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Pakonomics

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Highlights

As per the economic outlook issued by Asian Development Bank's ("ADB"), Growth in Pakistan is forecasted to rise to 1.9% in FY2024 and 2.8% in FY2025, driven by recovery in agriculture and industry, although domestic demand will remain constrained.

Moreover, despite a slowdown in the inflation rate, the ADB outlook stated that the rising administered energy prices in Pakistan will keep inflation elevated at 25.0% in FY2024 and 15.0% in FY2025.

In the inter-bank market, the prevailing value of the national currency stands at PKR 278.40/USD as of April 29th, 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 minor growth of 0.06% in February 2024 on a Year-on-Year ("Y-o-Y") basis vs. February 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 $7.66 billion at the end of March 2024.

As per the SBP, the remittances sent by Overseas Pakistani workers have increased significantly by 31.3% to $2.95 billion in March 2024 vs. $2.25 billion in February 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 879 billion in the ninth month of FY24, meeting the monthly target by zero balance.

The Net foreign currency reserves held by the SBP stood at $7.98 billion as of 19th April 2024.

The Broad Money (M2) stock from 1st of July 2023 to 14th April 2024 has expanded to PKR 1,907 billion, compared to PKR 1,373 billion last year in the same period.

As per the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation has surged to 20.7% on a Y-o-Y basis in February 2024 vs. 35.4% last year.

As per the PBS, Pakistan's exports have increased by 9.1% to $22.93 billion in FY24's period of Jul-March compared to $21.04 billion in the same period of FY23.

Pakistan's net FDI has declined by 9.7% or $170 million to $1.10 billion provisionally during the Jul-March period of FY24, as compared to $1.22 billion during same period FY23.

The total net Foreign Investment surged by 525 times or $1.062 billion to $1.26 billion on a Y-o-Y basis in Jul-March FY24 as against the amount of $202 million in same period of FY23.

The country has posted a Current account deficit ("CAD") of $508 million during the months of Jul-March FY24.

Economy At a Glance

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	February	↑	0.06%	(11.73)%
Central Government Debt	February	↑	PKR 64.80 Trillion	PKR 54.44 Trillion
Credit to Private Sector	Jul – 14th April	↓	PKR 45.5 Billion	PKR 218 Billion
Roshan Digital Account	March	↑	US$ 182 Million	US$ 155 Million
Worker's Remittances	March	↑	US $2,594 Million	US $2,537 Million
Currency in Circulation	Jul – 14th April	↓	PKR (28) Billion	PKR 1,073 Billion
Net Government Sector borrowing	Jul – 14th April	↑	PKR 4,466 Billion	PKR 2,380 Billion
National CPI (Base Year 2015-16)	March	↓	20.7%	35.4%
FBR Tax Collection	Jul-March	↑	PKR 6,710 Billion	PKR 5,160 Billion
Foreign Exchange Reserves with SBP	As of 19th April	↓	$7.98 Billion	$8.02 Billion
Foreign Direct Investments	Jul-March	↓	$1,217 Million	$1,099 Million
Trade Deficit in Goods	Jul-March	↓	US$ (17,141) Million	US$ (22,688) Million
Current Account Deficit	Jul-March	↓	$(508) Million	$(4,054) Million

