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Pakonomics

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Highlights

The SBP has maintained the policy rate at 22% in the Monetary Policy Committee ("MPC") meeting held on 18th March 2024, As stated by the MPC of the SBP, the Committee acknowledged that inflation, as anticipated earlier, has started to decrease notably from the second half of Fiscal Year 2024 ("H2FY24").

Moreover, the Committee observed that despite the significant deceleration in February, inflation remains at a high level, and its future trajectory is subject to risks due to persistently elevated inflation expectations. Consequently, a cautious approach is warranted, and it is necessary to maintain the current monetary stance to reduce inflation to the target range of 5 to 7% by September 2025.

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In the inter-bank market, the prevailing value of the national currency stands at PKR 278.03/USD as of March 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 upcoming IMF loan tranche.

Pakistan's LSM sector showed a growth of 1.84% in January 2024 on a Year-on-Year ("Y-o-Y") basis vs. January 2023. After a contraction in the initial months of FY24, the LSM sector has witnessed a positive trend in three consecutive months.

The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $7.48 billion at the end of Feb 2024.

As per the SBP, the remittances sent by Overseas Pakistani workers have decreased by 6.18% to $2.25 billion in February 2024 vs. $2.40 billion in January 2024 on a M-o-M basis

As per the official statistics of the Federal Board of Revenue ("FBR"), the FBR has collected tax revenue worth PKR 681 billion in the eighth month of FY24, missing the monthly target by PKR 33 billion.

The Net foreign currency reserves held by the SBP stood at $8.02 billion as of 15th March 2024.

The Broad Money (M2) stock from 1st of July 2023 to 17th March 2024 has expanded to PKR 1,107 billion, compared to PKR 520 billion last year in the same period.

As per the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation has surged to 23.1% on a Y-o-Y basis in February 2024 vs. 31.5% last year.

As per the PBS, Pakistan's exports have increased by 9.1% to $20.36 billion in Jul-Feb FY24 vs. $18.67 billion in Jul-Feb of FY23 on a cumulative basis.

Pakistan's net FDI has declined by 17.1% or $170 million to $821 million provisionally during the Jul-Feb period of FY24, as compared to $990 million during same period FY23.

The total net Foreign Investment surged by 3,524 times or $960 million to $932 million on a Y-o-Y basis in Jul-Feb FY24 as against the amount of ($27) million in same period of FY23.

The country has posted a Current account deficit ("CAD") of $999 million during the months of Jul-Feb FY24.

Economy At a Glance

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	January	↑	1.84%	(5.59)%
Central Government Debt	January	↑	PKR 64.84 Trillion	PKR 55.02 Trillion
Credit to Private Sector	Jul – 17th March	↓	PKR 41 Billion	PKR 225 Billion
Roshan Digital Account	February	↑	US$ 141 Million	US$ 125 Million
Worker's Remittances	February	↑	US $2,249 Million	US $1,990 Million
Currency in Circulation	Jul – 17th March	↓	PKR (439) Billion	PKR 717 Billion
Net Government Sector borrowing	Jul – 17th March	↑	PKR 3,404 Billion	PKR 2,303 Billion
National CPI (Base Year 2015-16)	February	↓	23.1%	31.5%
FBR Tax Collection	Jul-Feb	↑	PKR 5,829 Billion	PKR 4,484 Billion
Foreign Exchange Reserves with SBP	As of 15th March	↑	$8.02 Billion	$4.60 Billion
Foreign Direct Investments	Jul-Feb	↓	$821 Million	$990 Million
Trade Deficit in Goods	Jul-Feb	↓	US$ (14,889) Million	US$ (21,299) Million
Current Account Deficit	Jul-Feb	↓	$(999) Million	$(3,846) Million

1. Large Scale Manufacturing

According to the PBS, Pakistan's LSM sector showed an increase of 1.84% in January 2024 on a Y-o-Y basis vs. January 2023. Moreover, on a M-o-M basis, the overall output growth increased by 0.03%, compared to the month of December 2023. However, cumulative LSM growth exhibited a negative trend, with a 0.52% decline in the Jul-Jan 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-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, furniture, machinery and equipment, and other manufacturing section. However, the output in Tobacco, textile, paper and board, non-metallic mineral products, iron & steel products, fabricated metal, electrical equipment, automobiles, Computer Optical products, and other transport equipment 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 15.94% and 9.31% respectively, whilst the garment sector showed a growth of 5.91% in the period of Jul-Jan FY24. Moreover, the cement industry has witnessed a minor growth of 0.05%.

