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Pakonomics

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Highlights

In the inter-bank market, the value of the national currency stands at PKR 277.6/USD as of October 25th, 2024. Over the past week, the USD to PKR parity rate has shown a gradual upward trend, indicating a slow recovery.

According to the valuation of Tola Associates ("TA"), the value of PKR is 254.4/USD after incorporating the Jul-Sept period of FY24's Current Account Deficit ("CAD").

According to the Pakistan Bureau Statistics ("PBS"), Pakistan's LSM sector showed a contraction of 2.65% in Aug 2024 on a Year-on-Year ("Y-o-Y") basis vs. Aug 2023.

The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $8.75 billion at the end of Sept 2024. Whereas, net repatriable liability stood at $1.53 billion.

According to the State Bank of Pakistan ("SBP"), the remittances sent by Overseas Pakistani workers have decreased by 3.18% to $2.85 billion in Sept 2024 vs. $2.94 billion in Aug 2024 on a Month-on-Month ("M-o-M") basis.

As per the data published by the Federal Board of Revenue ("FBR"), the FBR collected PKR 2,556 billion worth of tax revenue in the first quarter of FY25 and has failed to achieve its monthly target by PKR 93 billion.

The Net foreign currency reserves held by the SBP stood at $11.04 billion as of 18th October 2024.

The Broad Money (M2) stock from 1st of July 2024 to 13th October 2024 has contracted to PKR 648 billion, compared to a negative of PKR 427 billion last year in the same period.

According to the Pakistan Bureau of Statistics ("PBS"), the pace of Consumer Price Index ("CPI") inflation has slowed down to 6.9% on a Y-o-Y basis in Sept 2024 vs. 31.4% last year.

Pakistan's net FDI has surged by 48.2% or $251 million to $771 million provisionally during the Jul-Sept period of FY25, as compared to $520 million during the same month of FY24.

The total Net Foreign Investment surged by 70.4% or $373 million to $904 million on a Y-o-Y basis during the Jul-Sept period of FY25 as against the amount of $530 million in the same period of FY23.

Pakistan reported a current account deficit ("CAD") of $98 million during the Jul-Sept Period of FY25, compared to $1,241 million in the same month of FY24. Additionally, the CAD is projected at $3,707 million for the entire FY25.

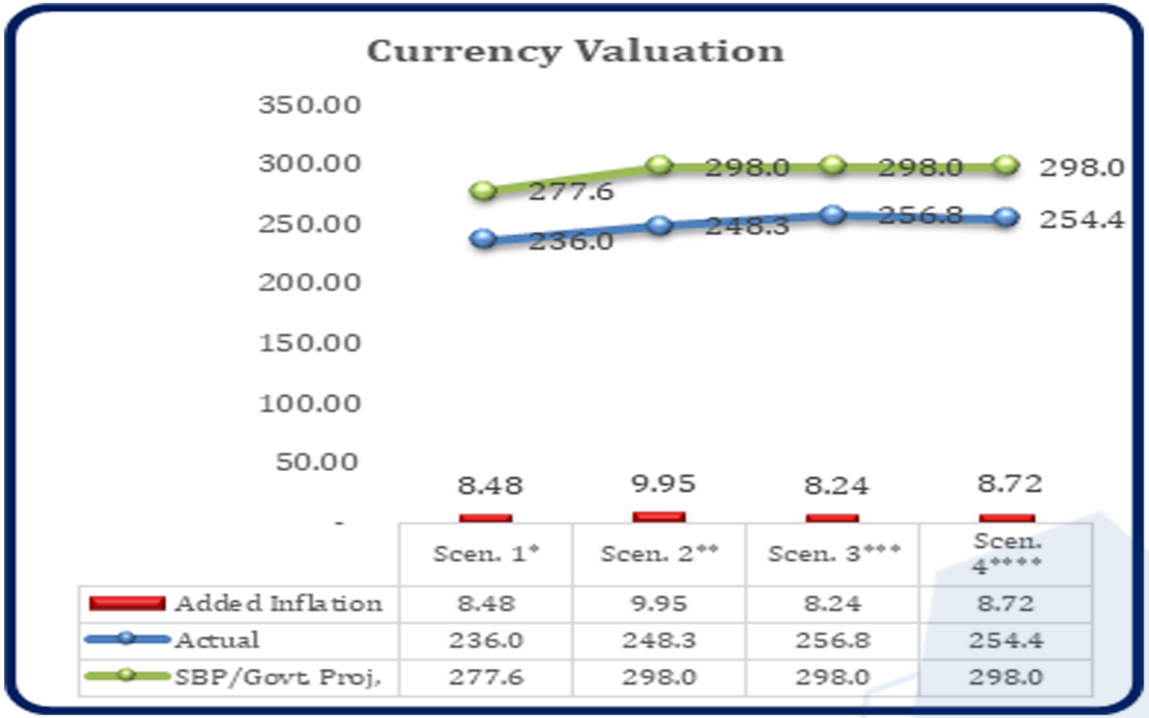
ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	August	↓	(2.65) %	0.21 %
Central Government Debt	August	↑	PKR 71,246 Billion	PKR 62,881 Billion
Credit to Private Sector	Jul – 13th October	↓	PKR (241) Billion	PKR (248) Billion
Worker's Remittances	September	↑	US $2,849 Million	US $2,206 Million
Currency in Circulation	Jul – 13th October	↑	PKR (34) Billion	PKR (558) Billion
Net Government Sector borrowing	Jul – 13th October	↓	PKR (1,260) Billion	PKR 1,236 Billion
National CPI (Base Year 2015-16)	August	↓	6.9%	31.4%
FBR Tax Collection	Jul-Sept	↑	PKR 2,566 Billion	PKR 2,041 Billion
Foreign Exchange Reserves with SBP	As of 18th October	↑	$11.04 Billion	$7.71 Billion
Foreign Direct Investments	Jul-Sept	↑	$771 Million	$520 Million
Trade Deficit in Goods	Jul-Sept	↓	US$ (5,488) Million	US$ (5,214) Million
Current Account Deficit	Jul-Sept	↓	$(98) Million	$(1,241) Million