1. Large Scale Manufacturing

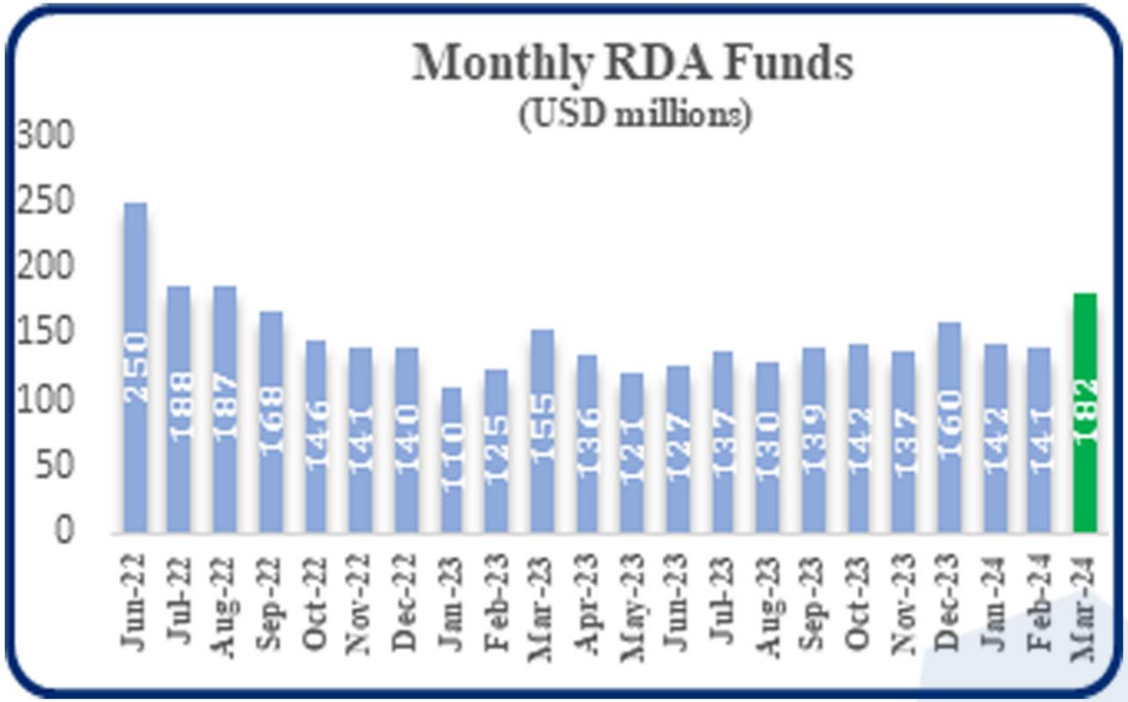
According to the PBS, Pakistan's LSM sector showed an increase of 0.06% in February 2024 on a Y-o-Y basis vs. February 2023. However, on a M-o-M basis, the overall output growth decreased by 4.14%, compared to the month of January 2024. Likewise, the cumulative LSM growth exhibited a negative trend, with a 0.51% decline in the Jul-Feb 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-Feb 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, and machinery and equipment. However, the output in Tobacco, textile, paper and board, non-metallic mineral products, iron & steel products, fabricated metal, electrical equipment, automobiles, Computer Optical products, other manufacturing section and other transport equipment has decreased during the Jul-Feb 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 13.87% and 8.17% respectively, whilst the garment sector showed a growth of 3.25% in the period of Jul-Feb FY24. While, the cement industry has witnessed a contraction of 3.83%.

LSM (%)	Weight	Feb-24	Jan-24	Feb-23	Jul-Feb FY24
Textile	18.2	(4.68)	(6.91)	(19.81)	**(9.73)**
Food	10.7	0.77	(3.87)	(2.71)	**2.51**
Coke & Petroleum Products	6.7	(16.85)	(2.42)	(6.35)	**3.82**
Chemicals	6.5	17.24	19.23	(13.27)	**7.33**
Wearing Apparel	6.1	18.74	28.06	(10.32)	**3.25**
Pharmaceuticals	5.2	9.96	16.58	(25.47)	**26.77**
Non-Metallic Minerals Products	5.0	(26.09)	(9.84)	(1.27)	**(3.94)**
Beverages	3.8	(9.89)	2.02	23.39	**0.31**
Iron and Steel Products	3.4	(1.43)	1.04	(9.19)	**(1.12)**
Automobiles	3.1	24.85	18.84	(63.04)	**(40.74)**
Tobacco	2.1	(31.10)	(58.35)	(10.61)	**(39.27)**
Electrical Equipment	2.0	2.09	1.53	(24.40)	**(7.94)**
Paper & Board	1.6	5.03	(0.56)	(0.11)	**(3.27)**
Leather Products	1.2	11.21	10.43	(2.50)	**5.07**
Other Transport Equipment	0.7	(7.74)	(10.42)	(30.76)	**(13.20)**
LSM Growth for Feb 2024 (Y/Y)					**0.06 %**
LSM Growth of Feb 2024 vs. Jan 2024 (M/M)					**(4.14) %**
LSM Growth Jul-Feb FY24					**(0.51) %**

