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Pakonomics

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Highlights

In the inter-bank market, the value of the national currency stands at PKR 278.0/USD as of November 28th, 2024. Over the past week, the USD to PKR parity rate has shown a constant trend.

According to the valuation of Tola Associates ("TA"), the value of PKR is 252.9/USD after incorporating the Jul-Oct period of FY24's Current Account Deficit ("CAD").

On November 5, 2024, the State Bank of Pakistan ("SBP") announced that the Monetary Policy Committee ("MPC") had decided to reduce the policy rate by 250 basis points, lowering it to 15% from 17.5%.

According to the Pakistan Bureau Statistics ("PBS"), Pakistan's LSM sector showed a contraction of 1.92% in Sept 2024 on a Year-on-Year ("Y-o-Y") basis vs. Sept 2023.

According to the SBP, the remittances sent by Overseas Pakistani workers have increased by 6.7% to $3.05 billion in Oct 2024 vs. $2.46 billion in Sept 2024 on a M-o-M basis.

As per the data published by the Federal Board of Revenue ("FBR"), the FBR collected PKR 3,440 billion worth of tax revenue in the Jul-Oct of FY25 and has failed to achieve its four months target by PKR 192 billion.

The Net foreign currency reserves held by the SBP stood at $11.29 billion as of 15th Nov 2024.

The Broad Money (M2) stock from 1st July 2024 to 17th November 2024 has contracted to PKR 211 billion, compared to a negative of PKR 81 billion last year in the same period.

According to the Pakistan Bureau of Statistics ("PBS"), the pace of Consumer Price Index ("CPI") inflation has clocked to 7.2% on a Y-o-Y basis in Sept 2024 vs. 26.8% last year.

Pakistan's net FDI has surged by 32.3% or $221 million to $904 million provisionally during the Jul-Oct period of FY25, as compared to $684 million during the same month of FY24.

The total Net Foreign Investment surged by 56.2% or $392 million to $1,090 million on a Y-o-Y basis in Jul-Oct period of FY25 as against the amount of $698 million in the same period of FY23.

Pakistan reported a current account deficit ("CAD") of $218 million during the Jul-Oct Period of FY25, compared to $1,528 million in the same month of FY24.

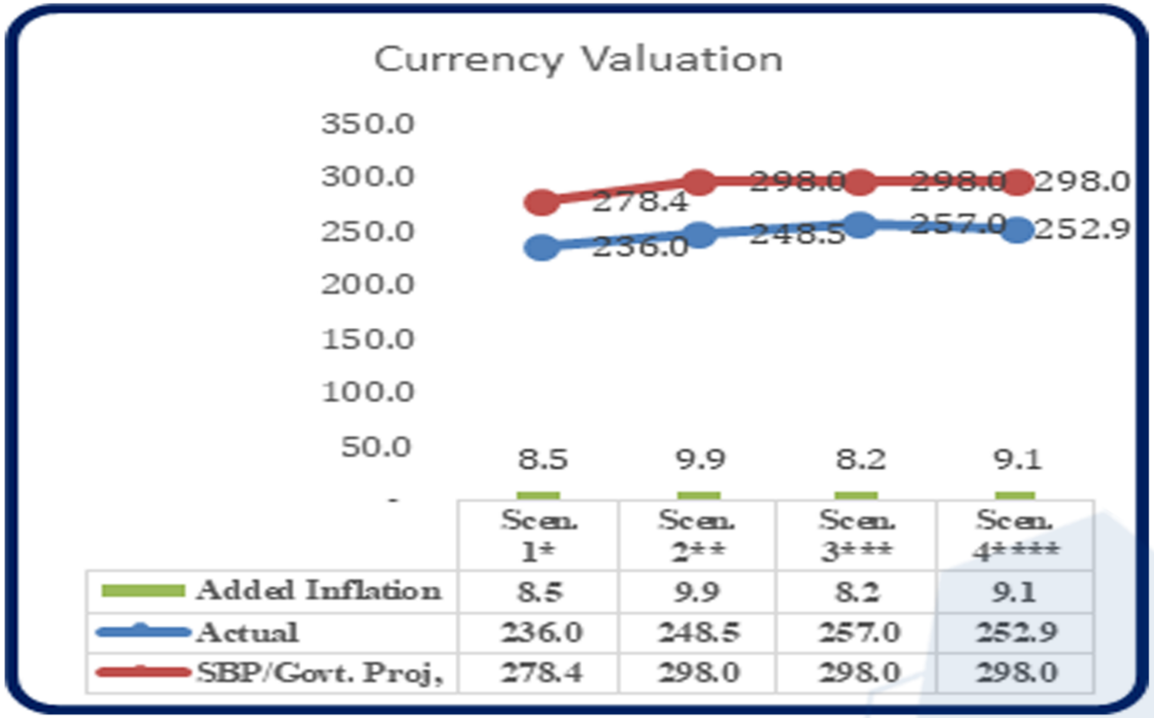
ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	September	↓	(1.92) %	2.16 %
Central Government Debt	September	↑	PKR 69,570 Billion	PKR 62,291 Billion
Credit to Private Sector	Jul – 17th November	↑	PKR 880 Billion	PKR (82) Billion
Worker's Remittances	October	↑	US $3,052 Million	US $2,463 Million
Currency in Circulation	Jul – 17th November	↑	PKR 70 Billion	PKR (523) Billion
Net Government Sector borrowing	Jul – 17th November	↓	PKR (1,260) Billion	PKR 1,236 Billion
National CPI (Base Year 2015-16)	October	↓	7.2%	26.8%
FBR Tax Collection	Jul-Oct	↑	PKR 3,440 Billion	PKR 2,752 Billion
Foreign Exchange Reserves with SBP	As of 15th Nov	↑	$11.29 Billion	$7.18 Billion
Foreign Direct Investments	Jul-Oct	↑	$904 Million	$684 Million
Trade Deficit in Goods	Jul-Oct	↓	US$ (7,083) Million	US$ (7,387) Million
Current Account Deficit	Jul-Oct	↓	$218 Million	$(1,528) Million