1. VALUATION OF THE PAKISTANI RUPEE PARITY

According to valuation of TA, the value of PKR is 254.4/USD after adjusting the Jul-Sept FY24 month's CAD. The PKR value has been kept artificially higher at PKR 277.6/USD, otherwise the present value of PKR currency is 254.4/USD.

The graph depicts four scenarios: **(a) First scenario provides PKR valuation as of June 30, 2024; (b) Second scenario illustrates the valuation of PKR valuation based on the actual CAD, i.e $665 billion CAD in FY24; (c) The third scanario provide PKR value based on the Government's CAD projection of 0.9% of GDP; (d) and the last scenario is calculating the PKR value based on the adjusted CAD projection of the Government(adjusted for the Jul-Sept FY24).** A 10-rupee depreciation will result in a 2% increase in inflation, or vice versa. For the currency valuation on the basis of IMF's projected GDP [Click Here]



*Actual CAD of FY24
**If CAD restricted to FY24's level i.e 0.16% of GDP
*** If CAD restricted to its targeted value of $3.707 billion. i.e $3.7 billion
****Actual CAD cumulated in the Projection (adjusted monthly basis)

2.CURRENT ACCOUNT DEFICIT (“CAD”)

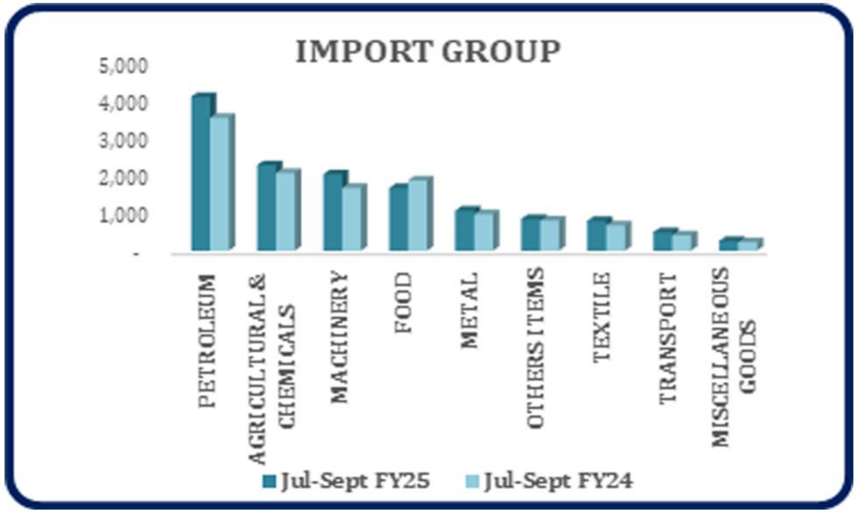
Pakistan recorded a current account (“CA”) surplus for two consecutive months in FY25. The CA stood at $119 million in September 2024, a decrease by 155 times compared to the same month last year. On a cumulative basis, the CAD has declined to $98 million, a 92% reduction compared to a CAD of $1,241 million during the Jul-Sept period of the previous FY24. This sustainable CAD is attributed to strong remittance inflows. Additionally, the CAD is projected at $3,707 million for the entire FY25. Moreover, a surplus in CA will help the local currency remain strong against the dollar.