(Source: PBS)

2. Roshan Digital Account ("RDA")

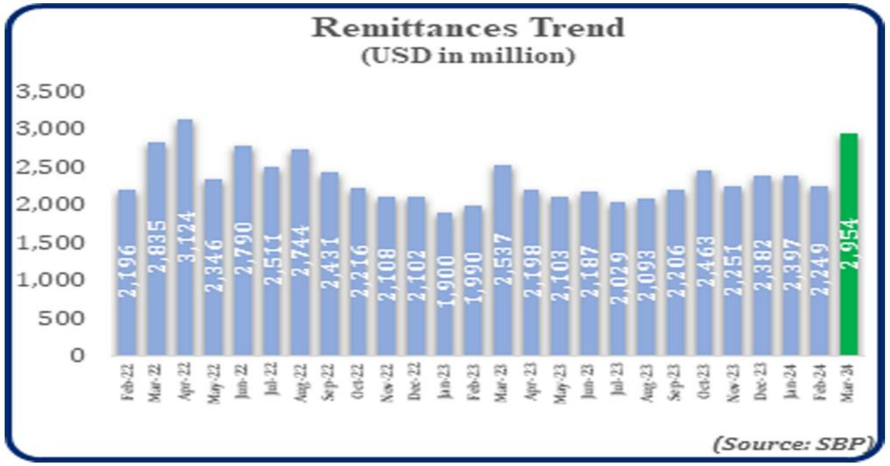
The cumulative inflow of deposits under the RDA has reached $7.66 billion since its announcement in September 2020. Out of the $7.66 billion, approximately $4.80 billion or almost 63% have been utilized locally and 20% or $1.58 billion have been repatriated from the total received amount through the RDA. A total of 679,792 accounts have been opened from 175 countries in the span of more than three years.

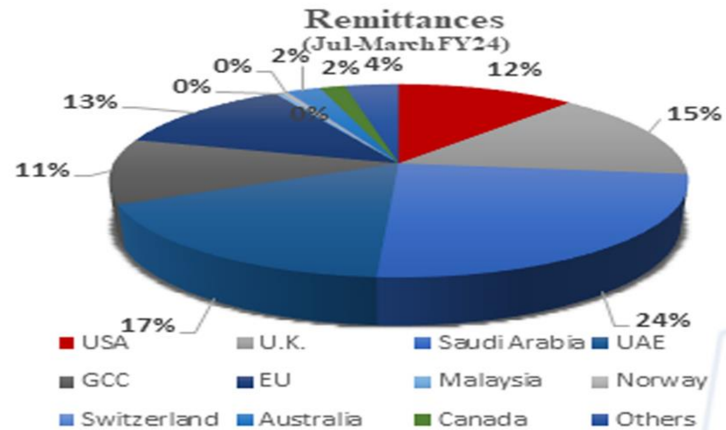


(Source: SBP)

3. Worker's Remittances

As per the SBP, the remittances sent by Overseas Pakistani workers have increased significantly by 31.3% to $2.95 billion in March 2024 vs. $2.25 billion in February 2024 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the remittance inflows went up by 16.4% when compared to $2.54 billion received a year ago in the same month. Notably, on a cumulative basis, the pace of growth has gone up almost by 1.0% in FY24 as compared to Jul-March period of FY23, when it had contracted by 9.4%. A descriptive analysis has revealed that remittance inflows during the Jul-March 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. Moreover, the inflows from Saudi Arabia have recorded a growth of 1.6% and stand at $5.08 billion in Jul-March period of FY24 vs. $5.00 billion during same period of FY23. An amount to the tune of $2.52 billion, or an almost 12.0% share, was received from the US, showing a growth of 6.5% in Jul-March of FY24 vs. Jul-March period of FY23. Worker remittances from the UK increased by 2.9%, although it contributed almost 15.0% or $3.16 billion in the Jul-March period of FY24 over the same period of FY23. On the other hand, remittance growth from UAE increased at a rate of 1.5%, while its share is almost $3.21 billion or 17.4% share in the total remittances.