1. VALUATION OF THE PAKISTANI RUPEE PARITY

According to valuation of TA, the value of PKR is 252.9/USD after adjusting the Jul-Oct FY24 month's CAD. The PKR value has been kept artificially undervalued at PKR 278.0/USD, otherwise the present value of PKR currency is 252.9/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 scenario 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]



	Scen. 1*	Scen. 2**	Scen. 3***	Scen. 4****
Added Inflation	8.5	9.9	8.2	9.1
Actual	236.0	248.5	257.0	252.9
SBP/Govt. Proj.	278.4	298.0	298.0	298.0

*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")

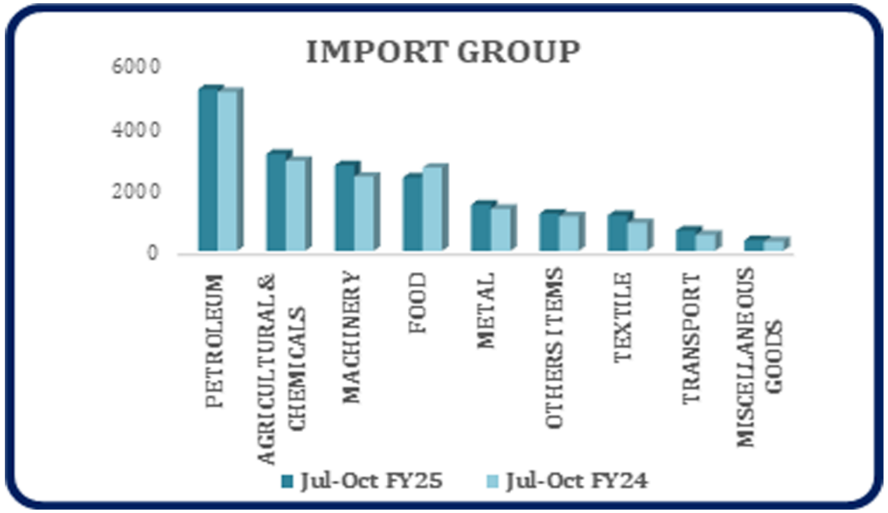
Pakistan recorded a current account ("CA") surplus for the third consecutive month in FY25. The CA stood at a $349 million surplus in October 2024, a increase by 222 times compared to the same month last year. On a cumulative basis, the CAD has declined to $218 million, a 114 times reduction compared to a CAD of $1,528 million during the Jul-Oct period of the previous FY24. This sustainable CAD is attributed to strong remittance inflows.