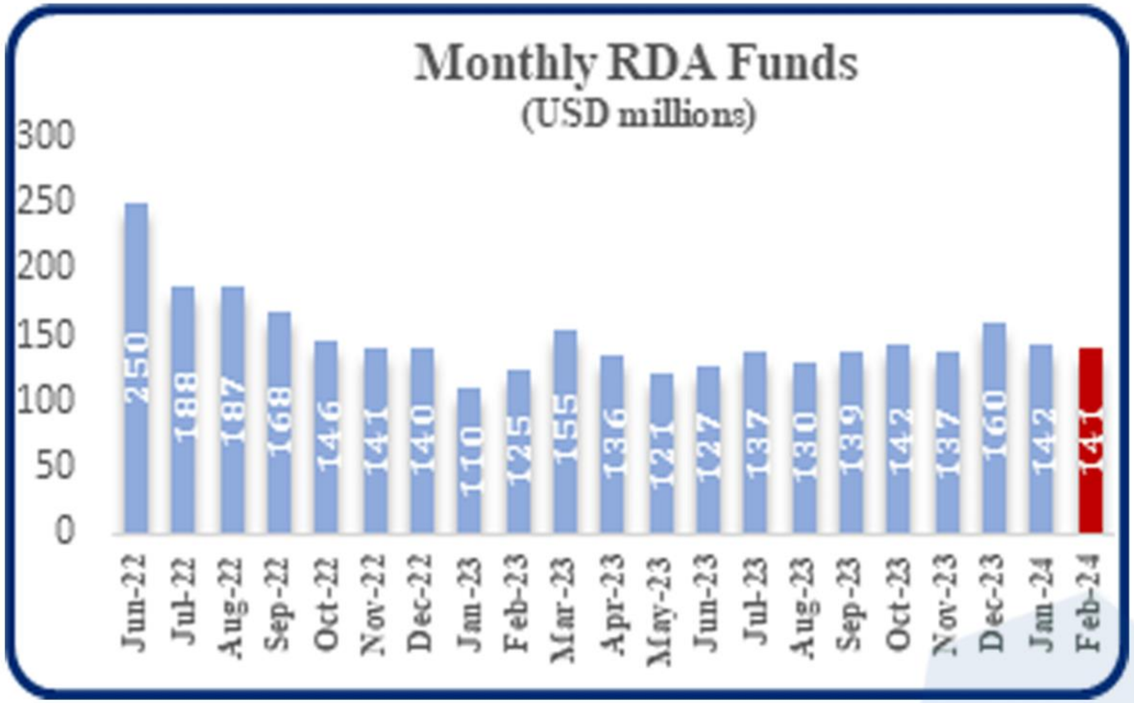
LSM (%)	Weight	Jan-24	Dec-23	Jan-23	Jul-Jan FY24
Textile	18.2	(6.91)	(1.05)	(14.21)	**(10.41)**
Food	10.7	(3.87)	6.77	0.29	**2.21**
Coke & Petroleum Products	6.7	(2.42)	17.85	(1.81)	**6.78**
Chemicals	6.5	19.23	2.62	(17.25)	**6.05**
Wearing Apparel	6.1	28.06	20.77	55.32	**5.91**
Pharmaceuticals	5.2	16.58	20.12	(23.60)	**29.50**
Non-Metallic Minerals Products	5.0	(9.84)	(2.26)	0.12	**(0.37)**
Beverages	3.8	2.02	9.77	(1.30)	**2.90**
Iron and Steel Products	3.4	1.04	0.38	(8.76)	**(1.07)**
Automobiles	3.1	18.84	(52.95)	(59.89)	**(46.21)**
Tobacco	2.1	(58.35)	(24.11)	(11.68)	**(40.48)**
Electrical Equipment	2.0	1.53	(1.91)	(19.46)	**(9.36)**
Paper & Board	1.6	(0.56)	(9.01)	(9.43)	**(4.40)**
Leather Products	1.2	10.43	7.18	(3.62)	**4.40**
Other Transport Equipment	0.7	(10.42)	(19.99)	(29.78)	**(14.06)**
LSM Growth for Jan 2024 (Y/Y)					**1.84%**
LSM Growth of Jan 2024 vs. Dec 2023 (M/M)					**0.03%**
LSM Growth Jul-Jan FY24					**(0.52)%**

