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Pakonomics

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Highlights

According to the Ministry of Finance ("MoF"), on January 8th, the Executive Board of the International Monetary Fund ("IMF") endorsed the initial review of the bailout package for Pakistan, clearing the path for the disbursement of a $700 million loan tranche.

Moreover, as per Mr. Shahbaz Rana's article titled "IMF tax collection target surpassed" published on 30th Dec 2023 in the Express Tribune, Pakistan has met a key requirement set by the IMF for the final disbursement of the $1.2 billion loan tranche by collecting over Rs4.47tr in taxes during the initial half of this fiscal year.

In the Inter-bank market, the National currency value stood at a level of PKR 279.59/USD as of 26th January 2024. The USD to PKR parity rate has appreciated since reaching the IMF staff level agreement on 8th January 2024.

Pakistan's LSM sector showed a growth of 1.59% in November 2023 on a Year-on-Year ("Y-o-Y") basis vs. November 2022. After a contraction in the previous month, the LSM sector has witnessed a positive trend.

The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $7.20 billion at the end of December 2023.

As per the SBP, the remittances sent by Overseas Pakistani workers have increased by 5.54% to $2.38 billion in December 2023 vs. $2.26 billion in November 2023 on a Month-on-Month ("M-o-M") basis.

As per the official statistics of the Federal Board of Revenue ("FBR"), the FBR has collected record tax revenue worth PKR 1,020 billion in the sixth month of FY24. Moreover, the FBR has exceeded its Jul-Dec target by PKR 47 billion.

The Net foreign currency reserves held by the SBP stood at $8.27 billion as of 19th January 2024.

The Broad Money (M2) stock from 1st of July 2022 to 13th January 2023 has expanded to PKR 670 billion, compared to PKR 341 billion last year in the same period.

As per the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation has surged to 29.7% on a year-on-year ("Y-o-Y") basis in December 2023 vs. 24.5% last year.

As per the PBS, Pakistan's exports have increased by 5.24% to almost $15.0 billion in H1FY24 vs. $14.24 billion in H1 FY23 on a cumulative basis.

Pakistan's net FDI has appreciated by 35% or $227 million to $863 million provisionally during the Jul-Dec period of FY24, as compared to $640 million during same period FY23.

The total net Foreign Investment surged by 337 times or $1,327 million to $934 million on a Y-o-Y basis in Jul-Dec FY24 as against the amount of ($393) million in same period of FY23.

The country has posted a Current account deficit ("CAD") of $831 million during the months of Jul-Dec FY24.

Economy At a Glance

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	November	↑	1.59%	(4.85)%
Central Government Debt	November	↑	PKR 63.39 Trillion	PKR 50.96 Trillion
Credit to Private Sector	Jul – 13th Jan	↑	PKR (8.0) Billion	PKR (408) Billion
Roshan Digital Account	December	↑	US$ 160 Million	US$ 140 Million
Worker's Remittances	December	↑	US $2,382 Million	US $2,102 Million
Currency in Circulation	Jul – 13th Jan	↓	PKR (491) Billion	PKR 341 Billion
Net Government Sector borrowing	Jul – 13th Jan	↑	PKR 2,575 Billion	PKR 1,188 Billion
National CPI (Base Year 2015-16)	November	↑	29.7%	24.5%
FBR Tax Collection	Jul-Dec	↑	PKR 4,468 Billion	PKR 3,428 Billion
Foreign Exchange Reserves with SBP	As of 19th January	↑	$8.27 Billion	$3.68 Billion
Foreign Direct Investments	Jul-Dec	↑	$863 Million	$640 Million
Trade Deficit in Goods	Jul-Dec	↓	US$ (11,275) Million	US$ (16,965) Million
Current Account Deficit	Jul-Dec	↓	$(831) Million	$(3,629) Million

1. Large Scale Manufacturing

According to the PBS, Pakistan's LSM sector showed an expansion of 1.59% in November 2023 on a Y-o-Y basis vs. November 2022. After previous month of consecutive contractions in the LSM sector, the LSM sector has witnessed a positive trend. Likewise, on a M-o-M basis, the overall output growth increased by 3.63%, compared to the month of October 2023. However, cumulative LSM growth exhibited a negative trend, with a 0.80% decline in the first five months of FY24 vs. the same period of last FY23.

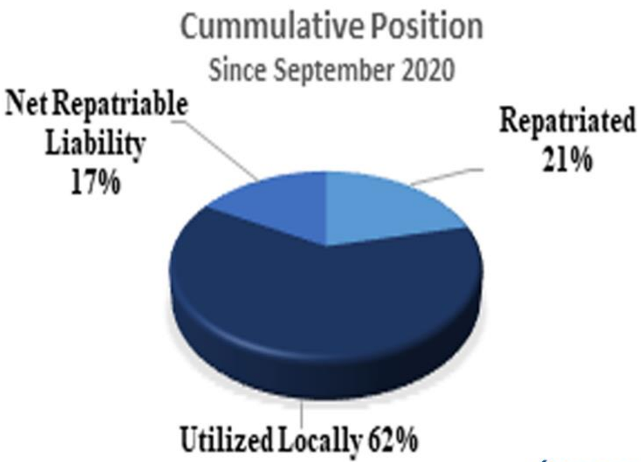
Out of 22 major industries, only 12 industries posted a surge in production during the Jul-Nov period of FY24 as compared to FY23 for the same period. These include food, beverages, wearing apparel, Leather Product, Coke & Petroleum Products, chemicals, pharmaceutical, Rubber product, non-metallic mineral products, machinery and equipment, and other manufacturing section. However, the output in Tobacco, textile, paper and board, iron & steel products, fabricated metal, electrical equipment, automobiles, Computer Optical products, other transport equipment, and furniture has decreased during the Jul-Nov period of the FY24 months under review, compared to the preceding Fiscal Year for the same months, data from the PBS has revealed. Sector-wise, important groups such as cotton yarn, and cotton cloth contracted by 21.13% and 12.76% respectively, whilst the garment sector showed a growth of 20.88% in the period of Jul-Nov FY24. Moreover, the cement industry has witnessed a growth of 2.88.

