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Pakonomics

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Highlights

The Fiscal Year 2023-24 ("FY24") closed with a mixed performance by Pakistan's economy. A major success has been the effective containment of the Current account deficit ("CAD") in the external balance of payments.

This sustainable CAD is due to strong remittance flows and higher exports. However, the CAD would have been in a surplus position if the Government had not imported $1.032 billion worth of wheat during FY24.

Pakistan and the International Monetary Fund ("IMF") have reached a staff-level agreement for a $7 billion Extended Fund Facility ("EFF") program.

The IMF has stated that revenue collections will be supported by simpler and fairer direct and indirect taxation, including bringing net income from the retail, export, and agriculture sectors into the tax system.

In the inter-bank market, the prevailing value of the national currency stands at PKR 278.3/USD as of July 26th, 2024. Over the past 2 months, the USD to PKR parity rate has exhibited a constant trend, albeit indicating a gradual recovery.

According to the Pakistan Bureau Statistics ("PBS"), Pakistan's LSM sector showed a growth of 7.3% in May 2024 on a Year-on-Year ("Y-o-Y") basis vs. May 2023.

The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $8.05 billion at the end of May 2024.

According to the SBP, the remittances sent by Overseas Pakistani workers have decreased by 2.59% to $3.16 billion in June 2024 vs. $3.24 billion in May 2024 on a M-o-M basis.

As per the data published by the Federal Board of Revenue ("FBR"), the FBR collected PKR 1,084 billion worth of tax revenue in the last month of FY24 and has successfully achieved its monthly revised target of PKR 1,030 billion.

The Net foreign currency reserves held by the SBP stood at $9.03 billion as of 19th July 2024.

The Broad Money (M2) stock from 1st of July 2023 to 12th July 2024 has contracted to PKR 1,175 billion, compared to a negative of PKR 638 billion last year in the same period.

As per the PBS, the Consumer Price Index ("CPI") inflation has surged to 12.6% on a Y-o-Y basis in June 2024 vs. 29.4% last year.

Further, as per the PBS, Pakistan's exports have increased by 10.7% to $30.68 billion in FY24's period of Jul-June compared to $27.72 billion in the same period of FY23.

Pakistan's net FDI has surged by 17.0% or $276 million to $1.90 billion provisionally during the Jul-June period of FY24, as compared to $1.63 billion during same period FY23.

The total net Foreign Investment surged by 153 times or $918 million to $1.52 billion on a Y-o-Y basis in Jul-June FY24 as against the amount of $601 million in the same period of FY23.

The country has posted a Current account deficit ("CAD") of $681 million during the months of Jul-June FY24.

Economy At a Glance

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	May	↑	7.33%	(17.84) %
Central Government Debt	May	↑	PKR 67.82 Trillion	PKR 58.96 Trillion
Credit to Private Sector	Jul – 12th July	↓	PKR (300) Billion	PKR (169) Billion
Roshan Digital Account	May	↑	US$ 224 Million	US$ 121 Million
Worker's Remittances	June	↑	US $3,158 Million	US $2,187 Million
Currency in Circulation	Jul – 12th July	↑	PKR 118 Billion	PKR (168) Billion
Net Government Sector borrowing	Jul – 12th July	↓	PKR (212) Billion	PKR (300) Billion
National CPI (Base Year 2015-16)	June	↓	12.6%	29.4%
FBR Tax Collection	Jul-June	↑	PKR 9,306 Billion	PKR 7,164 Billion
Foreign Exchange Reserves with SBP	As of 19th July	↑	$9.03 Billion	$8.19 Billion
Foreign Direct Investments	Jul-June	↑	$1,902 Million	$1,627 Million
Trade Deficit in Goods	Jul-June	↓	US$ (24,121) Million	US$ (27,474) Million
Current Account Deficit	Jul-June	↓	$(681) Million	$(3,275) Million