(Source: PBS)

2. Roshan Digital Account ("RDA")

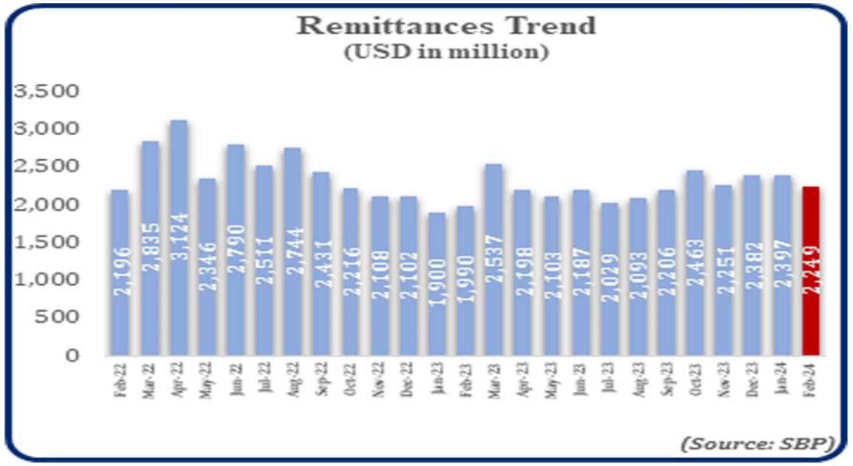
The cumulative inflow of deposits under the RDA have reached $7.48 billion since its announcement in September 2020. Out of the $7.48 billion, approximately $4.67 billion or more than 62% have been utilized locally and 21% or $1.55 billion have been repatriated from the total received amount through the RDA. A total of 668,701 accounts have been opened from 175 countries in the span of more than three years.

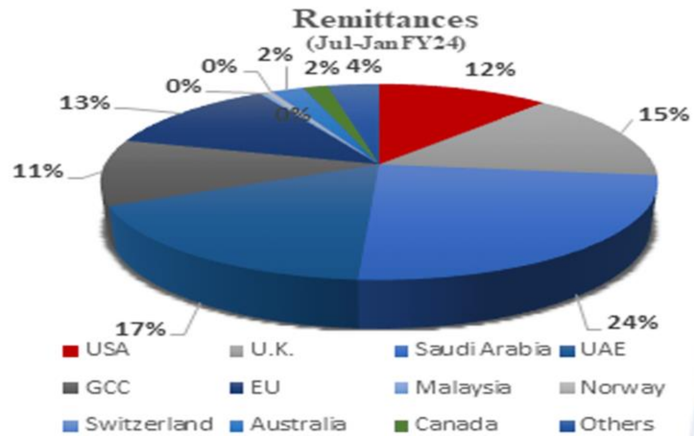
(Source: SBP)



