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Pakonomics

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Highlights

In the inter-bank market, the prevailing value of the national currency stands at PKR 279.12/USD as of February 28th, 2024. Over the past 30 days, the USD to PKR parity rate has exhibited a mixed trend, albeit indicating a gradual recovery. It would be highly commendable if Pakistan could successfully secure the second review of the IMF standby agreement.

Pakistan's LSM sector showed a growth of 3.43% in December 2023 on a Year-on-Year ("Y-o-Y") basis vs. December 2022. After a contraction in the initial months of FY24, the LSM sector has witnessed a positive trend in consecutive ns months.
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The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $7.34 billion at the end of January 2024.

As per the SBP, the remittances sent by Overseas Pakistani workers have increased by 0.64% to $2.40 billion in January 2024 vs. $2.38 billion in December 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 690 billion in the seventh month of FY24. Moreover, the FBR has exceeded its Jul-Jan target by PKR 30 billion.

The Net foreign currency reserves held by the SBP stood at $8.12 billion as of 16th February 2024.

The Broad Money (M2) stock from 1st of July 2022 to 10th February 2024 has contracted to PKR 670 billion, compared to PKR 797 billion last year in the same period.

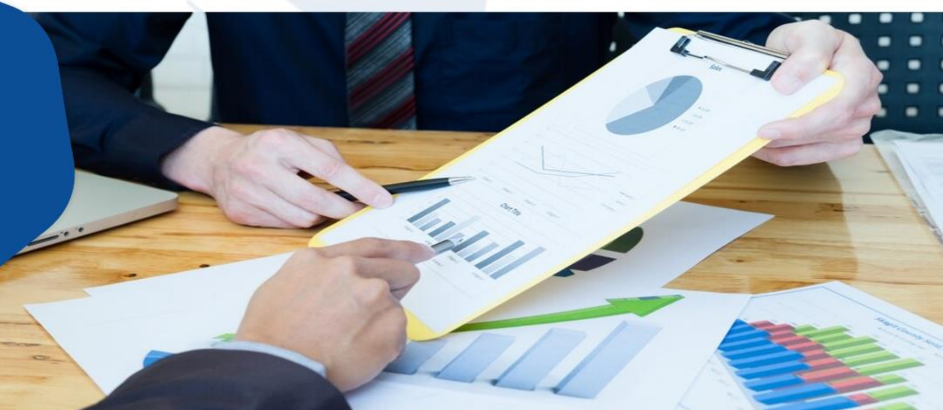
As per the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation has surged to 28.3% on a Y-o-Y basis in January 2024 vs. 27.6% last year.

As per the PBS, Pakistan's exports have increased by 7.87% to $17.78 billion in Jul-Jan FY24 vs. $16.48 billion in Jul-Jan of FY23 on a cumulative basis.

Pakistan's net FDI has declined by 16% or $187 million to $690 million provisionally during the Jul-Jan period of FY24, as compared to $877 million during same period FY23.

The total net Foreign Investment surged by 628 times or $935 million to $786 million on a Y-o-Y basis in Jul-Jan FY24 as against the amount of ($149) million in same period of FY23.

The country has posted a Current account deficit ("CAD") of $1,093 million during the months of Jul-Jan FY24.



Economy At a Glance

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	December	↑	3.43%	(1.08)%
Central Government Debt	December	↑	PKR 65.19 Trillion	PKR 51.06 Trillion
Credit to Private Sector	Jul – 10th Feb	↑	PKR 67 Billion	PKR 485 Billion
Roshan Digital Account	January	↑	US$ 142 Million	US$ 110 Million
Worker's Remittances	January	↑	US $2,397 Million	US $1,900 Million
Currency in Circulation	Jul – 10th Feb	↓	PKR (448) Billion	PKR 560 Billion
Net Government Sector borrowing	Jul – 10th Feb	↑	PKR 2,747 Billion	PKR 1,913 Billion
National CPI (Base Year 2015-16)	January	↑	28.3%	27.6%
FBR Tax Collection	Jul-Jan	↑	PKR 5,150 Billion	PKR 3,973 Billion
Foreign Exchange Reserves with SBP	As of 16th Feb	↑	$8.12 Billion	$3.26 Billion
Foreign Direct Investments	Jul-Jan	↓	$689 Million	$877 Million
Trade Deficit in Goods	Jul-Jan	↓	US$ (13,160) Million	US$ (19,553) Million
Current Account Deficit	Jul-Jan	↓	$(1,093) Million	$(3,796) Million

1. Large Scale Manufacturing

According to the PBS, Pakistan's LSM sector showed an expansion of 3.43% in December 2023 on a Y-o-Y basis vs. December 2022. After negative growth in the initial months of September 2023 and October 2023, the LSM sector has witnessed a positive trend in consecutive months. Moreover, on a M-o-M basis, the overall output growth increased by 15.69%, compared to the month of November 2023. However, cumulative LSM growth exhibited a negative trend, with a 0.39% decline in the first half of FY24 vs. the same period of last FY23.