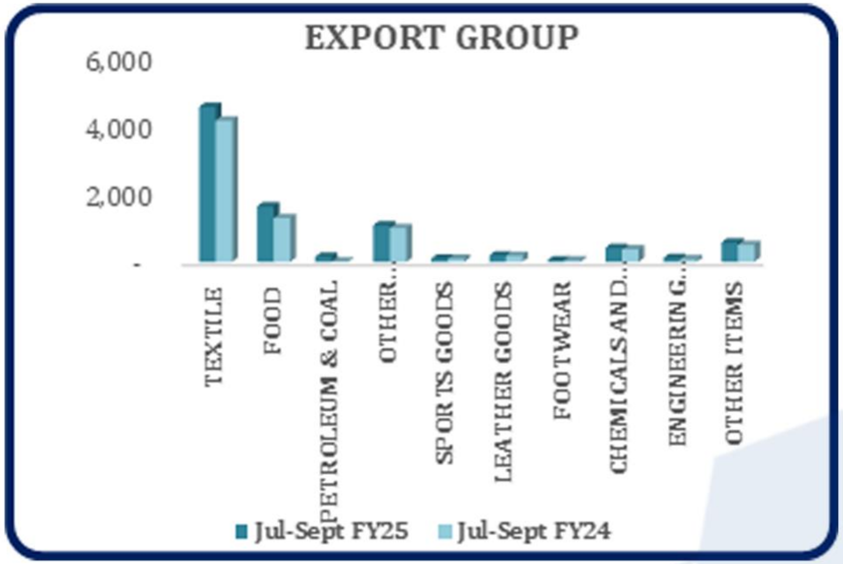
	Month wise Comparison			Commulative Comparison		
CAD	Sept-24	Aug-24	Sept-23	Jul-Sept FY24	Jul-Sept FY25	Jul-June FY25 Proj.
i. Balance of Trade in Goods	**(2,046)**	**(2,232)**	**(1,490)**	**(5,336)**	**(6,723)**	**(24,941)**
Exports of Goods	2,645	2,477	2,438	6,952	7,496	32,341
Imports of Goods	4,691	4,709	3,928	12,288	14,219	57,283
ii. Balance of Trade in Services	**(226)**	**(282)**	**(358)**	**(5,336)**	**(6,723)**	**(2,738)**
Exports of Services	657	617	561	1,801	1,907	8,169
Imports of Services	883	899	919	2,696	2,606	10,907
iii. Balance on Primary Income	**(668)**	**(559)**	**(661)**	**(1,688)**	**(1,991)**	**(7,648)**
iv. Balance on Secondary Income	**3,059**	**3,102**	**2,291**	**6,678**	**9,315**	**31,620**
Secondary Income Credit	3,107	3,136	2,327	6,794	9,490	N/A
Worker Remittances	2,849	2,943	2,208	6,332	8,787	30,278
Secondary Income Debit	(48)	(34)	(36)	(116)	(175)	N/A
CAD (i + ii + iii + iv)	**119**	**29**	**(218)**	**(1,241)**	**(98)**	**(3,707)**

(Source: SBP)

2. BALANCE OF TRADE IN GOODS

According to the PBS, Pakistan's trade deficit increased by 4.87% to $1.83 billion in Sept of FY25, compared to $1.48 billion in the same period of FY24, amidst a higher increase in imports compared to exports. Moreover, exports rose by 14.93% to $2.84 billion during the third month of ongoing FY compared to $2.47 billion in the same month of last FY. Further, the imports increased by 18.28% to $4.67 billion in Sept of FY25 compared to $3.95 billion in the same period of FY24. Additionally, on a M-o-M basis, exports increased by almost 2.82% compared to $2.76 billion in Aug 2024. Furthermore, the country's trade deficit increased by 4.87% compared to $1.74 billion in Sept 2024 as compared to Aug 2024. On a cumulative basis, exports surged to $7.91 billion in the Jul-Sept period of FY25 compared to $6.90 billion in the same period last year. Similarly, the trade deficit rose by 5.26% to $5.49 billion in the first three months of FY25 compared to $5.21 billion in FY24. The graph below illustrates the import and export data categorized by groups for FY25 and FY24 during the corresponding periods of Jul-Sept.