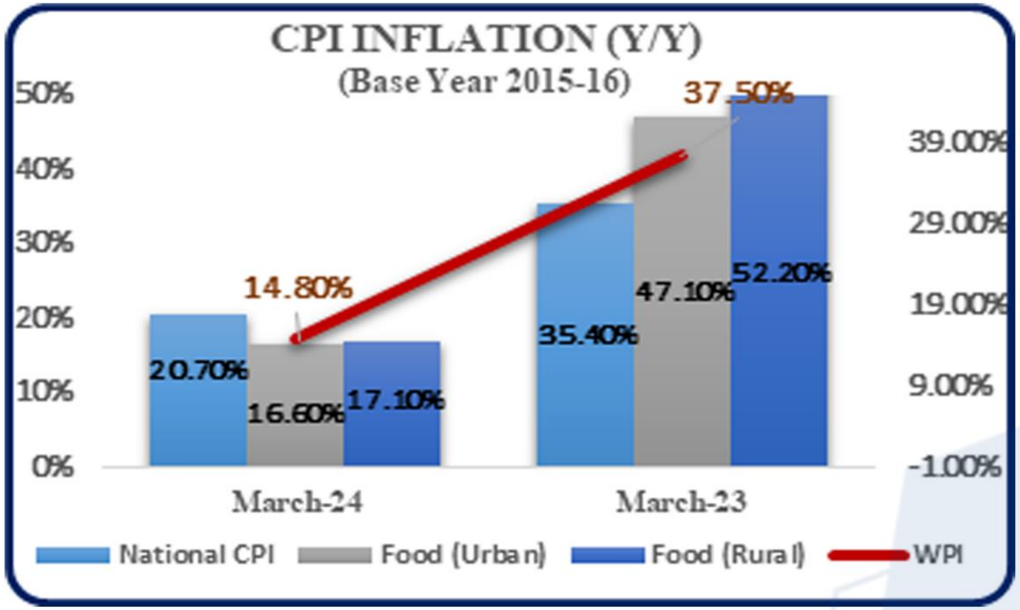


4. Consumer Price Index Inflation

Pakistan saw a gradual decline in inflation for the third consecutive month, marking its lowest inflation rate in nearly two years. The monthly rate of inflation eased down to 20.7% in March 2024 on a Y-o-Y basis in Pakistan, drops to lowest level since May 2022, is now below key policy rate after over three years. In the previous month (Feb 2024), the CPI stood at 23.1%. Moreover, the average inflation in Jul-March period of FY24 amounted to 27.2%. Further, the wholesale price index ("WPI") stood at 14.8% on a Y-o-Y basis, which was recorded at 18.7% in the previous month. This further increases the chances of reducing inflation in the coming months. Whereas, on a monthly basis, the National CPI has recorded a rise of 1.7%. Similarly, the Food inflation in urban and rural areas increased by 2.4% and 2.8%, respectively, compared to Feb 2024. Moreover, in March 2024, the Core inflation, which is calculated by excluding energy and food items, rose by 12.8% and 20.0% in urban and rural areas on a Y-o-Y basis, respectively