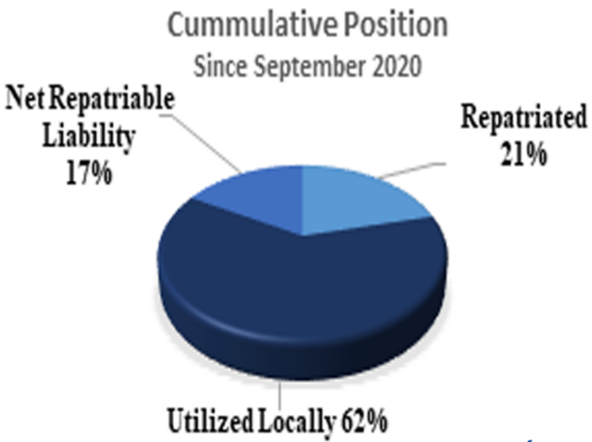
Out of 22 major industries, only 11 industries posted a surge in production during the Jul-Jan period of FY24 as compared to FY23 for the same period. These include food, beverages, wearing apparel, Leather Product, wood product, Coke & Petroleum Products, chemicals, pharmaceutical, Rubber product, non-metallic 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-Jan 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 18.18% and 10.77% respectively, whilst the garment sector showed a growth of 15.14% in the period of Jul-Jan FY24. Moreover, the cement industry has witnessed a growth of 1.95%.

LSM (%)	Weight	Dec-23	Nov-23	Dec-22	Jul-Dec FY24
Textile	18.2	(1.05)	0.41	(21.17)	**(10.95)**
Food	10.7	6.77	1.80	(10.41)	**5.11**
Coke & Petroleum Products	6.7	17.85	2.77	3.53	**8.40**
Chemicals	6.5	2.62	9.23	(3.82)	**3.76**
Wearing Apparel	6.1	20.77	27.79	51.38	**15.14**
Pharmaceuticals	5.2	20.12	23.62	(12.72)	**31.82**
Non-Metallic Minerals Products	5.0	(2.26)	(4.86)	(8.64)	**1.24**
Beverages	3.8	9.77	19.09	(10.85)	**3.10**
Iron and Steel Products	3.4	0.38	(0.63)	(8.12)	**(1.41)**
Automobiles	3.1	(52.95)	(66.07)	(35.75)	**(52.91)**
Tobacco	2.1	(24.11)	(43.79)	(28.83)	**(36.72)**
Electrical Equipment	2.0	(1.91)	(7.84)	(13.36)	**(10.85)**
Paper & Board	1.6	(9.01)	5.31	(1.55)	**(5.06)**
Leather Products	1.2	7.18	3.55	(0.74)	**3.34**
Other Transport Equipment	0.7	(19.99)	(21.89)	(29.78)	**(14.86)**
LSM Growth for Dec 2023 (Y/Y)					**3.43%**
LSM Growth of Dec 2023 vs. Nov 2023 (M/M)					**15.69%**
LSM Growth Jul-Dec FY24					**(0.39)%**