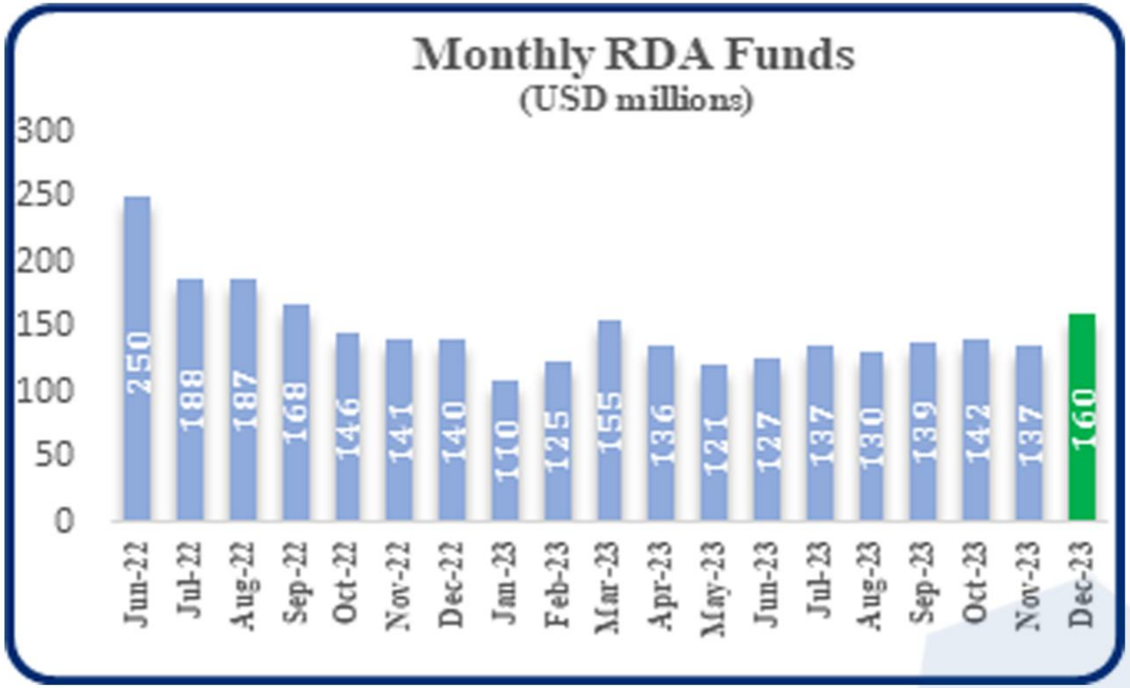
LSM (%)	Weight	Nov-23	Oct-23	Nov-22	Jul-Nov FY24
Textile	18.2	0.41	1.10	(22.09)	**0.07**
Food	10.7	1.80	1.71	(13.53)	**0.26**
Coke & Petroleum Products	6.7	2.77	(8.19)	5.26	**0.20**
Chemicals	6.5	9.23	4.90	(6.20)	**0.71**
Wearing Apparel	6.1	27.79	(1.83)	67.44	**4.48**
Pharmaceuticals	5.2	23.62	26.54	(8.56)	**1.14**
Non-Metallic Minerals Products	5.0	(4.86)	(12.03)	(13.11)	**(0.36)**
Beverages	3.8	19.09	(8.16)	(10.10)	**0.59**
Iron and Steel Products	3.4	(0.63)	(1.56)	(8.71)	**(0.03)**
Automobiles	3.1	(66.07)	(58.31)	(18.95)	**(2.49)**
Tobacco	2.1	(43.79)	(37.16)	(20.25)	**(1.00)**
Electrical Equipment	2.0	(7.84)	(17.20)	(9.55)	**(0.25)**
Paper & Board	1.6	5.31	5.55	(3.03)	**(0.13)**
Leather Products	1.2	3.55	4.14	6.76	**0.03**
Other Transport Equipment	0.7	(21.89)	(10.69)	(39.59)	**(0.12)**
LSM Growth for Nov 2023 (Y/Y)					**1.59%**
LSM Growth of Nov 2023 vs. Oct 2023 (M/M)					**3.63%**
LSM Growth Jul-Nov FY23					**(0.80)%**

(Source: PBS)

2. Roshan Digital Account ("RDA")

The cumulative inflow of deposits under the RDA have reached $7.20 billion since its announcement in September 2020. Out of the $7.20 billion, approximately $4.44 billion or almost 62% have been utilized locally and 21% or $1.54 billion have been repatriated from the total received amount under the RDA. Some 651,057 accounts have been opened from 175 countries in the span of more than three years.