1. Large Scale Manufacturing

According to the PBS, Pakistan's LSM sector showed an increase of 7.33% in May 2024 on a Y-o-Y basis vs. May 2023. Likewise, on a M-o-M basis, the overall output growth increased by 7.52%, compared to the month of April 2024. Additionally, the cumulative LSM growth exhibited a positive trend, with an almost 1.00% growth in the Jul-May of FY24 vs. the same period of last FY23. Out of 22 major industries, only 10 industries posted a surge in production during the Jul-May period of FY24 as compared to FY23 for the same period. These include food, wearing apparel, Leather Product, wood product, Coke & Petroleum Products, chemicals, pharmaceutical, furniture, and machinery and equipment, and other manufacturing. However, the output in Beverages, Tobacco, textile, paper and board, rubber product, non-metallic mineral products, iron & steel products, fabricated metal, electrical equipment, automobiles, Computer Optical products, and other transport equipment has decreased during the Jul-May 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 9.44% and 5.87% respectively, whilst the garment sector showed a growth of 9.33% in the period of Jul-May FY24. Lastly, the cement industry has witnessed a contraction of 3.62%.

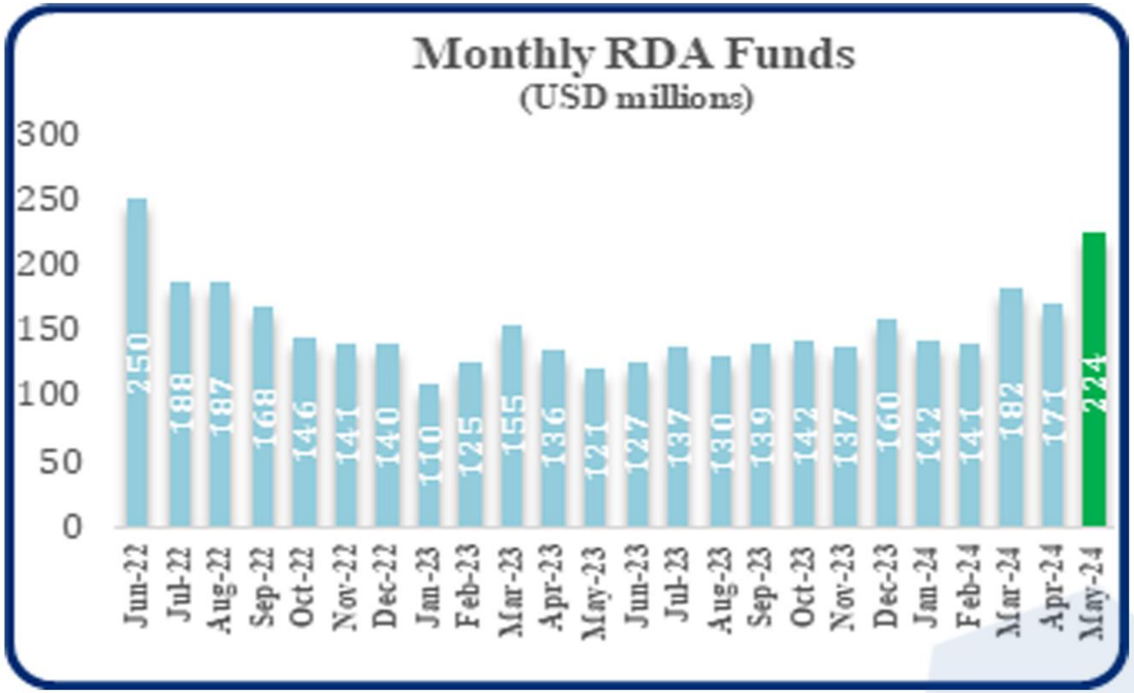
LSM (%)	Weight	May-24	Apr-24	May-23	Jul-May FY24
Textile	18.2	7.81	3.39	(25.95)	**(6.04)**
Food	10.7	(0.91)	1.18	8.51	**1.68**
Coke & Petroleum Products	6.7	17.17	(35.73)	17.17	**8.40**
Chemicals	6.5	(2.86)	(3.88)	(2.86)	**5.81**
Wearing Apparel	6.1	(15.77)	17.57	(15.77)	**9.33**
Pharmaceuticals	5.2	(2.31)	(3.31)	(38.61)	**17.54**
Non-Metallic Minerals Products	5.0	-8.10	(3.32)	0.53	**(4.46)**
Beverages	3.8	-0.35	(11.57)	(6.25)	**(3.51)**
Iron and Steel Products	3.4	-13.77	(7.95)	(5.83)	**(3.75)**
Automobiles	3.1	43.85	53.72	(67.77)	**(28.73)**
Tobacco	2.1	25.56	63.49	(22.37)	**(24.26)**
Electrical Equipment	2.0	-13.07	(12.02)	(24.64)	**(8.36)**
Paper & Board	1.6	-0.63	8.05	(5.58)	**(1.34)**
Leather Products	1.2	5.50	6.72	0.20	**5.59**
Other Transport Equipment	0.7	16.38	27.71	(37.16)	**(4.88)**
LSM Growth for May 2024 (Y/Y)					**7.33 %**
LSM Growth of May 2024 vs. April 2024 (M/M)					**7.52 %**
LSM Growth Jul-May FY24					**1.00 %**