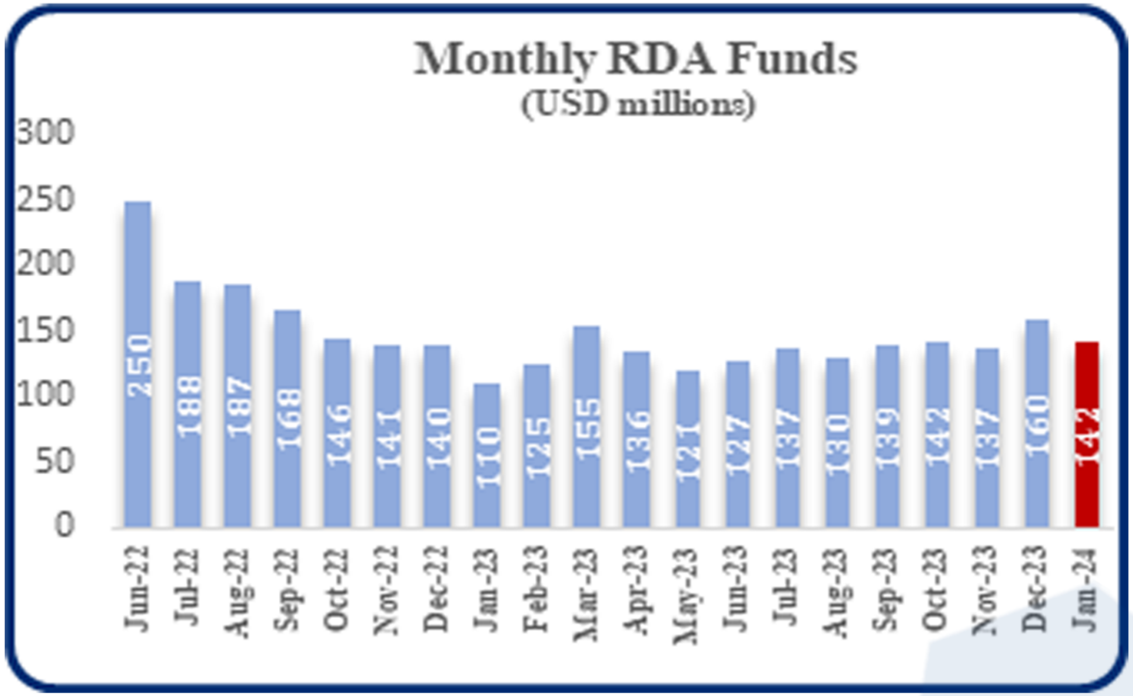
(Source: PBS)

2. Roshan Digital Account ("RDA")

The cumulative inflow of deposits under the RDA have reached $7.34 billion since its announcement in September 2020. Out of the $7.34 billion, approximately $4.56 billion or more than 62% have been utilized locally and 21% or $1.55 billion have been repatriated from the total received amount under the RDA. Some 659,806 accounts have been opened from 175 countries in the span of more than three years.

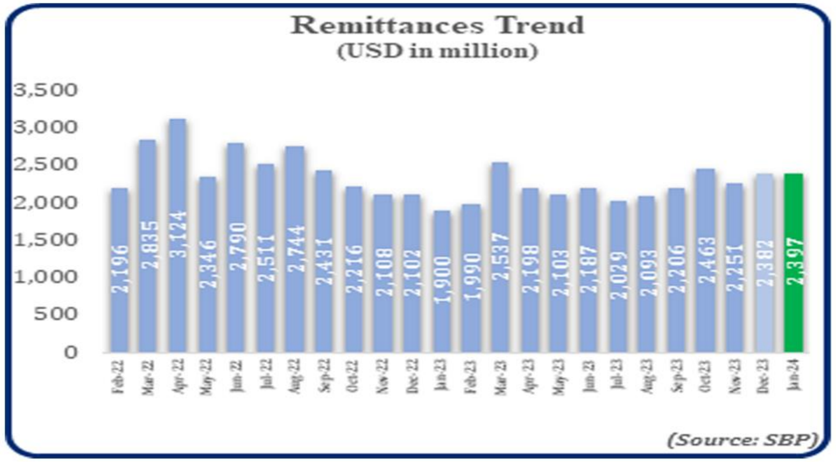


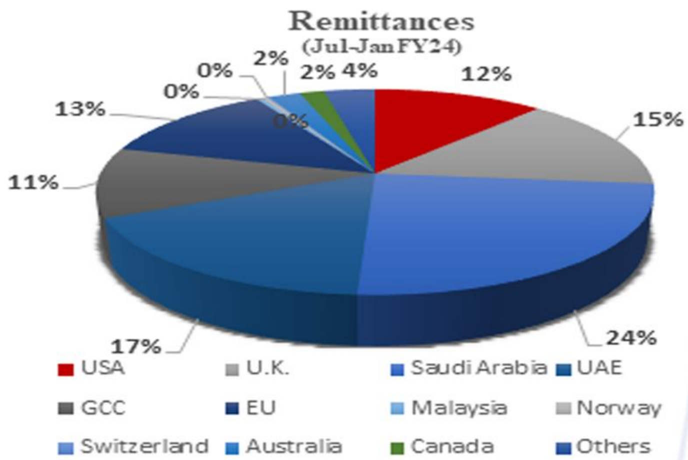
(Source: SBP)