3. Worker's Remittances

As per the SBP, the remittances sent by Overseas Pakistani workers have decreased by 6.18% to $2.25 billion in February 2024 vs. $2.40 billion in January 2024 on a M-o-M basis. Contrary, on a Y-o-Y comparison, the remittance inflows went up by 13.03% when compared to $2.0 billion received a year ago in the same month. Notably, on a cumulative basis, the pace of growth for remittances has contracted by 1.2% in FY24 as compared to Jul-Feb period of FY23, when it had contracted by 9.30%. A descriptive analysis has revealed that remittance inflows during the Jul-Feb 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 1.2% and stand at $4.38 billion in Jul-Feb period of FY24 vs. $4.43 billion during same period of FY23. An amount to the tune of $2.15 billion, or an almost 12.0% share, was received from the US, showing a growth of 4.7% in Jul-Feb of FY24 vs. Jul-Feb period of FY23. Worker remittances from the UK increased by 1.8%, although it contributed almost 15.0% or $2.70 billion in the Jul-Feb period of FY24 over the same period of FY23. On the other hand, remittance growth from UAE declined at a rate of 2.6%, while its share is almost $3.21 billion or 17.3% share in the total remittances.



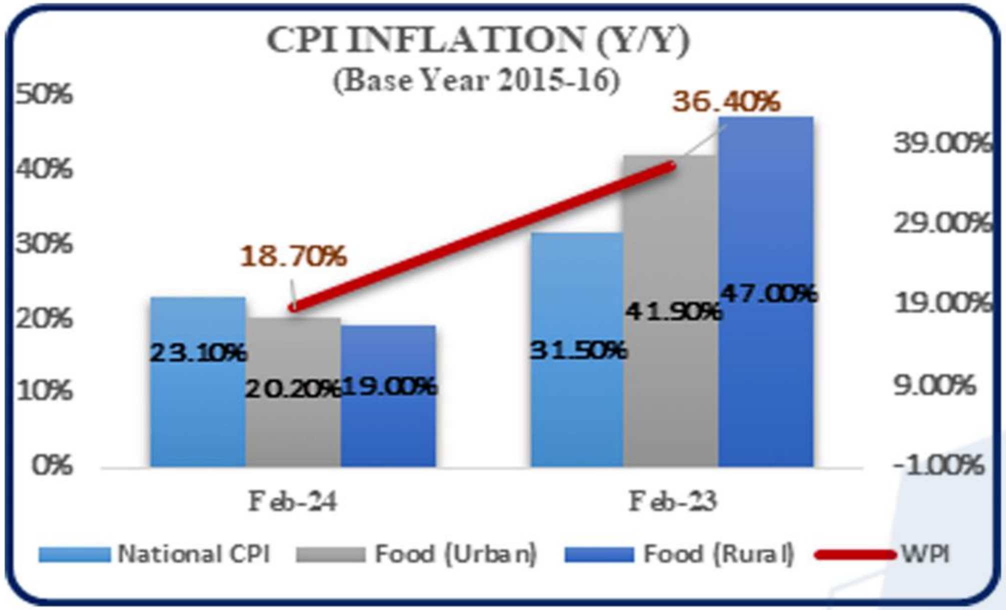


4. Consumer Price Index Inflation

The monthly inflation rate has eased down to 23.1% in February 2024 on a Y-o-Y basis in Pakistan. The inflation rate has come down due to a slowdown in the prices of food items, as compared to the same month in the previous year. Moreover, the CPI stood at 28.3% in the previous month (January 2024). Further, in this month, Food inflation in urban has eased to 20.2% and 19.0%, in urban and rural areas, respectively. In addition thereto, the wholesale price index ("WPI") stood at 18.7% on a Y-o-Y basis, while in January 2024, the WPI had been recorded at around 27.0%. Moreover, the CPI has not shown any additional increase on a monthly basis. Furthermore, the Food inflation in urban and rural areas has contracted by 1.5% and 1.1%, respectively, when compared to the January 2024, respectively. Furthermore, in February 2024, the Core inflation, which is calculated by excluding energy and food items, increased by 15.5% and 21.9% in urban and rural areas on a Y-o-Y basis, respectively.