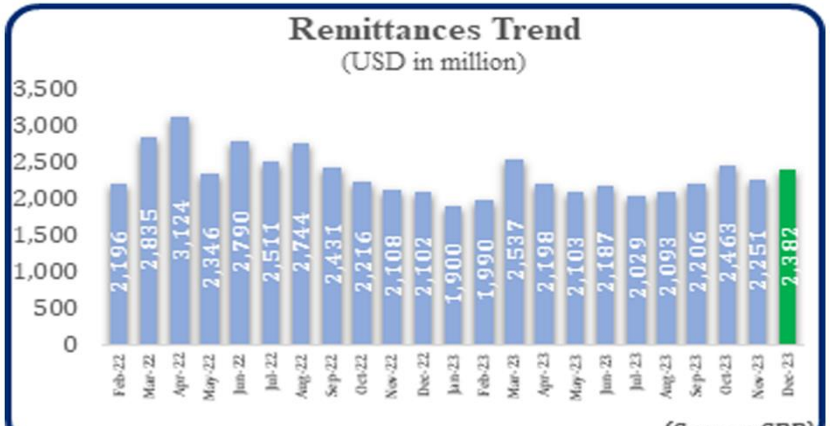




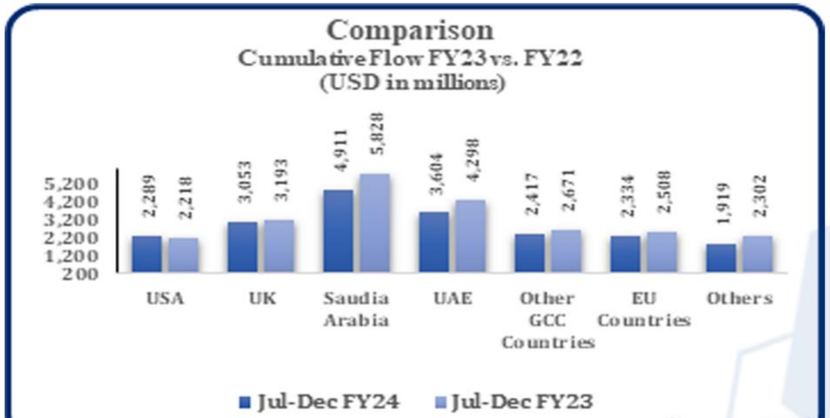
(Source: SBP)

3. Worker's Remittances

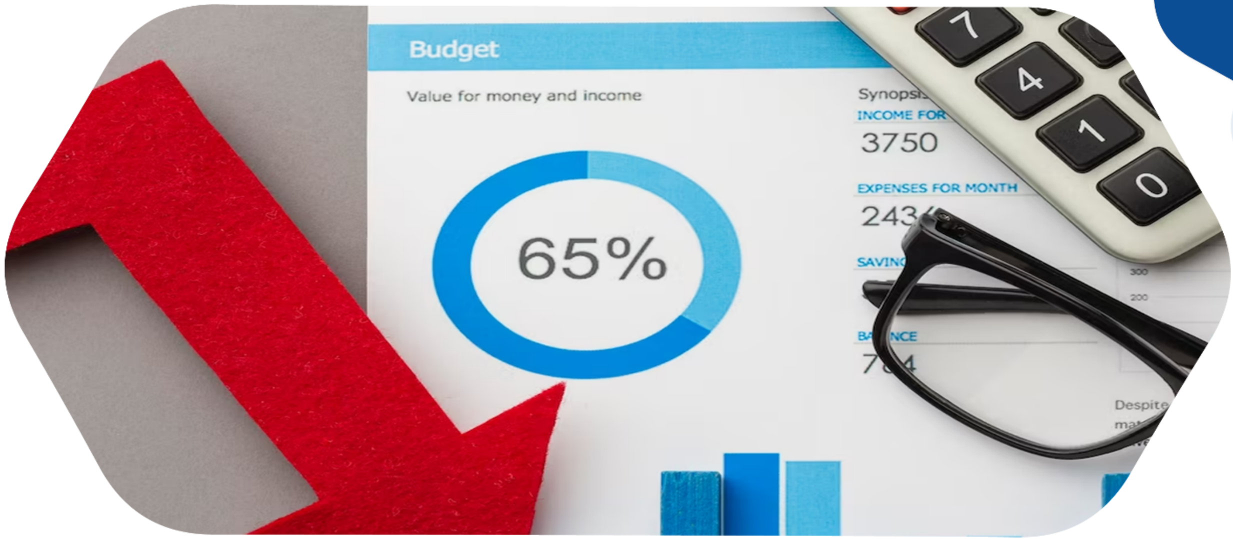
As per the SBP, the remittances sent by Overseas Pakistani workers have increased by 5.54% to $2.38 billion in December 2023 vs. $2.26 billion in November 2023 on a M-o-M basis. Moreover, on a Y-o-Y comparison, the remittance inflows went up by 13.42% when compared to $2.10 billion received a year ago in the same month. Notably, on a cumulative basis, the pace of growth for remittances has contracted by 6.8% in FY24 as compared to Jul-Dec period of FY23, when it had contracted by 8.8%. A descriptive analysis has revealed that remittance inflows during the Jul-Dec period of FY24 were coming mainly from four major countries: Saudi Arabia, UAE, UK, and the USA. With more than a 24% share in the overall home remittances flows, Saudi Arabia remained a significant contributor. However, the inflows from Saudi Arabia have recorded a negative growth of 8.9% and stand at $3.25 billion in Jul-Dec period of FY24 vs. $3.57 billion during same period of FY23. An amount to the tune of $1.58 billion, or an almost 12.0% share, was received from the US, showing a contraction of 2.5% in Jul-Dec of FY24 vs. Jul-Dec period of FY23. Worker remittances from the UK decreased by 0.6%, although it contributed 14.80% or $2.0 billion in the Jul-Dec period of FY24 over the same period of FY23. On the other hand, remittance growth from UAE declined at a rate of 11.0%, while its share is almost $2.33 billion or 17.33% share in the total remittances.