3. Worker's Remittances

As per the SBP, the remittances sent by Overseas Pakistani workers have increased by 0.64% to $2.40 billion in January 2024 vs. $2.38 billion in December 2023 on a M-o-M basis. Moreover, on a Y-o-Y comparison, the remittance inflows went up by 26.2% when compared to $1.90 billion received a year ago in the same month. Notably, on a cumulative basis, the pace of growth for remittances has contracted by 3.0% in FY24 as compared to Jul-Jan period of FY23, when it had contracted by 9.30%. A descriptive analysis has revealed that remittance inflows during the Jul-Jan 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 3.5% and stand at $3.84 billion in Jul-Jan period of FY24 vs. $3.98 billion during same period of FY23. An amount to the tune of $1.86 billion, or an almost 12.0% share, was received from the US, showing a growth of 1.6% in Jul-Jan of FY24 vs. Jul-Jan period of FY23. Worker remittances from the UK increased by 0.8%, although it contributed 14.8% or $2.35 billion in the Jul-Jan period of FY24 over the same period of FY23. On the other hand, remittance growth from UAE declined at a rate of 5.0%, while its share is almost $2.74 billion or 17.3% share in the total remittances.



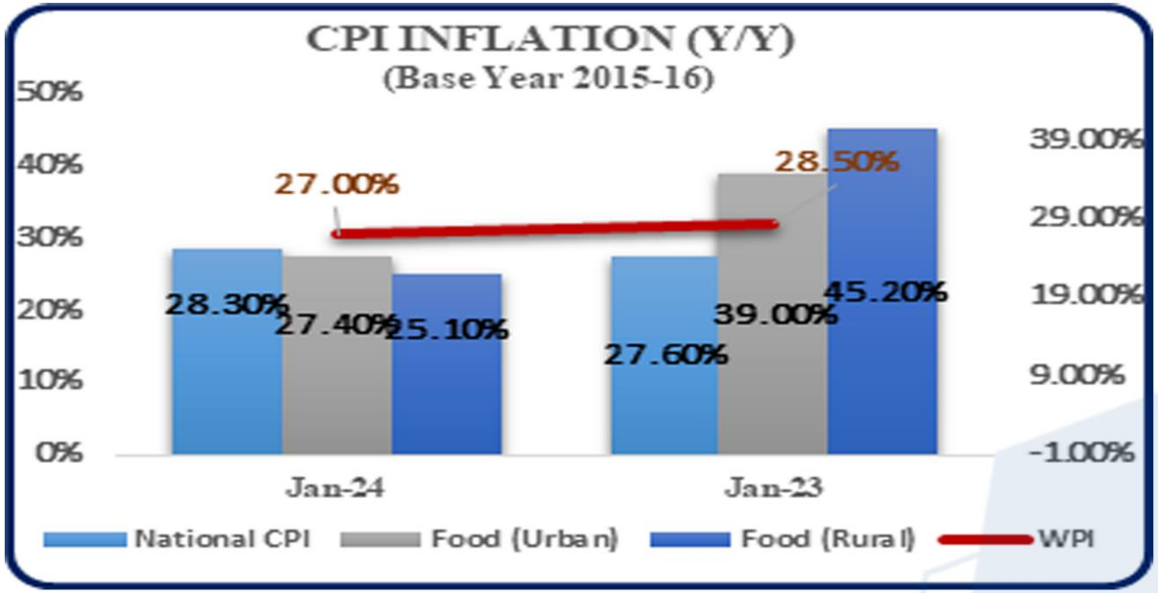


4. Consumer Price Index Inflation

Group	Weight (%)	% Change over	
		Jan-23	Dec-23
Food	34.58	24.96	2.92
Non-perishable	29.60	24.04	2.37
Perishable	4.99	30.66	6.32
Utility	23.63	38.65	2.52
Health	2.79	21.47	0.28
Transport	5.91	26.15	(2.36)
Education	3.79	13.47	0.06
Restaurants & Hotels	6.92	28.34	1.26

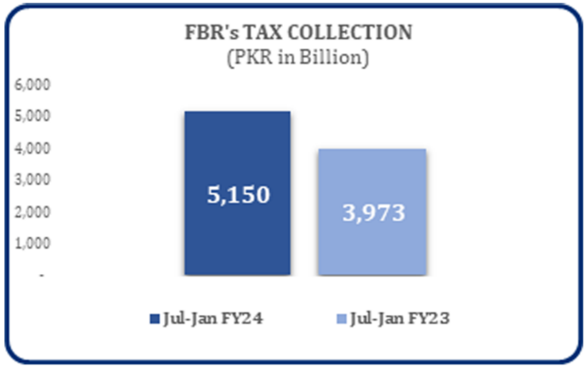
(Source: PBS)

