions and cost savings. Further, the government also plans to increase tax collection to Rs13 trillion in two years and aims to bridge a tax gap of Rs5.6 trillion primarily through indirect taxes, constituting 68% of the plan. (Express Tribune).

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

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.