(Source: SBP)

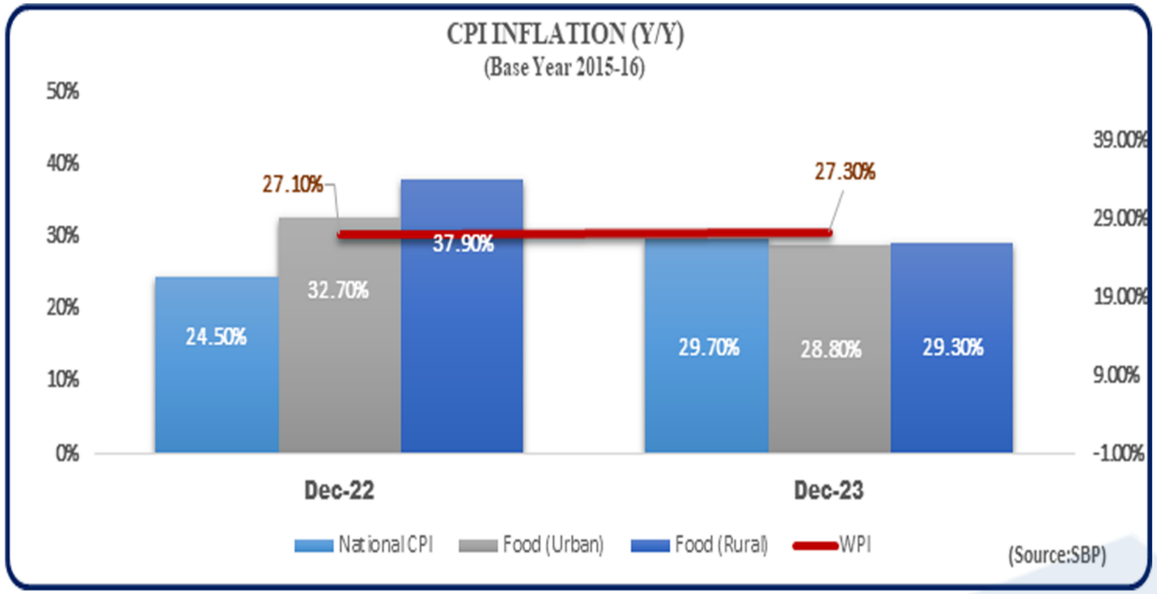


(Source: SBP)