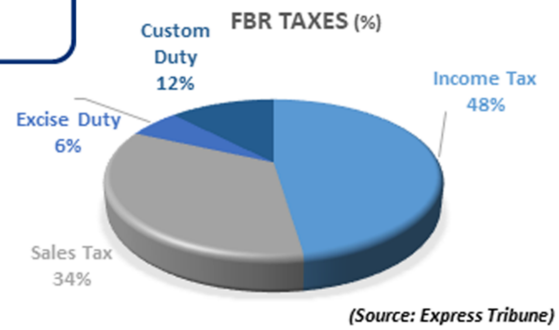
The monthly inflation rate has eased to 28.3% in January 2024 on a Y-o-Y basis in Pakistan. The inflation rate has persisted due to a hike in the prices of non-perishable food items and utility bills such as gas prices, as compared to the same month in the previous year. Moreover, the CPI stood at 29.7% in the previous month (December 2023). However, in this month, Food inflation in urban has eased to 27.4% and 25.1%, in urban and rural areas, respectively. In addition to thereto, the wholesale price index ("WPI") stood at 27.0% on a Y-o-Y basis, while in December 2023, the WPI had been recorded at around 27.3%. On a monthly basis, the National CPI has recorded a rise of 1.8%. Similarly, the Food inflation in urban and rural areas has also risen by 2.8% and 2.3%, respectively, when compared to the December 2023, respectively. Furthermore, in December 2023, the Core inflation, which is calculated by excluding energy and food items, increased by 17.8% and 24.6% in urban and rural areas on a Y-o-Y basis, respectively.

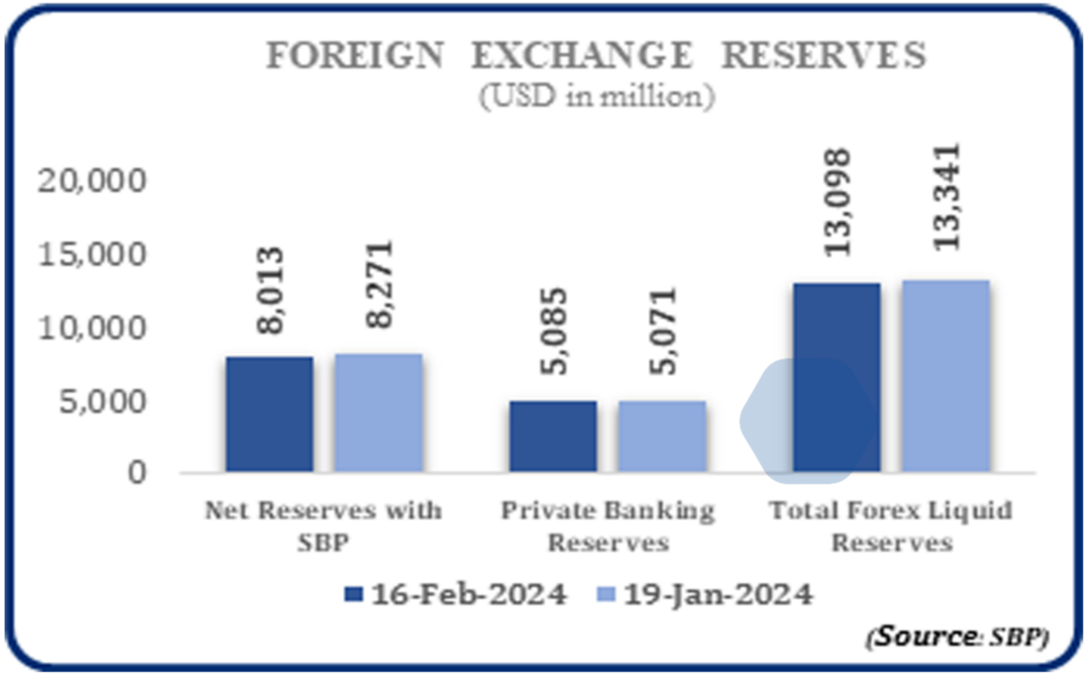


5. FBR Tax Revenue Collection

As per the data published by the FBR, the FBR collected a PKR 681 billion worth of tax revenue in the first month of H2FY24. However, the FBR has surpassed the Jul-Jan period target which was set at PKR 5.12tr. Further, the FBR has effectively exceeded the tax revenue goal for Jul-Jan FY24 and collected PKR 5.15tr. The FBR has demonstrated a substantial growth of almost 30.0% in comparison to the same period of FY23. As per Mr. Shahbaz Rana's article titled "FBR misses monthly target by 1.3%" published on 1st Feb 2024 in the Express Tribune, out of the total of PKR 5.15tr, income tax collection surged to PKR 2.45tr, marking a significant rise of PKR 690 billion, which accounts for 48% of the total tax collection, in the Jul-Jan of the FY24. Furthermore, sales tax has remained the weakest area, with its collection reaching over Rs1.76 trillion. Furthermore, the pie chart and bar graph infra illustrates the performance of the FBR in the FY24.