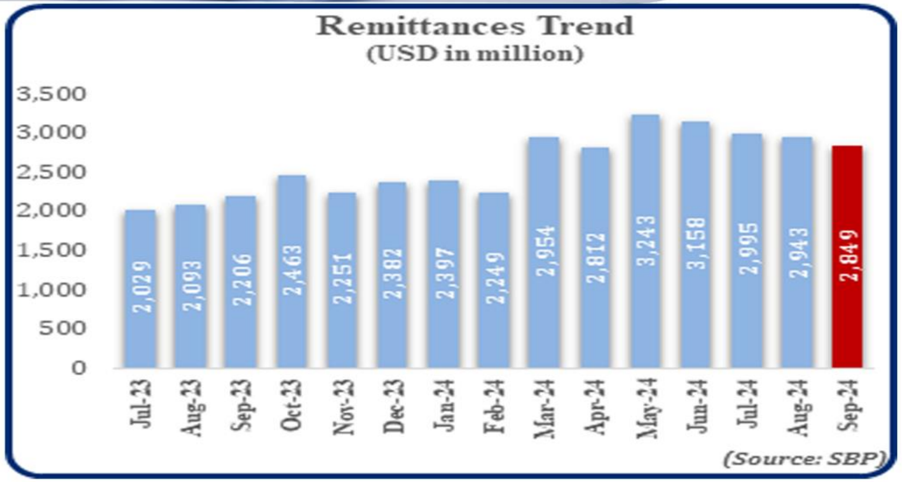
3. LARGE SCALE MANUFACTURING

According to the PBS, Pakistan's LSM sector showed a decline of 2.65% in Aug 2024 on a Y-o-Y basis vs. Aug 2023. In contrast, on a M-o-M basis, the overall output growth increased by 4.68%, compared to the month of July 2024. Additionally, the cumulative LSM growth exhibited a negative trend, with an almost 0.20% contraction in the Jul-Aug of FY25 vs. the same period of last FY24. Out of 22 major industries, only 13 industries posted a surge in production during the Jul-Aug period of FY25 as compared to FY24 for the same period last year. These include Food, Beverages, Tobacco, Textile, Wearing apparel, Leather Product, wood product, Paper & Board, Coke & Petroleum Products, Chemicals, Automobiles, other transport equipment and other manufacturing. However, the output in Pharmaceutical, Rubber product, non-metallic mineral products, iron & steel products, fabricated metal, Fertilizers, Computer, electronics and Optical products, electrical equipment, furniture, and machinery and equipment has decreased during Jul-Aug period in FY25 under review, compared to the preceding FY for the same month, data from the PBS has revealed. Sector-wise, important groups such as cotton yarn, cotton cloth , and garment sector showed a growth by 8.80%, 0.88% and 14.51% respectively, whilst the Cement industry showed a contraction of 16.36% in the first two months of FY25.

LSM (%)	Weight	Aug-24	July-24	Aug-23	Jul-Aug FY25
Textile	18.2	(0.86)	8.43	(16.19)	3.58
Food	10.7	0.41	4.79	8.53	2.48
Coke & Petroleum Products	6.7	8.40	5.55	30.81	7.01
Chemicals	6.5	0.36	0.20	(1.38)	0.25
Wearing Apparel	6.1	18.69	9.59	5.54	14.51
Pharmaceuticals	5.2	0.16	(3.36)	41.81	(1.64)
Non-Metallic Minerals Products	5.0	(26.55)	(12.94)	11.98	(19.52)
Beverages	3.8	(2.89)	6.75	6.17	1.17
Iron and Steel Products	3.4	(14.38)	(12.70)	(2.17)	(13.55)
Automobiles	3.1	(9.08)	71.96	(39.19)	23.12
Tobacco	2.1	0.72	90.21	(38.46)	34.02
Electrical Equipment	2.0	(18.20)	(19.37)	(15.81)	(18.68)
Paper & Board	1.6	(0.78)	6.35	(0.62)	4.60
Leather Products	1.2	2.74	1.11	1.53	2.82
Other Transport Equipment	0.7	26.26	11.67	(18.65)	20.31
LSM Growth for Aug 2024 (Y/Y)					**(2.65) %**
LSM Growth of Aug 2024 vs. July 2024 (M/M)					**4.68 %**
LSM Growth Jul-Aug FY25					**(0.19) %**

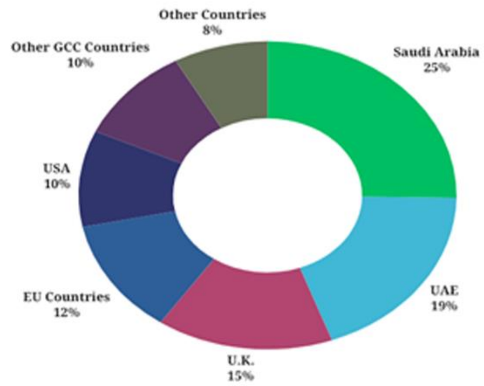
(Source: PBS)