(Source: PBS)

2. Roshan Digital Account ("RDA")

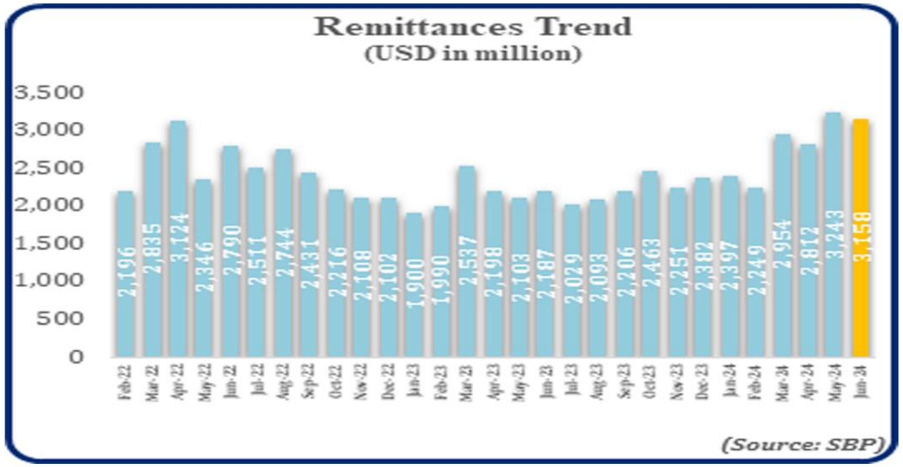
The cumulative inflow of deposits under the RDA has reached $8.05 billion since its announcement in September 2020. Out of the $8.05 billion, approximately $5.07 billion or almost 63% have been utilized locally and 20% or $1.60 billion has been repatriated from the total amount received through the RDA. A total of 702,610 accounts have been opened from 175 countries in the span of more than three years.

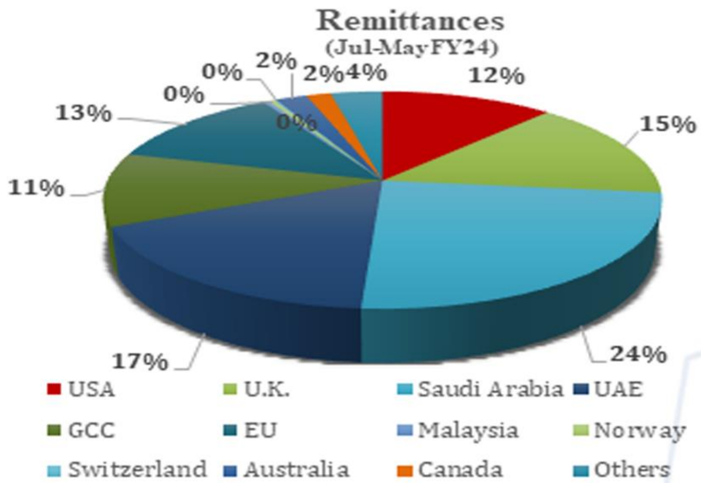
(Source: SBP)