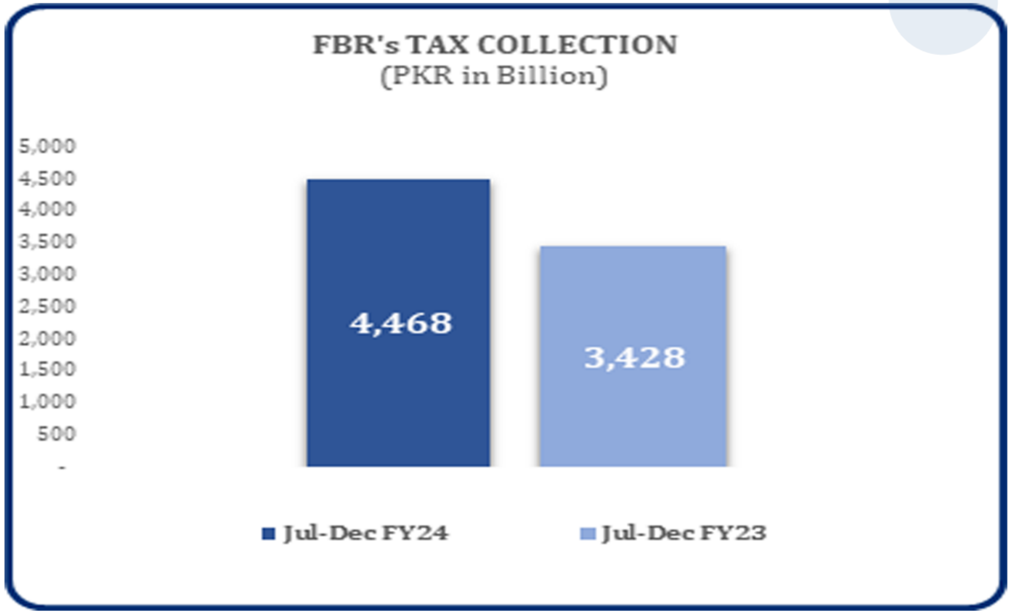
4. Consumer Price Index Inflation

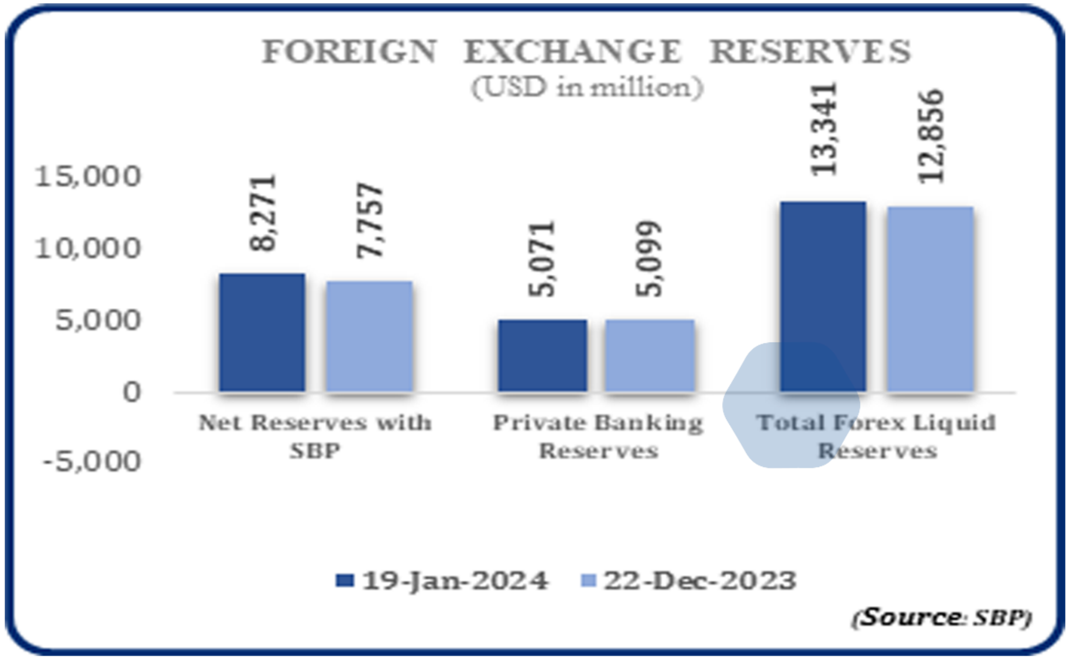
The monthly inflation rate has spiked to 29.7% in December 2023 on a Y-o-Y basis in Pakistan. The inflation rate has persisted due to a hike in the prices of non-perishable food items and utility bills such as gas prices, as compared to the same month in the previous year. Moreover, the CPI stood at 29.2% in the previous month (November 2023). However, Food inflation in urban has eased to 28.8%, whereas, food inflation in rural areas has risen to 29.3% in the month of December 2023. In addition to thereto, the wholesale price index ("WPI") stood at 27.3% on a Y-o-Y basis, while in November 2023, the WPI had been recorded at around 26.4%. On a monthly basis, the National CPI has recorded a rise of 0.8%. Similarly, the Food inflation in rural areas has also risen by 0.1%, while 0.7% of food deflation recorded in urban areas, compared to October 2023, respectively. Furthermore, in December 2023, the Core inflation, which is calculated by excluding energy and food items, increased by 18.2% and 25.1% 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 a record PKR 1,021 billion worth of tax revenue in the last month of H1FY24. Moreover, the FBR has surpassed the Jul-Dec period target which was set at PKR 4.43tr. Further, the FBR has effectively exceeded the tax revenue goal for Jul-Dec FY24 and collected PKR 4.47tr. The FBR has demonstrated a substantial growth of 30.3% in comparison to the same period of FY23. As per Mr. Shahbaz Rana's article titled "IMF tax collection target surpassed" published on 30th Dec 2023 in the Express Tribune, out of the total of PKR 4.47tr, income tax collection surged to PKR 2.13tr, marking a significant rise of PKR 730 billion, which accounts for nearly half of the total tax collection, in the Jul-Dec of the FY24. Furthermore, sales tax has remained the weakest area, with its collection reaching over Rs1.5 trillion. Moreover, during the initial half of the ongoing fiscal year, Pakistan has met a crucial requirement set by the IMF for the final disbursement of the $1.2 billion loan tranche, having amassed over Rs4.47 trillion in tax collection.