5. Worker's Remittances



As per the SBP, the remittances sent by Overseas Pakistani workers have decreased by 3.18% to $2.85 billion in Sept 2024 vs. $2.94 billion in Aug 2024 on a M-o-M basis. In contrast, on a Y-o-Y comparison, the remittance inflows went up by 29.03% when compared to $2.21 billion received a year ago in the same month. Further, on a cumulative basis, remittances increased by almost 39.0% to $8.79 billion in span of three months of FY25, when compared with $6.33 billion for the same period last year. A descriptive analysis has revealed that remittance inflows during the first quarter of FY25 were coming mainly from four major countries: Saudi Arabia, UAE, UK, and the European Union ("EU") countries. With a share of 24.50% in the overall home remittances flows, Saudi Arabia remained a significant contributor. Moreover, the inflows from Saudi Arabia have recorded a growth of 42.1% and stand at $2.15 billion in Jul-Sept period of FY25 vs. $1.52 billion during the same period of FY24. An amount to the tune of $1.09 billion, or 12.43% share, was received from the EU countries, showing a growth of 29.4% in Jul-Sept period of FY25 vs. same period of FY24. Worker remittances from the UK increased by 41.6%, although it contributed almost 15.27% or $1.34 billion in the Jul-Sept period of FY25 over the same month of FY24. On the other hand, remittance growth from the UAE increased at a rate of 67.0%, while its share is almost $1.71 billion or 19.46% share in the total remittances.

Jul-Sept FY25

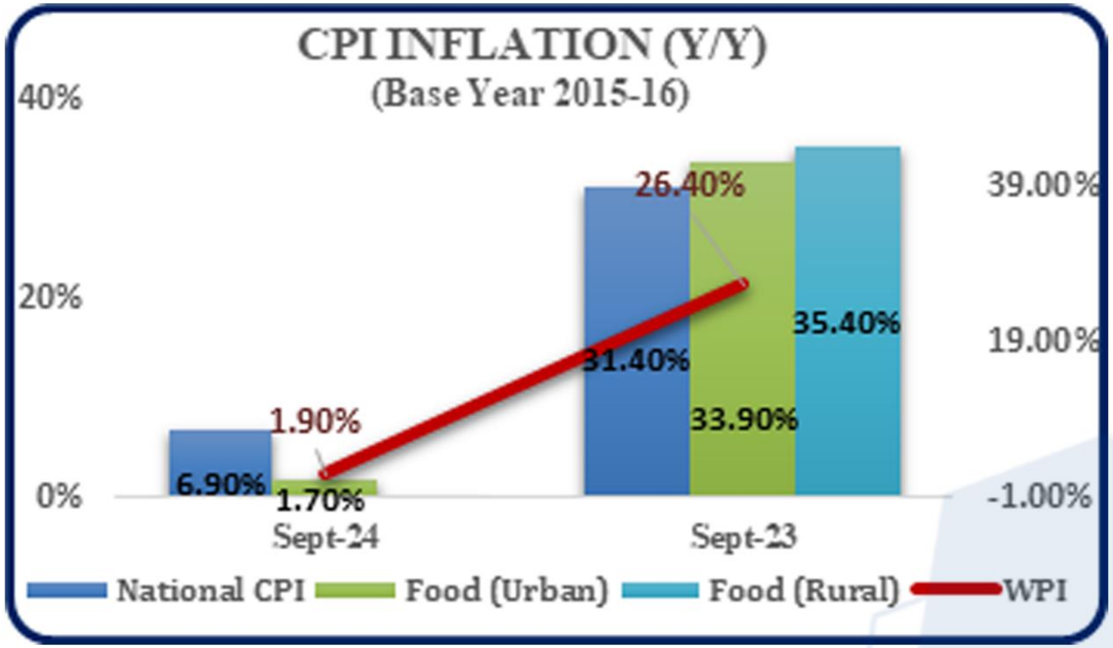


Group	Weight (%)	% Change over	
		Aug-24	Sept-23
Food	34.58	(1.38)	(0.59)
Non-perishable	29.60	(0.08)	(3.50)
Perishable	4.99	(8.25)	20.37
Utility	23.63	(0.60)	20.86
Health	2.79	(0.84)	13.69
Transport	5.91	(1.91)	(7.26)
Education	3.79	0.40	12.57
Restaurants & Hotels	6.92	1.65	9.15

(Source: PBS)