3. Worker's Remittances

As per the SBP, the remittances sent by Overseas Pakistani workers have decreased by 2.59% to $3.16 billion in June 2024 vs. $3.24 billion in May 2024 on a M-o-M basis. In contrast, on a Y-o-Y comparison, the remittance inflows went up by 44.4% when compared to $2.19 billion received a year ago in the same month. Notably, on a cumulative basis, the pace of growth of worker remittances has gone up by almost 10.7% in FY24 as compared to Jul-June period of FY23, when it had contracted by almost 12.6%. A descriptive analysis has revealed that remittance inflows during the Jul-June period of FY24 were coming mainly from four major countries: Saudi Arabia, UAE, UK, and the USA. With more than a 24.5% share in the overall home remittances flows, Saudi Arabia remained a significant contributor. Moreover, the inflows from Saudi Arabia have recorded a growth of 13.6% and stand at $7.42 billion in Jul-June period of FY24 vs. $6.53 billion during the same period of FY23. An amount to the tune of $3.53 billion, or an almost 12.0% share, was received from the US, showing a growth of 11.5% in Jul-June of FY24 vs. Jul-June period of FY23. Worker remittances from the UK increased by 11.0%, although it contributed almost 15.0% or $4.52 billion in the Jul-June period of FY24 over the same period of FY23. On the other hand, remittance growth from the UAE increased at a rate of 18.9%, while its share is almost $5.53 billion or 18.3% share in the total remittances.



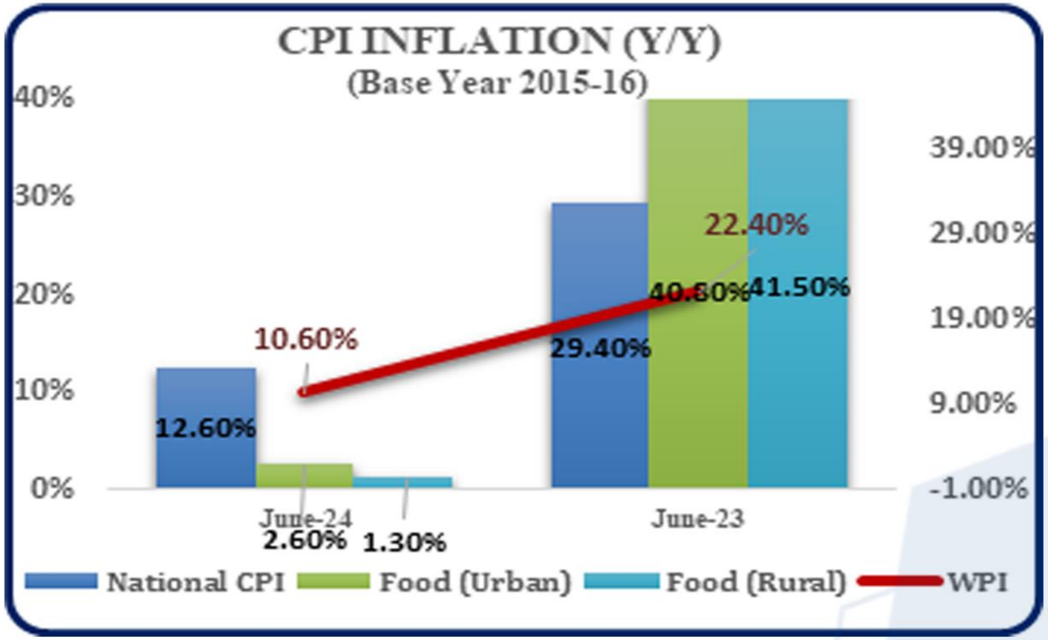


4. Consumer Price Index Inflation

Pakistan saw a gradual hike in inflation, after declining for the fifth consecutive month. The monthly rate of inflation clocked up at 12.6% in May 2024 on a Y-o-Y basis in Pakistan. Further, inflation has been below the key policy rate for three consecutive months. In the previous month (May 2024), the CPI stood at 11.8%. Moreover, the average inflation in the Jul-June period of FY24 amounted to 23.4%. Further, the wholesale price index ("WPI") stood at 10.6% on a Y-o-Y basis, which was recorded at 9.9% in the previous month. This further increases the chances of inflation surging in the coming months. Whereas, on a monthly basis, the National CPI has recorded a decline of 0.5%. Similarly, the food inflation in urban and rural areas increased by 0.4% in the urban area, while 0.2% deflation was observed in the rural area, compared to May 2024. Moreover, in May 2024, the Core Inflation, which is calculated by excluding energy and food items, rose by 12.2% and 17.0% in urban and rural areas on a Y-o-Y basis, respectively.