6. Foreign Exchange Reserves

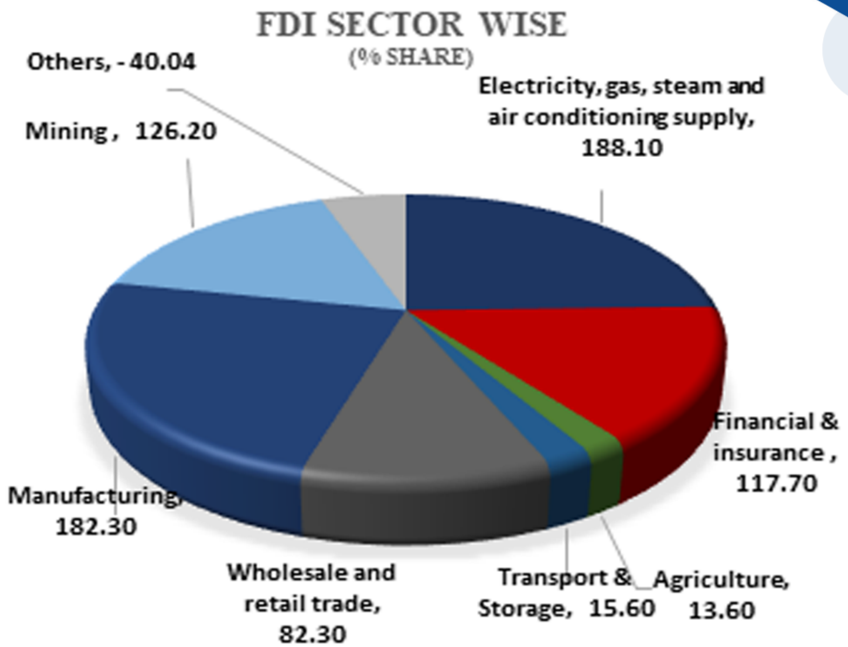
The Net reserves of the SBP stood at $8.01 billion as of 16th February 2024, decreasing by 0.5% or $44 million compared to last week's reserves of $8.06 billion on 9th February 2024.

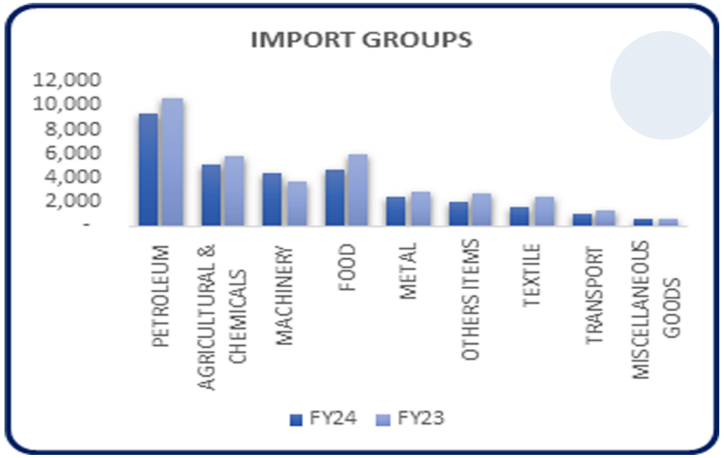
Moreover, when compared to the reserves of the previous month (which were $8.27 billion on 19th January 2024), the Net reserves have gone down by almost 3.0%.

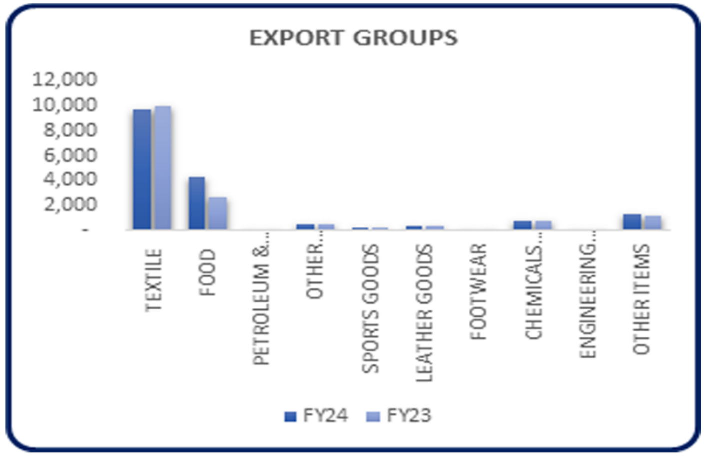
The boost in foreign reserves is mainly credited to the acquisition of the second installment totaling $705 million from the IMF, forming a segment of the comprehensive $3 billion SBA with Pakistan. During this period, the central bank has effectively handled the government's external debt repayments.