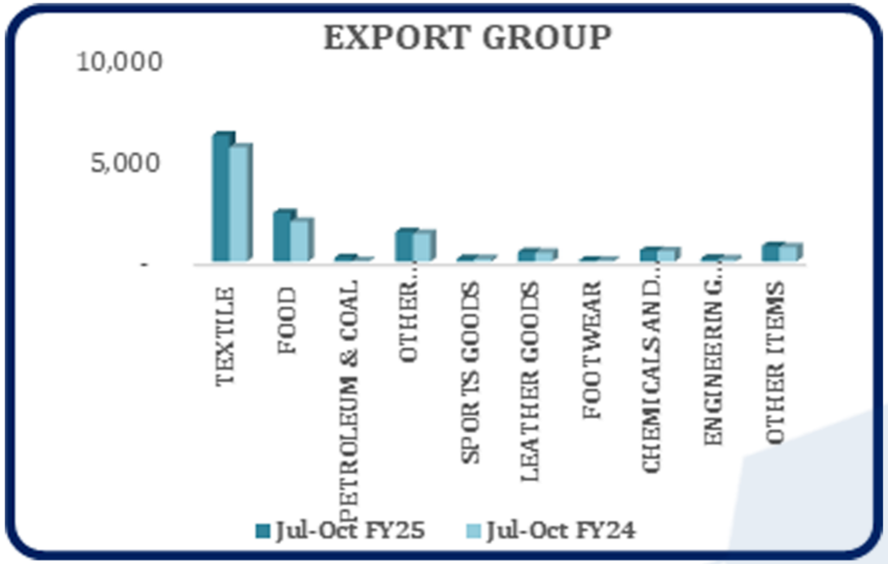
	Month wise Comparison			Commulative Comparison		
CAD	**Oct-24**	**Sept-24**	**Oct-23**	**Jul-Oct FY24**	**Jul-Oct FY25**	**Jul-June FY25 Proj**
i. Balance of Trade in Goods	**(1,586)**	**(2,061)**	**(1,664)**	**(7,000)**	**(8,324)**	**(24,941)**
Exports of Goods	3,022	2,635	2,719	9,671	10,508	32,341
Imports of Goods	4,608	4,696	4,383	16,671	18,832	57,283
ii. Balance of Trade in Services	**(261)**	**(206)**	**(258)**	**(1,101)**	**(992)**	**(2,738)**
Exports of Services	689	662	608	2,409	2,601	8,169
Imports of Services	950	920	814	3,510	3,593	10,907
iii. Balance on Primary Income	**(908)**	**(653)**	**(952)**	**(2,640)**	**(2,884)**	**(7,648)**
iv. Balance on Secondary Income	**3,104**	**3,058**	**2,535**	**9,213**	**12,418**	**31,620**
Secondary Income Credit	48	48	37	153	223	N/A
Worker Remittances	3,052	2,860	2,463	8,795	11,850	30,278
Secondary Income Debit	3,152	3,106	2,572	9,366	12,641	N/A
CAD (i + ii + iii + iv)	**349**	**86**	**(287)**	**(1,528)**	**218**	**(3,707)**

(Source: SBP)

3. BALANCE OF TRADE IN GOODS

According to the PBS, Pakistan's trade deficit decreased by 26.1% to $1.60 billion in Oct of FY25, compared to $2.17 billion in the same period of FY24, amidst a higher increase in exports. Moreover, exports rose by almost 11.0% to $2.98 billion during the fourth month of ongoing FY compared to $2.69 billion in the same month of last FY. Further, the imports decreased by 5.6% to $4.59 billion in Oct of FY25 compared to $4.86 billion in the same period of FY24. Additionally, on a M-o-M basis, exports increased by almost 5.22% compared to $2.84 billion in Sept 2024. Furthermore, the country's trade deficit decreased by 11.7% compared to $1.82 billion in Sept 2024. On a cumulative basis, exports surged to $10.89 billion in the Jul-Oct period of FY25 compared to $9.59 billion in the same period last year. Similarly, the trade deficit declined by 4.1% to $7.08 billion in the first four months of FY25 compared to $7.39 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-Oct.





4. LARGE SCALE MANUFACTURING

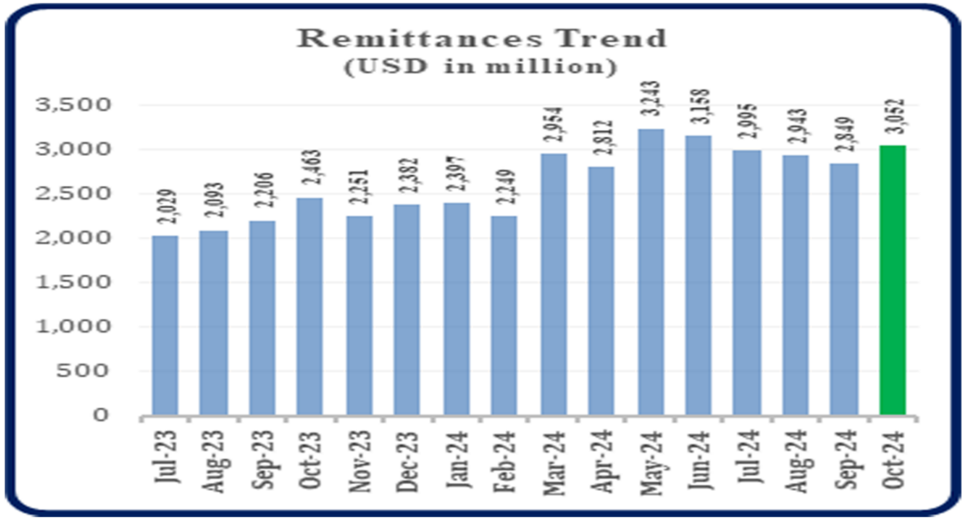
According to the PBS, Pakistan's LSM sector showed a decline of 1.9% in Sept 2024 on a Y-o-Y basis vs. Sept 2023. In contrast, on a M-o-M basis, the overall output growth increased by 0.5%, compared to the month of Aug 2024. Additionally, the cumulative LSM growth exhibited a negative trend, with an almost 0.8% contraction in the Jul-Sept of FY25 vs. the same period of last FY24. Sector-wise, important groups such as cotton yarn, cotton cloth , and garment sector showed a growth by 8.8%, 0.82% and 17.6% respectively, whilst the Cement industry showed a contraction of 16.1% in the first three months of FY25.