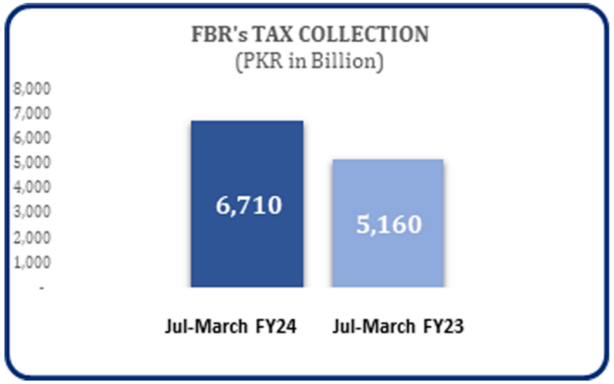
Group	Weight (%)	% Change over	
		Feb-24	Mar-23
Food	34.58	2.91	17.22
Non-perishable	29.60	(0.29)	13.28
Perishable	4.99	22.74	42.15
Utility	23.63	1.50	36.60
Health	2.79	0.55	19.63
Transport	5.91	(0.15)	11.16
Education	3.79	0.72	12.34
Restaurants & Hotels	6.92	0.82	18.85

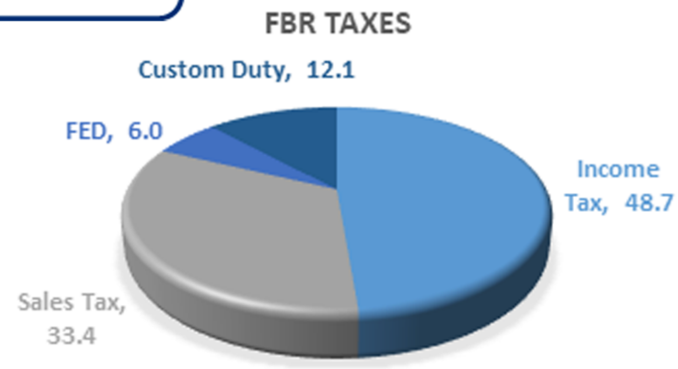
(Source: PBS)