Group	Weight (%)	% Change over	
		Feb-23	Jan-24
Food	34.58	(1.62)	18.15
Non-perishable	29.60	(0.99)	18.06
Perishable	4.99	(5.39)	18.72
Utility	23.63	1.78	36.08
Health	2.79	0.34	19.33
Transport	5.91	2.11	15.00
Education	3.79	0.00	12.95
Restaurants & Hotels	6.92	0.27	22.41

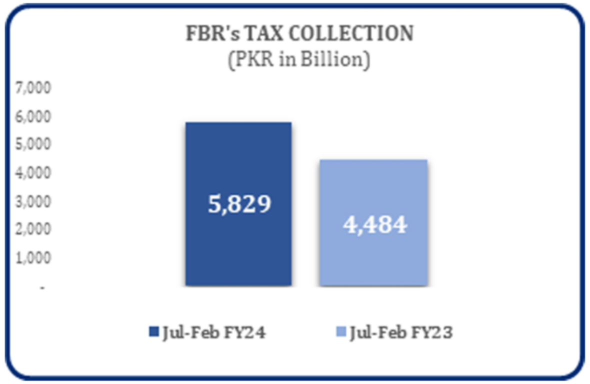
(Source: PBS)

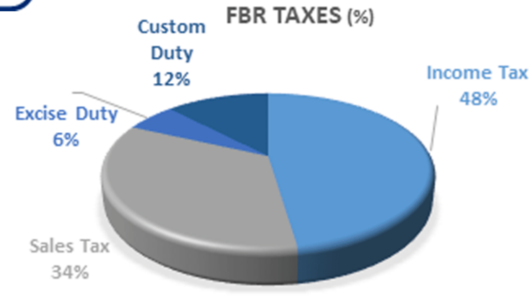


5. FBR Tax Revenue Collection

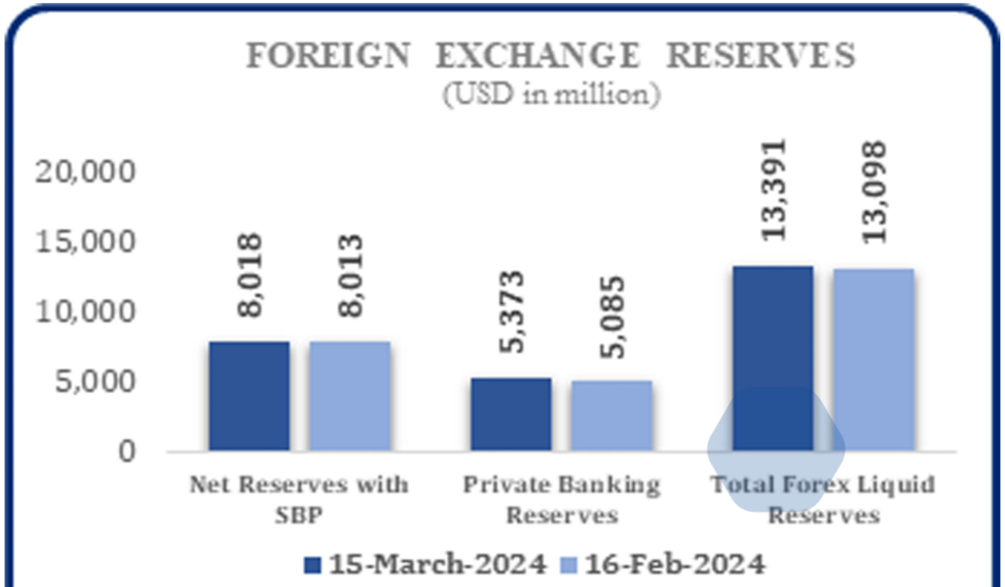
As per the data published by the FBR, the FBR collected PKR 681 billion worth of tax revenue in the month of February in FY24, missing its target by PKR 33 million. However, the FBR has surpassed the Jul-Feb period target which was set at PKR 5.829tr, and has collected PKR 5.831tr. The FBR has demonstrated a substantial growth of almost 30.0% in comparison to the same period of FY23. As per Mr. Shahbaz Rana's article titled "Income tax filers drop 35%" published on 1st March 2024 in the Express Tribune, out of the total of PKR 5.8tr, income tax collection surged to PKR 2.76tr, marking a significant rise of PKR 800 billion, which accounts for almost 48% of the total tax collection, in the Jul-Feb of the FY24.