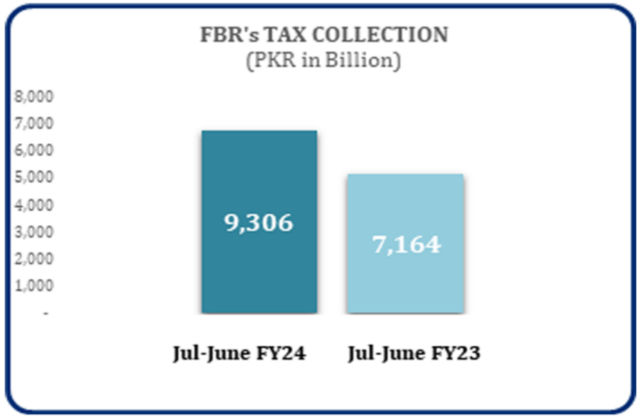
Group	Weight (%)	% Change over	
		May-24	June-23
Food	34.58	0.12	0.97
Non-perishable	29.60	(0.94)	(1.76)
Perishable	4.99	6.83	20.75
Utility	23.63	1.49	35.29
Health	2.79	1.41	19.83
Transport	5.91	(2.17)	10.38
Education	3.79	0.29	15.86
Restaurants & Hotels	6.92	(0.26)	11.88

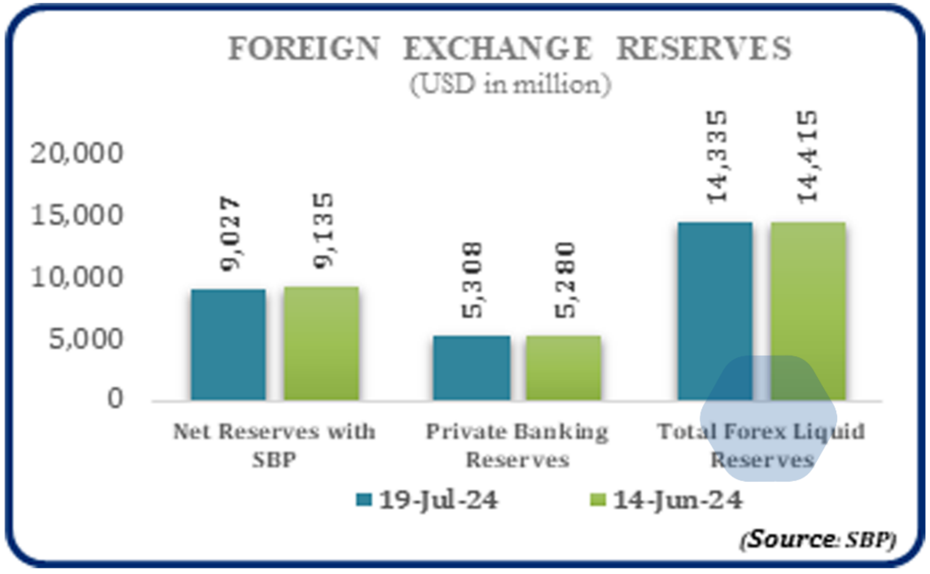
(Source: PBS)



5. FBR Tax Revenue Collection

As per the data published by the FBR, the FBR collected PKR 1,183 billion worth of tax revenue in the month of June in FY24 and has successfully achieved its monthly target of PKR 1,130 billion. Likewise, the FBR has surpassed the FY24's revised target which was set at PKR 9.252tr and has collected PKR 9.306tr. Nonetheless, the FBR has demonstrated a substantial growth of almost 30.0% or PKR 2.142tr in comparison to the same period of FY23. As per Mr. Shahbaz Rana's article titled ***"FBR collection up yet Rs110b shy of target"*** published on 1st July 2024 in the Express Tribune, out of the total of PKR 9.306tr, income tax collection surged to PKR 4.53tr, and accounts for nearly 49% of the total tax collection, in the Jul-June of the FY24. A key factor behind the higher collection of income taxes is greater collection from the banks due to huge profitability having increased with a high interest rate of 20.5%. Further, sales tax has remained the weakest area, with its collection reaching over PKR 3.1 trillion. The following chart and graph illustrate the performance of the FBR in FY24.