6. Foreign Exchange Reserves

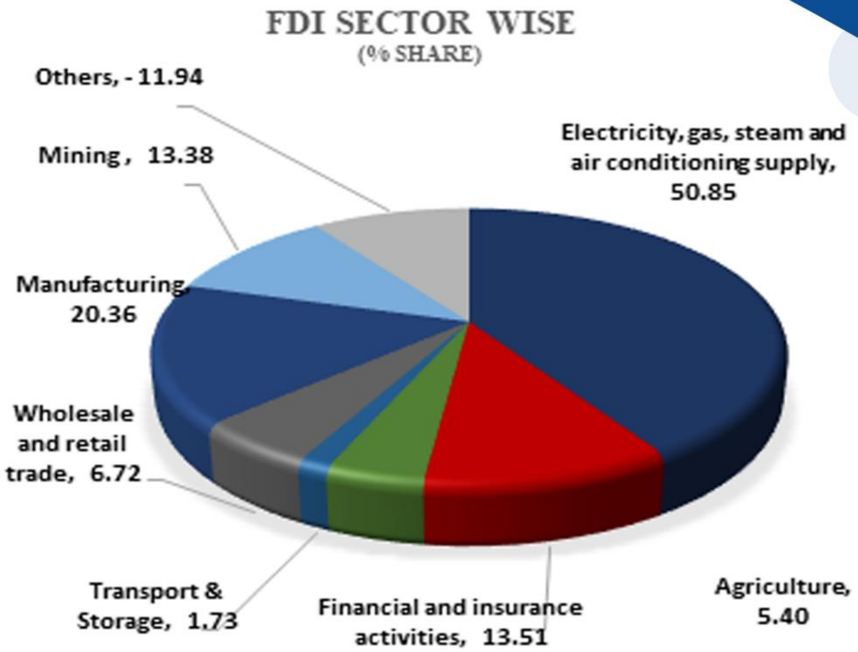
The Net reserves of the SBP stood at $8.27 billion as of 19th January 2024, increasing by 3.0% or $243 million compared to last week's reserves of $8.03 billion on 12th January 2024.

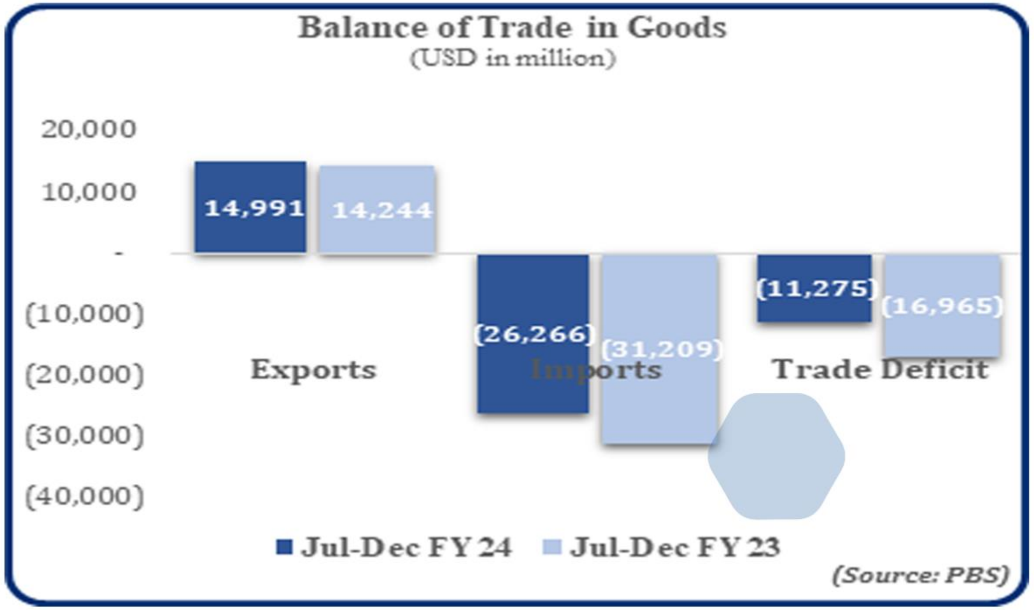
Moreover, when compared to the reserves of the previous month (which were $7.75 billion on 22nd December 2023), the Net reserves have gone up by almost 7.0%.

The boost in foreign reserves is mainly credited to the acquisition of the second installment totaling $705 million from the IMF, forming a segment of the comprehensive $3 billion SBA with Pakistan. During this period, the central bank has effectively handled the government's external debt repayments.

7. Foreign Direct Investment

Pakistan's net FDI has appreciated by 35% or $227 million to $863 million provisionally during the Jul-Dec period of FY24, as compared to $640 million during same period FY23. Whereas, the total net Foreign Investment surged by 337 times or $1,327 million to $934 million on a Y-o-Y basis in Jul-Dec FY24 as against the amount of ($393) 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-Dec FY24.