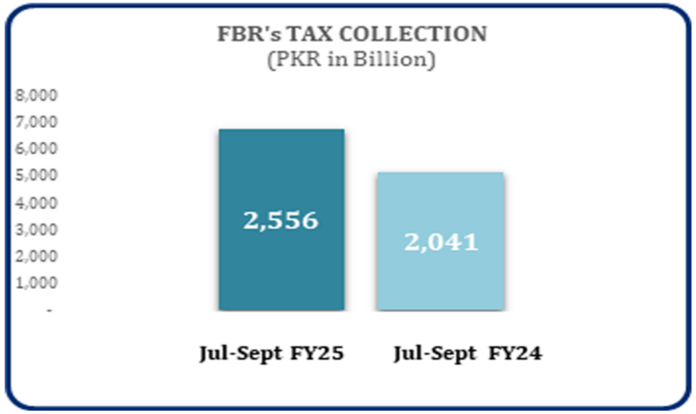
6. CONSUMER PRICE INDEX INFLATION

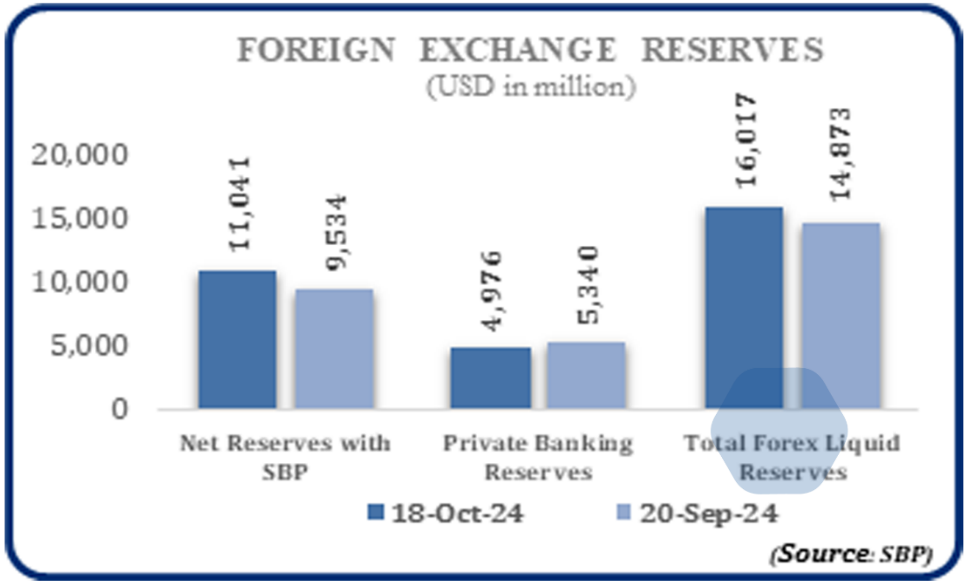
Pakistan's inflation has fallen to 6.9%, paving the way for further cuts in the policy rate. The inflation has mainly declined due to lower non-perishable goods prices and last year's high base effect. Further, this provides major room for the central bank to make multiple interest rate cuts to boost the economy. Further, inflation has been below the key policy rate for six consecutive months. In the previous month (Aug 2024), the CPI stood at 9.6%. Furthermore, the average inflation in the Jul-Sept period of FY24 amounted to 9.19%. Additionally, the food inflation rates in urban hike to 1.7% & and in rural areas contracted to 0.9%. In addition to that, the Wholesale Price Index ("WPI") stood at 1.9% on a Y-o-Y basis, which was recorded 6.3% in the previous month. Whereas, on a monthly basis, the National CPI has recorded a contraction of 0.5%. Similarly, the Food inflation rate (deflation) stood at (0.8) % and (1.0) % for urban and rural areas compared to Aug 2024, respectively. Lastly, in Sept 2024, the Core inflation, which is calculated by excluding energy and food items, rose by 9.3% and 12.1% in urban and rural areas on a Y-o-Y basis, respectively.



7. FBR TAX REVENUE COLLECTION

As per the data published by the FBR, the FBR collected PKR 2,556 billion worth of tax revenue in the first quarter of FY25 and failed to achieve its monthly target by just PKR 93 billion. Tax collection surged to PKR 1,101 billion in September, exceeded the monthly target of PKR 1,098 billion by just PKR 3 billion, boosting expectations that the shortfalls from the previous two months could be offset in the second quarter of 2024-25. As per Mr. Shahbaz Rana's article titled "***FBR collection exceeds target in September***" published on 1st Sept 2024 in the Express Tribune, out of the total of PKR 2,556 billion, income tax collection surged to PKR 1,225 billion, and accounts for almost 48% of the total tax collection, in the Jul-Sept period of the FY25. Moreover, sales tax has remained the weakest area, with its collection reaching over PKR 904 billion. Additionally, the FBR collected PKR 151 billion in Federal Excise Duty ("FED"). Lastly, the collection on account of customs duties ended up at PKR 276 billion. The following chart and graph illustrate the performance of the FBR in FY24.