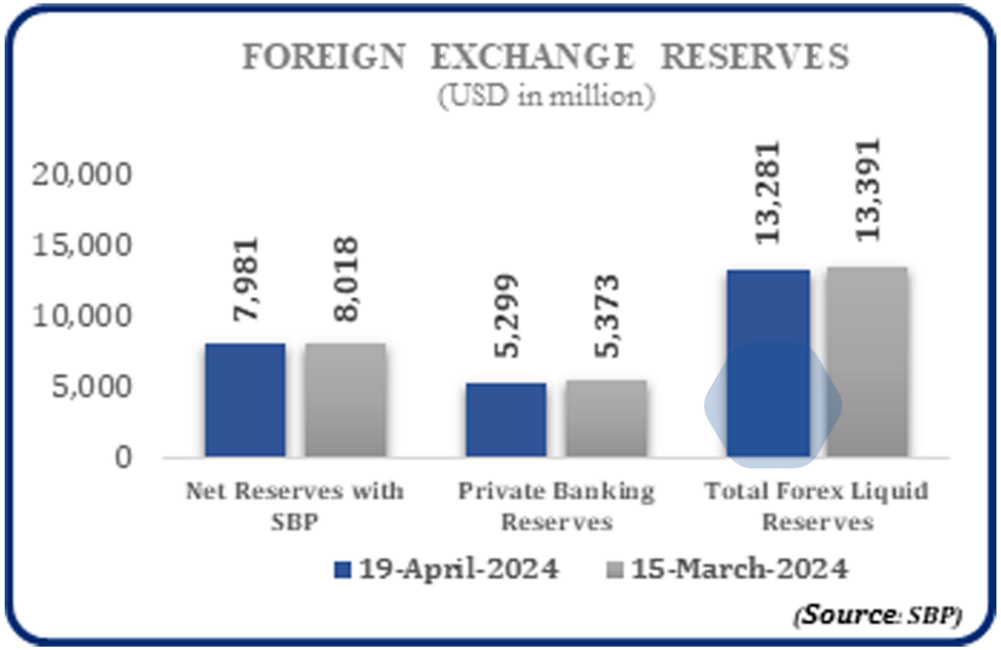


5. FBR Tax Revenue Collection

As per the data published by the FBR, the FBR collected PKR 879 billion worth of tax revenue in the month of March in FY24, achieving its monthly target. Moreover, the FBR has surpassed the Jul-March period target which was set at PKR 6.707tr, and has collected PKR 6.71tr. The FBR has demonstrated a substantial growth of over 30.0% or PKR 1.55tr in comparison to the same period of FY23. As per Mr. Shahbaz Rana's article titled ***"Govt surpasses Rs6.7tr tax target"*** published on 1st April 2024 in the Express Tribune, out of the total of PKR 6.71tr, income tax collection surged to PKR 3.27tr, marking a significant 41% over the last year's same period. Moreover, income tax collection accounts for nearly 50% of the total tax collection, in the Jul-March of the FY24. A key factor behind the higher collection of income taxes is greater collection from the banks due to huge profitability has increased amidst record interest rate at 22%. Moreover, sales tax has remained the weakest area, with its collection reaching over PKR 2.24 trillion. Furthermore, the following chart and graph illustrate the performance of the FBR in the FY24.