Furthermore, sales tax has remained the weakest area, with its collection reaching over PKR 2.0 trillion. Furthermore, the pie chart and bar graph infra illustrates the performance of the FBR in the FY24.





(Source: Express Tribune)



(Source: SBP)

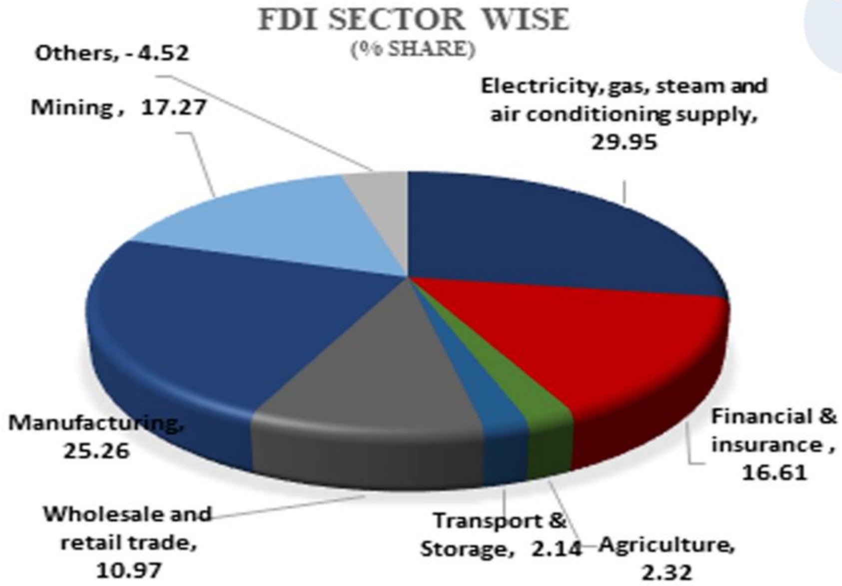
6. Foreign Exchange Reserves

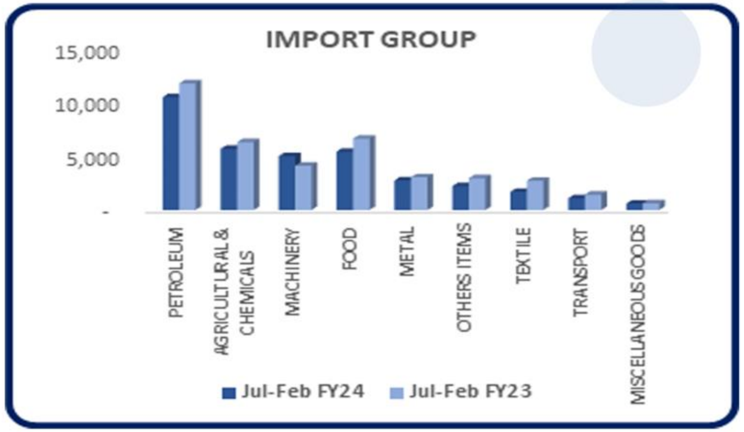
The net reserves of the SBP stood at $8.02 billion as of March 15th, 2024, representing an increase of 1.3%, or $105 million, compared to last week's reserves of $7.91 billion on March 8th, 2024. Moreover, when compared to the reserves of the previous month (which were $8.01 billion on February 16th, 2024), the Net reserves have gone up by a mere 0.1%.

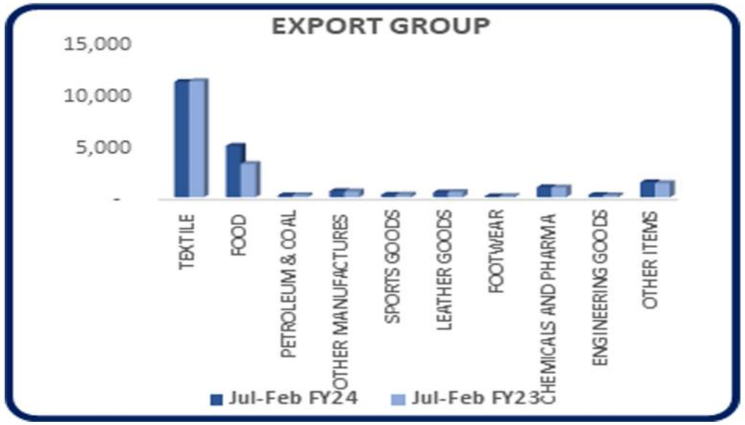
The boost in foreign reserves is mainly credited to the acquisition of the second installment totaling $705 million from the IMF, forming a segment of the comprehensive $3 billion SBA with Pakistan. During this period, the central bank has effectively handled the government's external debt repayments.