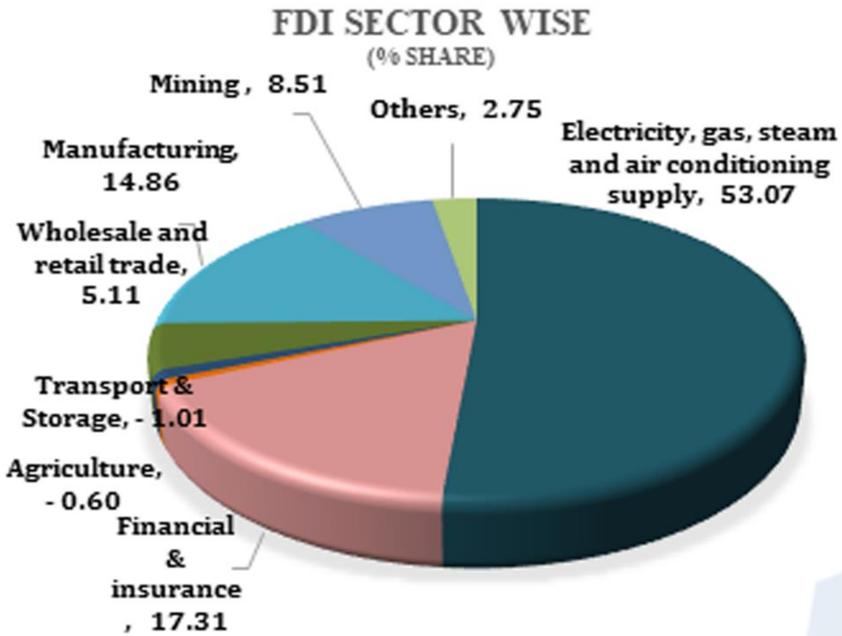


8. FOREIGN EXCHANGE RESERVES

The Net foreign exchange reserves of the SBP stood at $11.04 billion as of October 18th, 2024, representing an increase of 0.16%, or $18 million, compared to last week's reserves of $11.02 billion on September 11th, 2024. Moreover, when compared to the reserves of the previous month (which were $9.53 billion on Sept 20th, 2024), the Net reserves have gone up by 15.81%. 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.

9. FOREIGN DIRECT INVESTMENT

Pakistan's net FDI has surged by 48.2% or $251 million to $771 million provisionally during the Jul-Sept period of FY25, as compared to $520 million during the same month of FY24. Whereas, the total Net Foreign Investment surged by 70.4% or $373 million to $904 million on a Y-o-Y basis in Jul-Sept period of FY25 as against the amount of $530 million in the same period of FY23. This Pie chart shows the percentage share of net inflows in different sectors of the Economy in the first quarter of FY25.



10. DEBT PROFILE

The total central Government debt, comprising of the Government's domestic debt and external debt, has surged to PKR 70.36 trillion in Aug 2024, marking a substantial 10.0% increase compared to the same month of the previous Fiscal Year. Concurrently, domestic debt stands at PKR 48.34 trillion, reflecting a growth rate of almost 21.5%, while external debt has reached PKR 22.02 trillion, decreasing by 8.93% as of Aug 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)	Aug-24	Aug-23	% change
Domestic Debt	48,339	39,795	21.5
% of GDP	**38.94**	**37.53**	
External Debt	22,023	24,175	(8.9)
% of GDP	**17.74**	**19.47**	
Gross Public Debt	70,362	63,970	10.0
% of GDP	**56.67**	**51.53**	
Nominal GDP	124,150	106,045	15.6