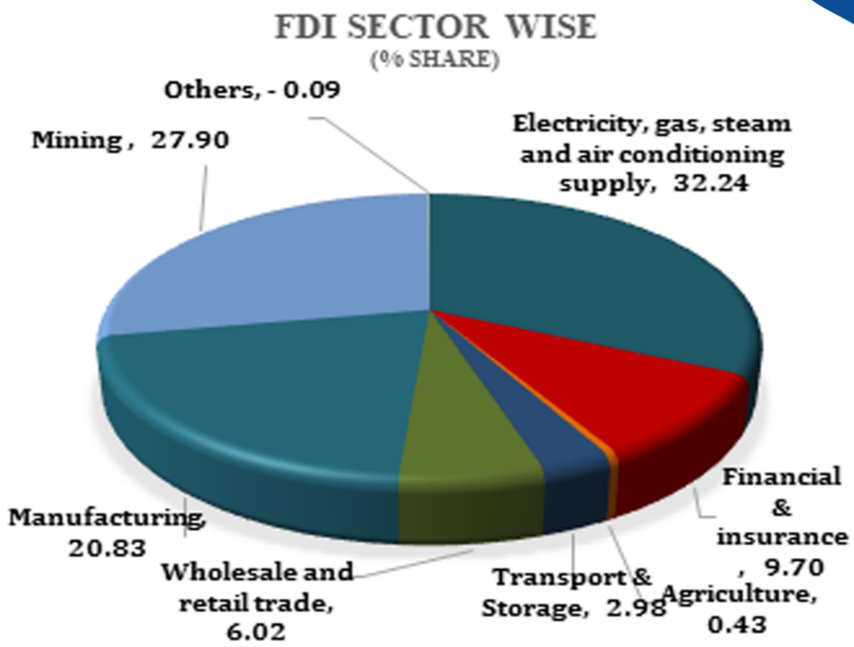


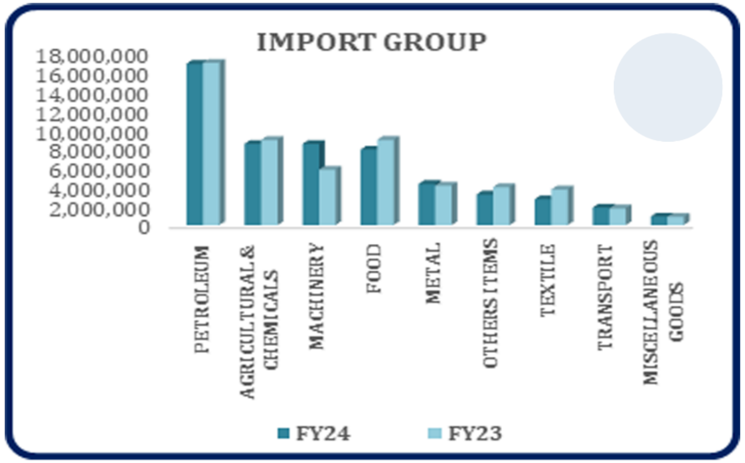
6. Foreign Exchange Reserves

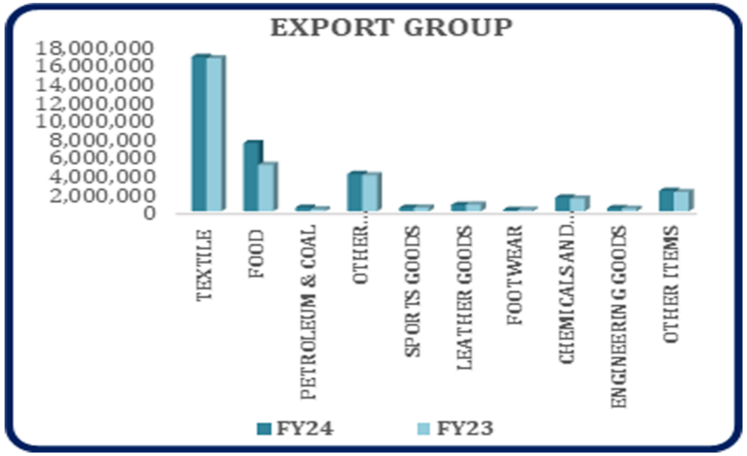
The net foreign exchange reserves of the SBP stood at $9.03 billion as of July 19th, 2024, representing a decrease of 4.2%, or $397 million, compared to last week's reserves of $9.42 billion on July 12th, 2024. Moreover, when compared to the reserves of the previous month (which were $9.13 billion on June 14th, 2024), the net reserves have gone down by 1.2%. The boost in foreign reserves is mainly credited to the acquisition of the second and final installment totaling $1.1 billion from the IMF. Therefore, Pakistan's foreign exchange reserves have reached its highest level in 22 months, exceeding the IMF projection for the end of June 2024.