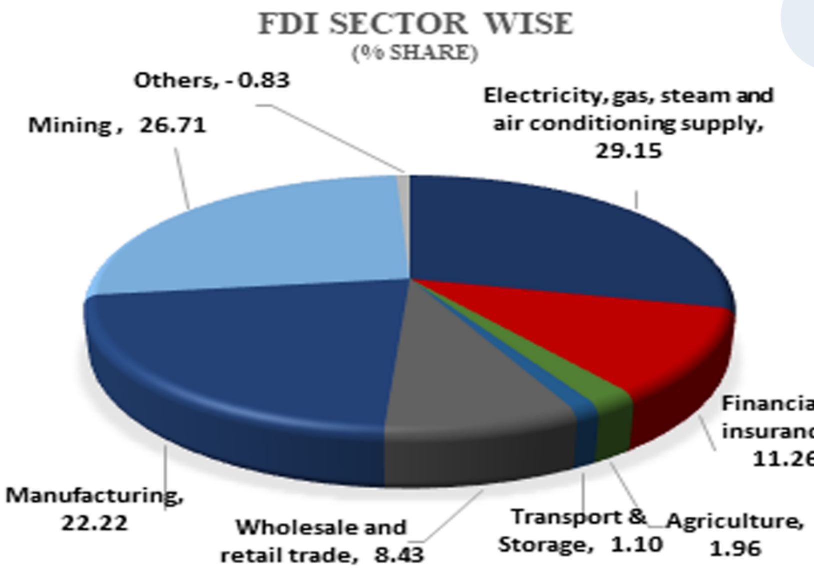


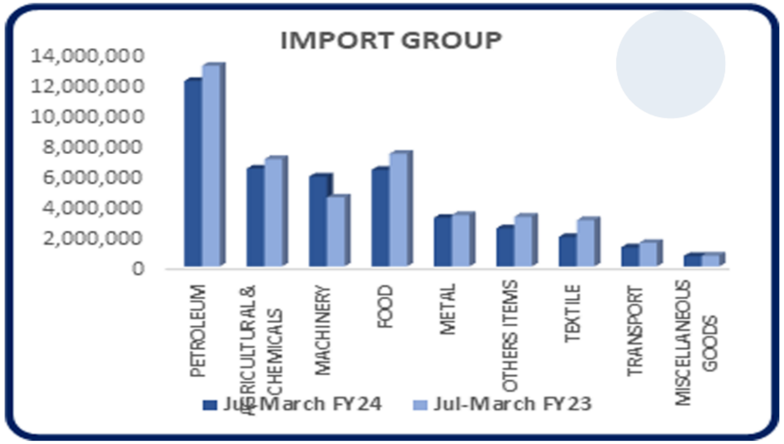
6. Foreign Exchange Reserves

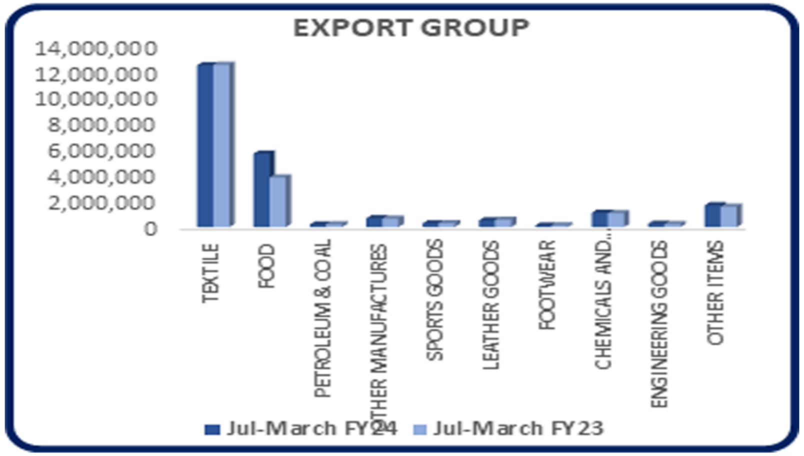
The net reserves of the SBP stood at $7.98 billion as of April 19th, 2024, representing a decrease of 0.9%, or $73.5 million, compared to last week's reserves of $8.05 billion on April 12th, 2024. Moreover, when compared to the reserves of the previous month (which were $8.02 billion on March 22nd, 2024), the Net reserves have gone down by a 0.5%. 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 9.7% or $170 million to $1.10 billion provisionally during the Jul-March period of FY24, as compared to $1.22 billion during same period FY23. Whereas, the total net Foreign Investment surged by 525 times or $1.062 billion to $1.26 billion on a Y-o-Y basis in Jul-March FY24 as against the amount of $202 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-March FY24.







8. Balance Of Trade In Goods

As per the PBS, Pakistan's trade deficit has shrunk by a good margin of almost 24.5% to $17.14 billion during the period of Jul-March of FY24 vs. $22.69 billion the same period of FY23 amidst a steep reduction in the import bill. As far as exports are concerned, the same increased by 9.0% to $22.93 billion in FY24's period of Jul-March compared to $21.04 billion in the same period of FY23. Moreover, imports have decreased by 8.35% to $40.07 billion in the Jul-March FY24 when compared with $43.72 billion in the same period of FY23. Additionally, on a M-o-M basis, the exports have decreased by 0.4% to $2.57 in March 2024 from $2.58 billion in February 2024. However, the country's trade deficit has widened by a margin of 33.5% to $2.30 billion in March 2024 from $1.74 in February 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 March 2024, Pakistan experienced a notable surplus in its Current Account, transitioning to a significant surplus of $619 million, marking a surplus for consecutive months despite a high trade deficit in goods. Whereas, on a Y-o-Y basis, the CAD has declined by 15%, when compared to a CA surplus of $537 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 $2-3 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-Mar FY23	Jul-Mar FY24
i. Balance of Trade in Goods	**(21,079)**	**(15,757)**
Exports of Goods	21,065	23,026
Imports of Goods	(42,144)	(38,783)
ii. Balance of Trade in Services	**(374)**	**(1,655)**
Exports of Services	5,813	5,808
ICT Services	2,283	1,944
Other Service Exports	3,530	3,864
Imports of Services	(6,187)	(7,463)
Transport Service	3,411	3,100
iii. Balance on Primary Income	**(4,000)**	**(5,561)**
iv. Balance on Secondary Income	**21,399**	**22,465**
Secondary Income Credit	21,630	22,811
Worker Remittances	20,845	21,038
Secondary Income Debit	231	346
CAD (i + ii + iii + iv)	**(4,054)**	**(508)**

(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 42.67 trillion, reflecting a growth rate of almost 25.0%, while external debt has reached PKR 22.9 trillion, with a growth rate of 9.1% as of February 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	42,671	34,156	24.93
% of GDP	**40.33**	**40.35**	
External Debt	22,135	20,282	9.14
% of GDP	**20.92**	**23.96**	
Gross Public Debt	64,806	54,438	19.05
% of GDP	**61.24**	**64.30**	
Nominal GDP	105,817	84,658	