7. Foreign Direct Investment

Pakistan's net FDI has declined by 17.1% or $170 million to $821 million provisionally during the Jul-Feb period of FY24, as compared to $990 million during same period FY23. Whereas, the total net Foreign Investment surged by 3,524 times or $960 million to $932 million on a Y-o-Y basis in Jul-Feb FY24 as against the amount of ($27) 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-Feb FY24.







8. Balance Of Trade In Goods

As per the PBS, Pakistan's trade deficit has shrunk by a good margin of almost 30.1% to $14.89 billion during the period of Jul-Feb of FY24 vs. $21.3 billion the same period of FY23 amidst a steep reduction in the import bill. As far as exports are concerned, the same increased by 9.1% to $20.36 billion in FY24's period of Jul-Feb compared to $18.67 billion in the same period of FY23. Moreover, imports have decreased by 11.8% to $35.25 billion in the Jul-Feb FY24 when compared with $39.97 billion in the same period of FY23. Additionally, on a M-o-M basis, the exports have decreased by 7.49% to $2.58 in February 2024 from $2.79 billion in January 2024. Furthermore, the country's trade deficit has shrunk by a margin of 11.9% to $1.74 billion in February 2024 from $1.98 in January 2024 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 February.

9. CURRENT ACCOUNT DEFICIT (“CAD”)

In February 2024, Pakistan experienced a notable shift in its CAD, transitioning from a deficit to a surplus of $128 million, marking a surplus after two months. This change was primarily attributed to a month-on-month decline in the import of goods and services, following the deficit in current account in January 2024 of $303 million (revised Estimates). Whereas, on a Y-o-Y basis, the CAD has declined by 356 times, when compared to a CAD of $50 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 keep the CAD in a region below $3-4 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-Feb FY23	Jul-Feb FY24
i. Balance of Trade in Goods	**(18,711)**	**(13,541)**
Exports of Goods	18,644	20,538
Imports of Goods	37,355	34,079
ii. Balance of Trade in Services	**(289)**	**(1,892)**
Exports of Services	4,558	4,448
ICT Services	1,720	1,977
Other Service Exports	2,838	2,471
Imports of Services	5,438	6,971
Transport Service	2,816	3,415
iii. Balance on Primary Income	**(3,474)**	**(4,805)**
iv. Balance on Secondary Income	**18,628**	**19,239**
Secondary Income Credit	18,831	19,538
Worker Remittances	18,308	18,084
Secondary Income Debit	203	299
CAD (i + ii + iii + iv)	**(3,846)**	**(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 42.63 trillion, reflecting a growth rate of 24.2%, while external debt has reached PKR 22.2 trillion, with a growth rate of 7.4% as of January 2024. 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)	Jan-24	Jan-23	% change
Domestic Debt	42,626.20	34,334.90	24.15
% of GDP	**40.28**	**40.56**	
External Debt	22,215.80	20,686.90	7.39
% of GDP	**20.99**	**24.44**	
Gross Public Debt	67,330	52,783	27.56
% of GDP	**63.63**	**62.35**	
Nominal GDP	105,817	84,658	