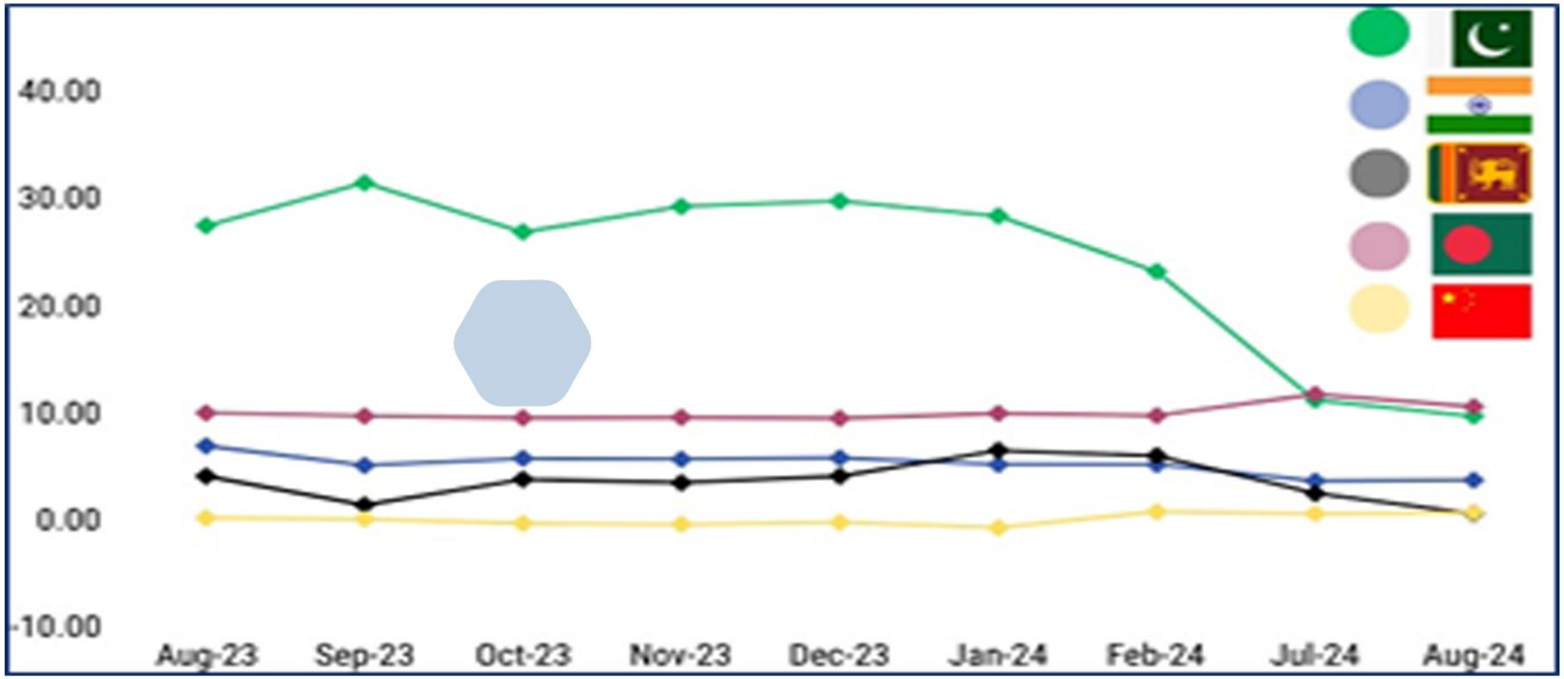
(Source: SBP & MOF)

11. REGIONAL ANALYSIS

When compared to other countries in the region, the Pakistani economy has shown a relatively stable trend against the USD in recent months, along with a high base effect, contributing to a lower CPI rate in September. To effectively control inflation, the Government needs to implement a homegrown approach and align the exchange rate with its true value. After months of political crisis, inflation in Bangladesh has finally started to decline to single digits, largely due to weakened domestic demand amidst policy rate hikes. In Sri Lanka, CPI has dipped to a deflation rate of -0.5%, down from 0.5% inflation in the previous month, influenced by the statistical base effect and weak aggregate demand in the country. Meanwhile, India's inflation rose from 3.65% to 5.49%, with the Ministry of Commerce and Industry reporting that the positive inflation rate in September 2024 is primarily driven by rising prices of food articles and food products, reaching 5.49% in August 2024. Additionally, China has experienced a slight but steady increase in prices following months of deflation, with inflation recorded at 0.6% in August 2024. Despite subdued consumer demand, the impacts of price volatility in China remain relatively inconspicuous.

Country	CPI (%)	Local Currency Units per USD (As of 26th Oct)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	6.90	277.6	0.82
India	5.49	84.1	(1.02)
Bangladesh	9.92	119.0	(8.18)
China	0.4	7.13	2.56
Sri Lanka	(0.5)	293.4	10.14

(Source: Trading Economics)



Outlook

Under the new IMF Extended Fund Facility ("EFF"), the SBP must maintain net international reserves above $12 billion by December 2024, though the IMF has estimated the net foreign reserves to drop to $8.6 billion by June 2025, indicating pressures on reserves in the latter half of the FY. Additionally, Pakistan is tasked with achieving an unprecedented primary surplus of PKR 2,877 billion by the end of 2024, heavily reliant on FBR meeting revenue targets.

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 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.