7. Foreign Direct Investment

Pakistan's net FDI has declined by 16% or $187 million to $690 million provisionally during the Jul-Jan period of FY24, as compared to $877 million during same period FY23. Whereas, the total net Foreign Investment surged by 628 times or $935 million to $786 million on a Y-o-Y basis in Jul-Jan FY24 as against the amount of ($149) 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-Jan FY24.







8. Balance Of Trade In Goods

As per the PBS, Pakistan's trade deficit has shrunk by a good margin of almost 33.0% to $13.16 billion during the period of Jul-Jan of FY24 vs. $19.55 billion the same period of FY23 amidst a steep reduction in the import bill. As far as exports are concerned, the same increased by almost 8.0% to $17.78 billion in FY24's period of Jul-Jan compared to $16.48 billion in same period of FY23. Moreover, imports have decreased by 14.1% to $30.94 billion in the Jul-Jan FY24 when compared with $36.03 billion in the same period of FY23. Additionally, on a M-o-M basis, the exports have increased by 24.8% to $2.79 in January 2024 from $2.34 billion in December 2023. Furthermore, the country's trade deficit has shrunk by a margin of 23.6% to $1.98 billion in January 2024 from $2.59 in December 2023 on a M-o-M basis. The graph below illustrates the export and import data categorized by groups for FY24 and FY23 during the corresponding period from July to January.

9. CURRENT ACCOUNT DEFICIT ("CAD")

In January 2024, Pakistan experienced a notable shift in its CAD, transitioning from a surplus to a deficit of $269 million, marking the highest deficit in six months. This change was primarily attributed to a month-on-month rise in the import of goods and services., following the surplus in current account in December 2023 of $404 million (revised Estimates). Whereas, on a Y-o-Y basis, the CAD has risen by 61.1%, when compared to a CAD of $167 million in the same month of the previous FY23. Pakistan must put in significant efforts to address its external sector if Pakistan's aims to reduce the CAD in a region below $4-5 billion. 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.

CAD	Jul-Jan FY23	Jul-Jan FY24
i. Balance of Trade in Goods	**(17,032)**	**(11,783)**
Exports of Goods	16,445	17,978
Imports of Goods	33,477	29,761
ii. Balance of Trade in Services	**(232)**	**(1,720)**
Exports of Services	4,558	4,448
ICT Services	1,525	1,720
Other Service Exports	3,033	2,728
Imports of Services	4,790	6,168
Transport Service	2,509	2,986
iii. Balance on Primary Income	**(3,153)**	**(4,402)**
iv. Balance on Secondary Income	**16,621**	**16,812**
Secondary Income Credit	16,795	17,069
Worker Remittances	16,318	15,833
Secondary Income Debit	174	257
CAD (i + ii + iii + iv)	**(3,796)**	**(1,093)**

(Source: SBP)

10. DEBT PROFILE

The total gross public debt, comprising of the Government's domestic debt, external debt, and IMF debt, has surged to PKR 67.33 trillion, marking a substantial 28.0% increase compared to the same month of the previous fiscal year. This accounts for 63.6% of the GDP, a rise from the previous 62.35%. Concurrently, domestic debt stands at PKR 42.59 trillion, reflecting a growth rate of 28.36%, while external debt has reached PKR 22.6 trillion, with a growth rate of 26.40% as of December in FY24. These figures underscore the significant escalation in the country's debt burden, signaling challenges in debt management and fiscal sustainability.

Pakistan's Total Debt & Liabilities			
(PKR in billion)	Dec-23	Dec-22	% change
Domestic Debt	42,588	33,178	28.36
% of GDP	40.25	39.19	
External Debt	22,601	17,880	26.40
% of GDP	21.36	21.12	
Gross Public Debt	67,330	52,783	27.56
% of GDP	63.63	62.35	
Nominal GDP	105,817	84,658	