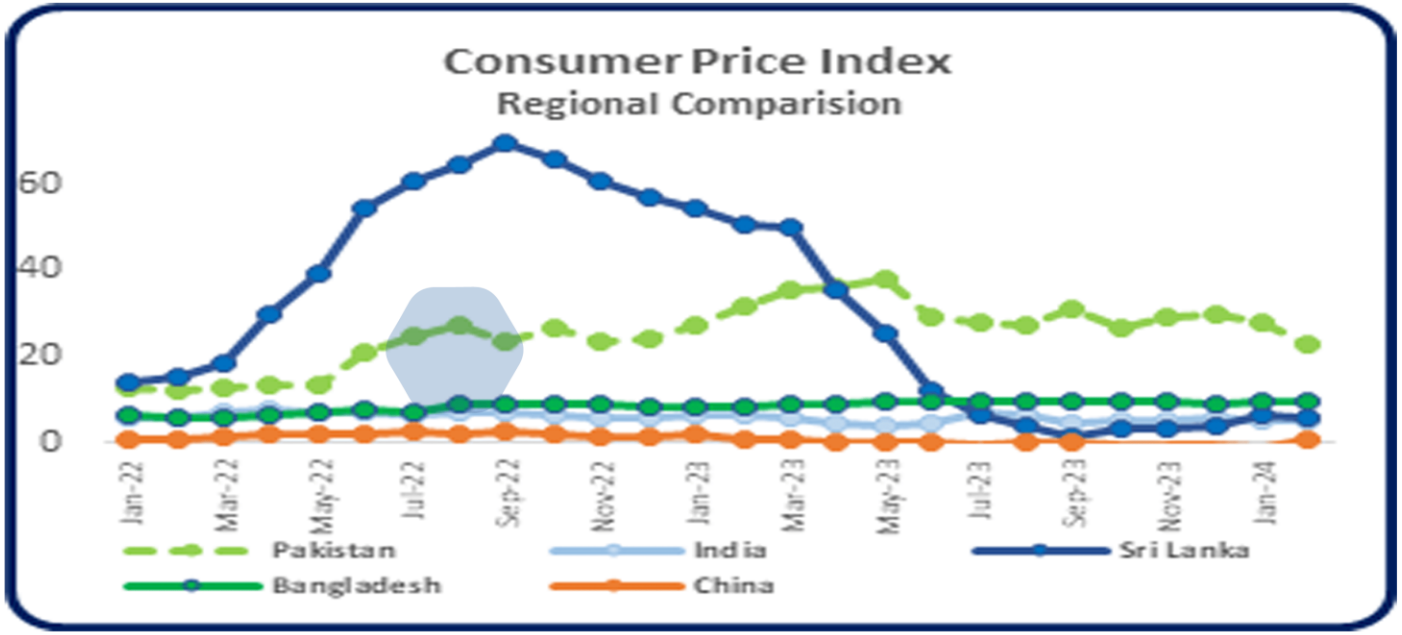
(Source: SBP & MOF)

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 has been slightly stable recently due to currency stability in the last few months, which is reflected in the February's CPI rate, and the same trend might continue in the coming months amidst a gradual rise in the parity value of the PKR and political stability. Regarding the Sri Lankan economy, inflation has seen a slight decrease since inflation recording at 6.4% 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 January 2024. Furthermore, China has encountered a rise in the prices after consecutive months of deflation, after a 0.8% deflation, the inflation rate was recorded at 0.7% in February 2024. The impacts of price volatility are relatively inconspicuous in China despite subdued consumer demand.

Country	CPI (%)	Local Currency Units per USD (As of 28th Mar)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	23.1	278.03	1.95
India	5.1	83.32	(1.40)
Bangladesh	9.67	109.50	(4.25)
China	(0.7)	7.26	(5.49)
Sri Lanka	5.9	301.0	6.52

(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 econom ic development.

Furthermore, in the event negotiations start with the IMF for a new Programme by the beginning of April there is inevitably a concern about the speed and the extent to which consensus will be reached on difficult reforms. These include, inter-alia, higher taxation of agriculture and retail trade; privatization of selected SOEs; moving towards sharing of subsidies and grants by federal and the provincial governments including the possibility of privatization or provincialization of DISCOs. During the process of discussion on the package of reforms as part of the new IMF programme there will be higher uncertainty and likely drying up of inflows, leading, thereby to a drawdown of the already low reserves.

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.