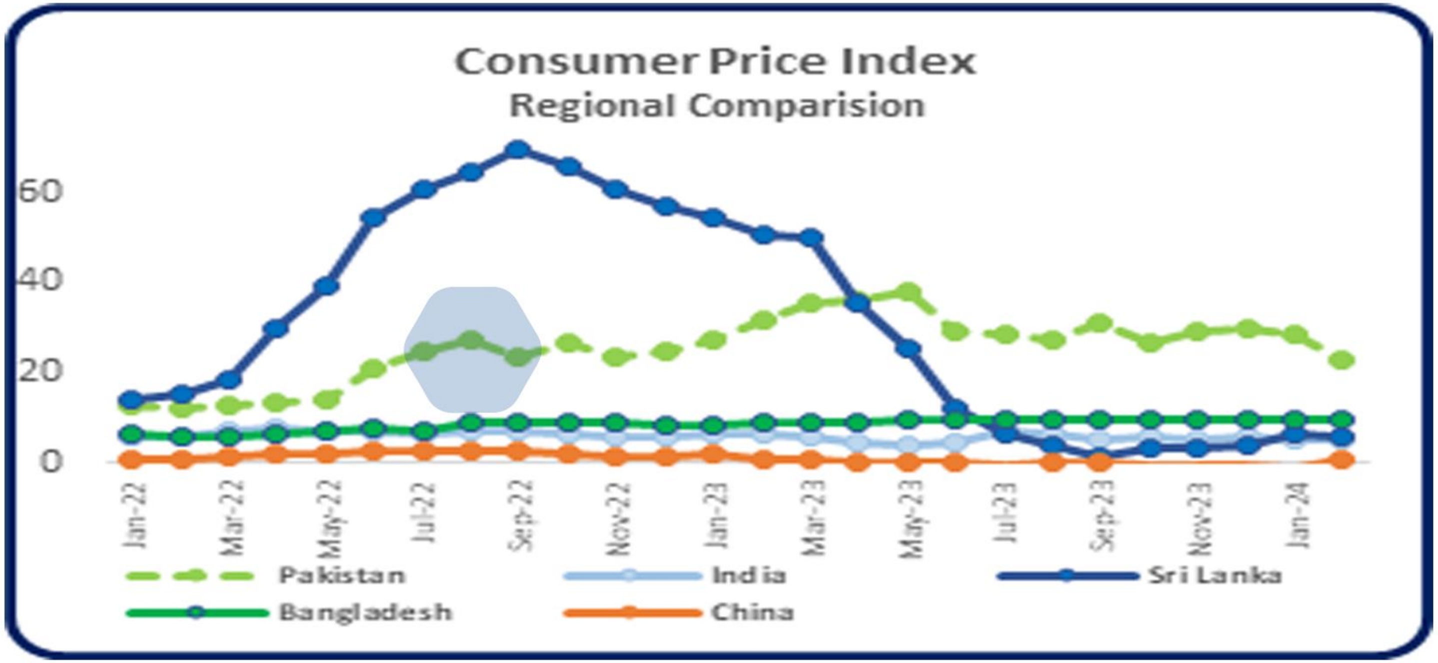
(Source: SBP & MOF)

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 the inflation being recorded 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 prices after consecutive months of deflation. After a 0.8% deflation, the inflation rate was recorded at 0.7% in February 2024 in China. The impacts of price volatility are relatively inconspicuous in China despite subdued consumer demand.

Country	CPI (%)	Local Currency Units per USD (As of 29th Apr)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	20.7	278.40	1.92
India	4.9	83.40	(1.40)
Bangladesh	9.8	109.69	(3.38)
China	0.1	7.27	(4.87)
Sri Lanka	0.9	295.84	7.55

(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.

Furthermore, in the event negotiations start with the IMF for a new Programme by the beginning of May 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 and / or effective 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 potential 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.

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