8. Balance Of Trade In Goods

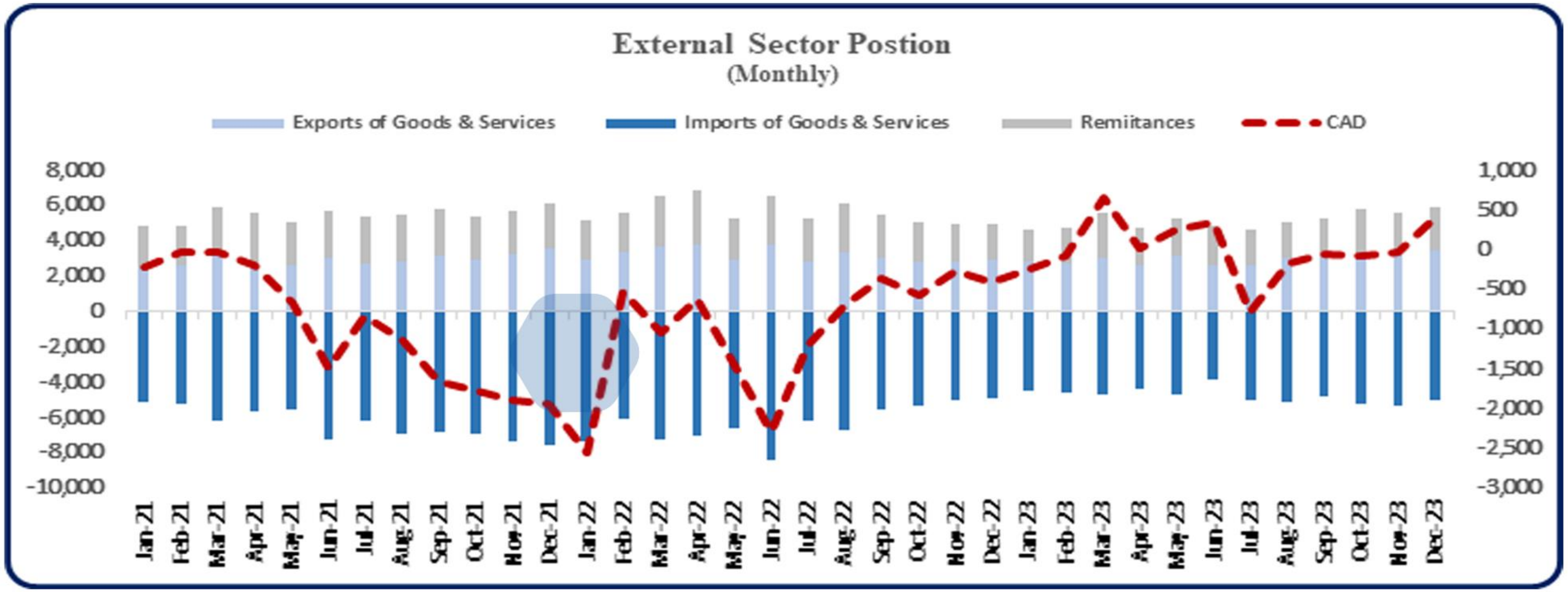
As per the PBS, Pakistan's trade deficit has shrunk by a good margin of almost 33.5% to $11.28 billion during the period of Jul-Dec of FY24 vs. the same period of FY23 amidst a steep reduction in the import bill. As far as exports are concerned, the same increased by almost 5.2% to almost $15.0 billion in FY24's period of Jul-Dec compared to $14.24 billion in same period of FY23. Moreover, imports have decreased by 15.8% to $26.27 billion in the H1FY24 when compared with $31.21 billion in the same period of FY23. Additionally, on a monthly basis, the exports have increased by 9.7% to $2.82 in December 2023 from $2.57 billion in November 2023. Furthermore, the country's trade deficit has declined by a margin of almost 7.0% to $1.83 in December 2023 from $1.97 in November 2023 on a M-o-M basis.

9. Balance Of Payment

In December 2023, Pakistan witnessed a notable increase in its current account surplus, reaching a six-month peak of $397 million, following the minor CAD in November 2023 of just $15 million (revised Estimates). Whereas, on a Y-o-Y basis, the CAD has reduced by 209 times, when compared to a CAD of $365 million 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 in a region below $6 billion as targeted by the Ministry of Planning. The reduction in Pakistan's CAD can be attributed to the stability of the PKR, which has controlled import costs and food inflation, along with a curtailment of imports, resulting in a more balanced trade position.

(USD in Millions)	FY24 P (Jul-Dec)	FY23 (Jul-Dec)
Current account Balance	(831)	(3,629)
Capital Account Balance	88	317
Financial Account Balance	(4,276)	726
Net FDI in Pakistan	(833)	329
Net Portfolio investment	(71)	1,033
Net incurrence of Liabilities	3,164	(757)
Overall Balance	(3,006)	4,284
SBP Gross Reserve	8,331	5,702

(Source: SBP)