7. Foreign Direct Investment

Pakistan's net FDI has surged by 17.0% or $276 million to $1.90 billion provisionally during the Jul-June period of FY24, as compared to $1.63 billion during the same period of FY23. Whereas, the total net Foreign Investment surged by 153 times or $918 million to $1.52 billion on a Y-o-Y basis in Jul-June FY24 as against the amount of $601 million in the same period of FY23. This Pie chart shows the percentage share of flows in different sectors of the Economy in the period of Jul-June FY24.







8. Balance Of Trade In Goods

As per the PBS, Pakistan's trade deficit has shrunk by a good margin of almost 12.2% to $24.12 billion during the period of Jul-June of FY24 vs. $27.47 billion the same period of FY23 amidst a good hike in exports. Further, exports increased by 10.7% to $30.68 billion in FY24's overall period compared to $27.72 billion in the same period of FY23. Moreover, imports have decreased by 0.72% to $54.80 billion in the Jul-June FY24 when compared with $55.20 billion in the same period of FY23. Additionally, on an M-o-M basis, exports have shrunk by 9.8% to $2.56 in June 2024 from $2.84 billion in May 2024. Moreover, the country's trade deficit has increased by a margin of 16.7% to $2.42 billion in June 2024 from $2.1 billion in May 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 June.

9. CURRENT ACCOUNT DEFICIT ("CAD")

In June 2024, Pakistan experienced a slight deficit in its Current Account, recording a deficit of $329 million. Whereas, on a Y-o-Y basis, the CAD has surged by 167 times, when compared to a CA surplus of $490 million in the June month of the previous FY23. However, on a cumulative basis, the CAD had declined by 79% to $681 million in FY24, when compared to $3,275 million in the previous FY23. This sustainable CAD is due to strong remittance flows and higher exports. However, the CAD would have been in a surplus position if the Government had not imported $1.032 billion worth of wheat.

CAD	Jul-June FY23	Jul-June FY24
i. Balance of Trade in Goods	**(24,819)**	**(22,077)**
Exports of Goods	27,876	31,090
Imports of Goods	52,695	53,167
ii. Balance of Trade in Services	**(1,042)**	**(2,313)**
Exports of Services	7,596	7,806
Imports of Services	8,638	10,119
iii. Balance on Primary Income	**(5,765)**	**(8,623)**
iv. Balance on Secondary Income	**28,351**	**32,332**
Secondary Income Credit	28,665	32,819
Worker Remittances	27,333	30,250
Secondary Income Debit	314	487
CAD (i + ii + iii + iv)	**(3,275)**	**(681)**

(Source: SBP)

10. DEBT PROFILE

The total central Government debt, comprising of the Government's domestic debt and external debt, has surged to PKR 67.82 trillion in May 2024, marking a substantial 15.0% increase compared to the same month of the previous Fiscal Year. This accounts for almost 64.0% of the GDP, a decline from the previous 70.0%. Concurrently, domestic debt stands at PKR 46.21 trillion, reflecting a growth rate of almost 24.7%, while external debt has reached PKR 21.61 trillion, with the growth decreasing by 1.4% as of May 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)	May-24	May-23	% change
Domestic Debt	46,208	37,056	24.70
% of GDP	**43.57**	**43.77**	
External Debt	21,608	21,908	(1.37)
% of GDP	**20.38**	**25.88**	
Gross Public Debt	67,816	58,964	15.01
% of GDP	**63.95**	**69.65**	
Nominal GDP	106,045	84,658	