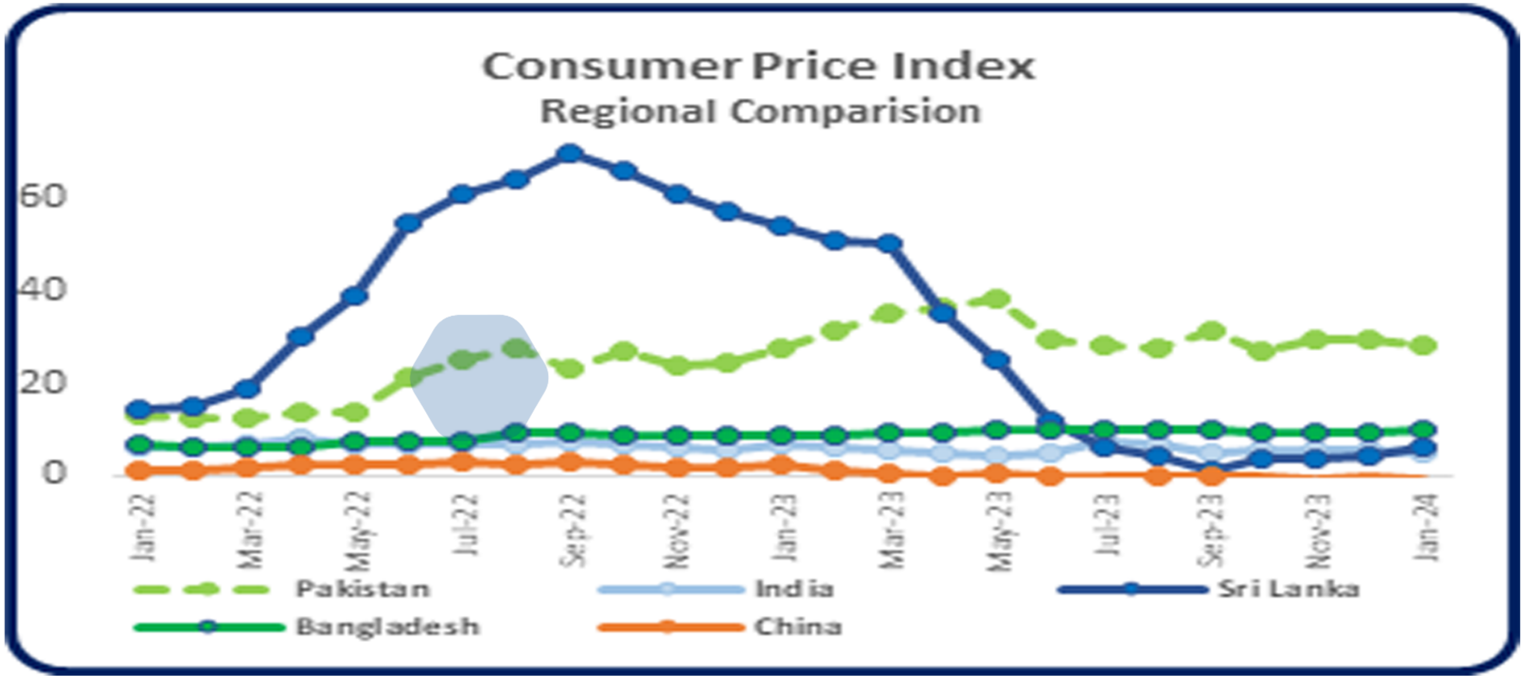
(Source: SBP & MOF)

11. REGIONAL ANALYSIS

Compared to other countries in the region, Pakistan has experienced double-digit inflation on a Y-o-Y basis. The Pakistani economy is slightly stable due to currency stability in the last month, 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 slight increase since inflation recording at 4% in the previous month. This is attributed, in part, to the statistical base effect, and is further supported by a stronger aggregate demand in the nation. 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 has encountered a gradual rise in the pace of deflation after a 0.3% decline in inflation rate was recorded in the previous month, which is now 0.8%. The impacts of price volatility are relatively inconspicuous in China 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 2024 for China.

Country	CPI (%)	Local Currency Units per USD (As of 28th Feb)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	28.3	279.12	(6.74)
India	5.1	82.87	(0.54)
Bangladesh	9.86	109.50	(4.87)
China	(0.8)	7.22	(4.92)
Sri Lanka	6.4	310.0	11.93

(Source: Trading Economics)



Outlook

To secure significant fiscal leeway in the forthcoming budget, Pakistan should contemplate reducing the policy rate. A reduction of 1% in the interest rate could potentially increase the fiscal space by Rs464 billion, underscoring the notable influence of interest rate modifications on fiscal adaptability and budgetary allotments..

Moreover, lower interest rates facilitate increased borrowing for investments, fostering industrial growth and economic expansion. They reduce the cost of capital financing, making it more affordable for businesses to expand operations and invest in new ventures, thus stimulating industrial activity and overall economic development.

As per Express tribune, “Pakistan has met IMF benchmarks in the energy sector, potentially securing a $1.2 billion loan tranche, despite ongoing debt accumulation. The Ministry of Energy confirms targets like curbing circular debt and reducing line losses have been achieved. IMF's second review of the $3 billion bailout package awaits government formation for finalized review dates.”

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.