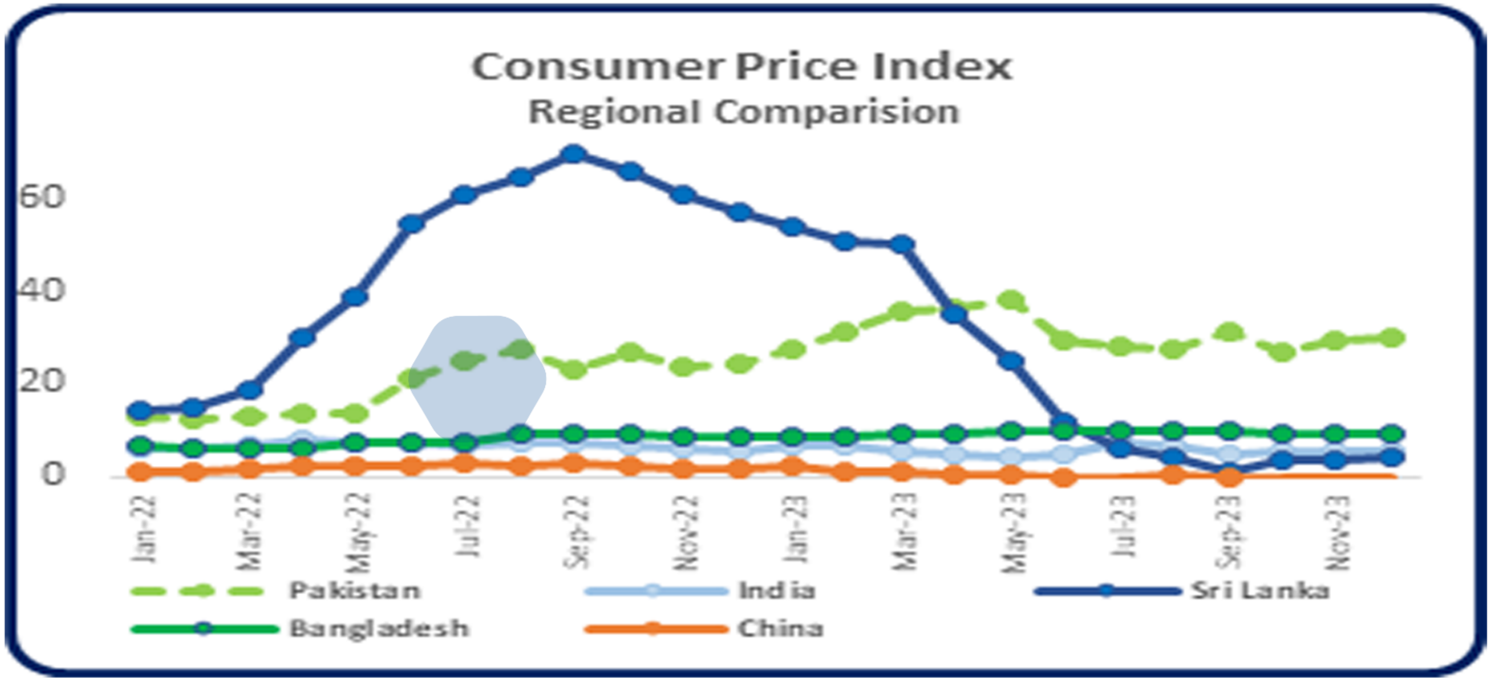


10. Regional Analysis

Compared to other countries in the region, Pakistan has experienced 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 will reflect in the upcoming CPI, and the same trend might continue in the coming months amidst a gradual rise in the parity value of the PKR. Regarding the Sri Lankan economy, inflation has seen a significant decrease since June. This is attributed, in part, to the statistical base effect, and is further supported by a stronger Sri-lankan rupee currency and better harvests. 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 December 2023. Furthermore, China encountered a slow pace of deflation after a 0.5% decline in inflation rate in previous month, 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 26th January)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	29.7	279.60	(9.46)
India	5.7	83.10	(1.95)
Bangladesh	9.4	109.50	(3.79)
China	(0.3)	7.18	(6.29)
Sri Lanka	4.0	317.40	12.32

(Source: Trading Economics)



Outlook

According to the outlook of the SBP's Annual Report for 2023-24, the impact of the recent monetary tightening and other contractionary measures are anticipated to limit domestic demand. Furthermore, improvements in the supply situation, driven by increased production of vital crops and the resumption of imports, are expected to ease inflationary pressures in FY24. Along with these domestic supply improvements, factors such as a high inflation base from the previous year and a subdued trend in non-energy global commodity prices are projected to contribute to reducing inflation to a range of 20.0% to 22.0% in FY24. However, unforeseen climate events, adverse developments in global commodity prices, particularly in oil, and external economic challenges pose significant upside risks to this outlook.

According to the Honourable care-taker Finance Minister, we are on the brink of commencing negotiations with the IMF for the third loan installment amounting to $1.2 billion. The minister also clarified that the IMF mission would await the finalization of data for October-December 2023, anticipated to be completed by the end of the current month.

The SBP will convene its Monetary Policy Committee ("MPC") meeting on 29th January 2024, a decision that is eagerly awaited as a prompt for the remaining months of the ongoing FY24. However, the policy of raising the interest rates has not proven effective in addressing the persistent inflationary pressures, highlighting the complexities and challenges faced by the central bank in managing the economic situation. Given the current economic circumstances, there is a pressing need to lower the interest rates to further support Pakistan's economic recovery.

Pakistan's LSM sector has posted a positive growth in both on a Y-o-Y and M-o-M basis. Such positive growth in the LSM 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.

Moreover, the SBP foresees the fiscal deficit ranging from 7.0% to 8.0% in FY24. Despite this projection, higher interest payments are expected to hinder significant reductions in government spending during FY24. However, non-interest expenditures are anticipated to remain under control due to reduced subsidies and grants. A modest economic recovery is likely to boost revenue collection in FY24. In addition to that, as per Ministry of Finance, in order to increase revenues during this fiscal year, the government plans to raise the Petroleum Development Levy ("PDL") to PKR 60 per liter and implement higher tax rates for top income brackets, builders, developers, property, and introduce additional GST on unregistered businesses. Further, the Federal Government has already levied a windfall income tax on the foreign exchange income of banks at 40%, vide SRO 1588(I)/2023, on 21st November 2023. However, the said SRO has been suspended by the Honourable High Courts of various provinces. You can access our comments on the said windfall income tax by clicking the following link: Click Here

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.