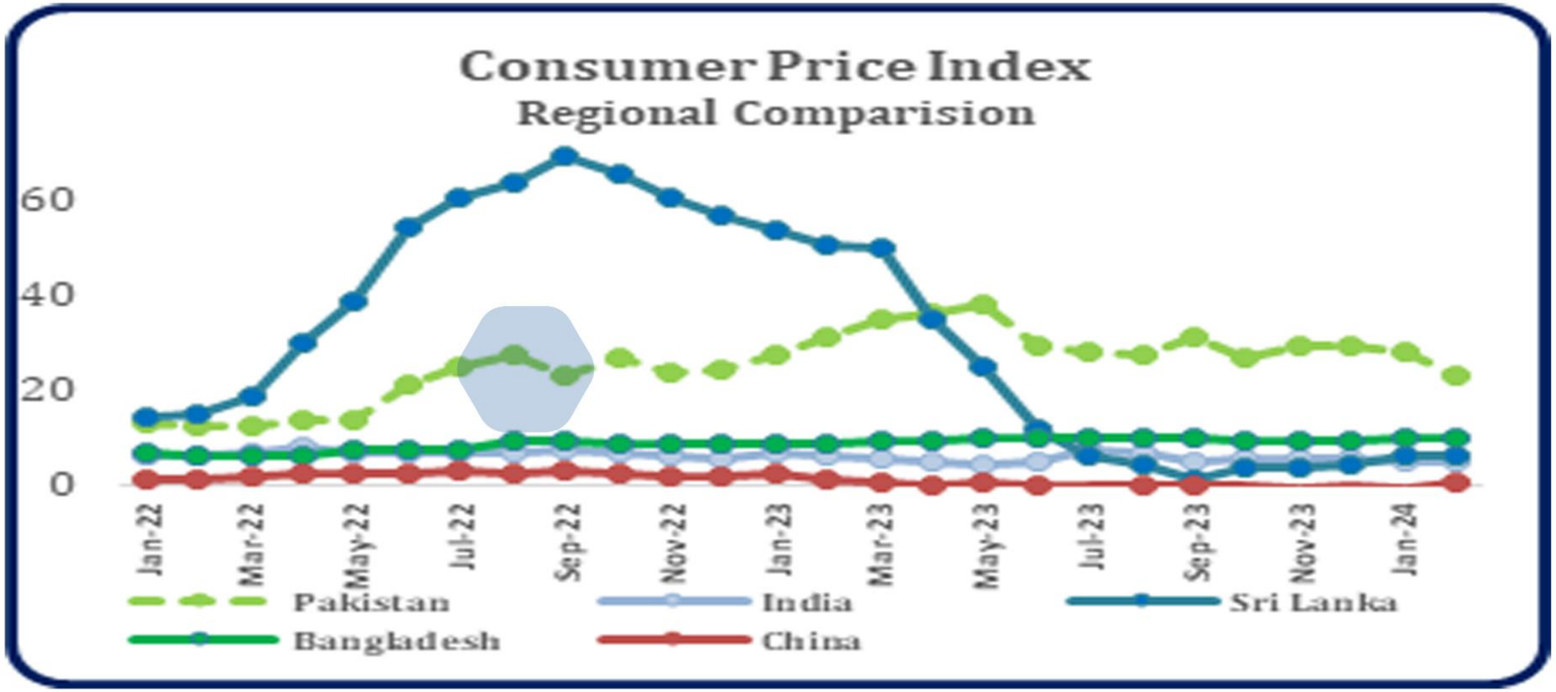
(Source: SBP & MOF)

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 exhibited a constant trend against USD in the last few months, which is why June's CPI rate is slightly higher. If the Government wants to curtail inflation, they need to follow a homegrown recipe; otherwise, inflation might exceed from targeted value of 12.0% for the FY25. Regarding the Sri Lankan economy, inflation has seen a slight increase to 1.7% since inflation was recorded at 0.9% in the previous month. This is attributed, in part, to the statistical base effect, and is further supported by a weak 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. The inflation in India is now recorded at 5.08% in June 2024. Furthermore, China has encountered a slight, but a constant rise in prices after months of deflation. The inflation rate was recorded at 0.2% in June 2024 in China as well. The impacts of price volatility are relatively inconspicuous in China despite subdued consumer demand.

Country	CPI (%)	Local Currency Units per USD (As of 26th July)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	12.6	278.34	3.03
India	5.08	83.72	(1.9)
Bangladesh	9.72	117.48	(8.3)
China	0.2	7.26	(1.2)
Sri Lanka	1.7	303.34	7.5

(Source: Trading Economics)



Outlook

The projected interest payment in the budget is estimated at Rs.9,775 billion, which is 18.0% higher than the figures of Rs. 8,251 billion in the (revised) budget 2023- 24, and 52% of the total outlay. To secure significant fiscal leeway in the 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. A decrease in the interest rates will 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.

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 tprimary 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.