LSM (%)	Weight	Sept-24	Aug-24	Sept-23	Jul-Sept FY25
Textile	18.2	2.38	8.43	(21.81)	3.18
Food	10.7	1.25	4.79	4.68	2.22
Coke & Petroleum Products	6.7	9.52	5.55	17.01	7.85
Chemicals	6.5	(2.80)	0.20	2.08	(0.58)
Wearing Apparel	6.1	23.83	9.59	13.77	17.62
Pharmaceuticals	5.2	2.46	(3.36)	29.53	(0.29)
Non-Metallic Minerals Products	5.0	(18.06)	(12.94)	(4.40)	(19.00)
Beverages	3.8	2.32	6.75	6.70	1.08
Iron and Steel Products	3.4	(10.67)	(12.70)	(1.74)	(12.60)
Automobiles	3.1	32.96	71.96	(22.88)	26.44
Tobacco	2.1	52.61	90.21	(56.93)	40.36
Electrical Equipment	2.0	(31.39)	(19.37)	3.82	(23.32)
Paper & Board	1.6	5.65	6.35	(5.44)	6.26
Leather Products	1.2	(3.74)	1.11	5.96	(0.73)
Other Transport Equipment	0.7	21.92	11.67	2.81	21.52
LSM Growth for Sept 2024 (Y/Y)					**(1.92) %**
LSM Growth of Sept 2024 vs. Aug 2024 (M/M)					**0.46 %**
LSM Growth Jul-Sept FY25					**(0.76) %**

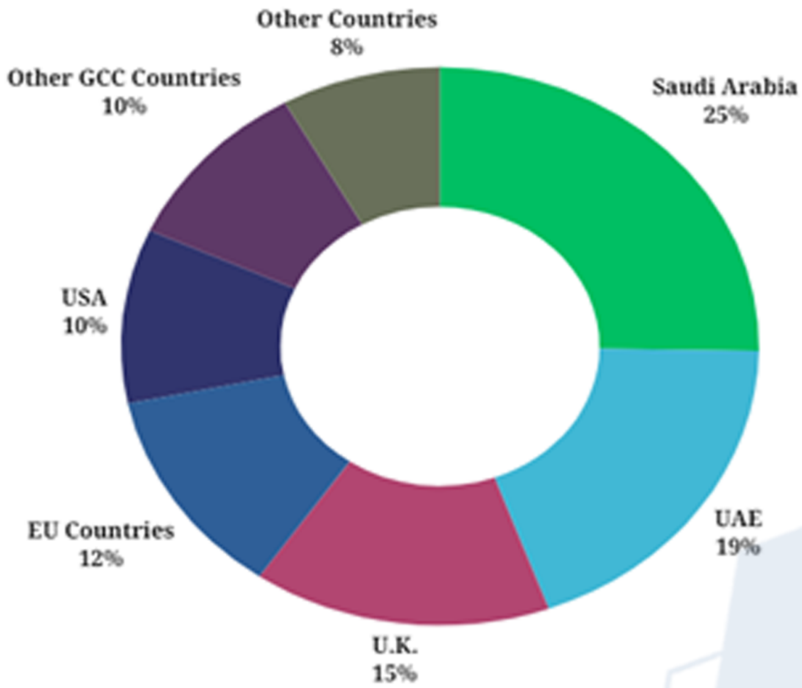
(Source: PBS)

5. Worker's Remittances

As per the SBP, the remittances sent by Overseas Pakistani workers have increased by 6.7% to $3.05 billion in Oct 2024 vs. $2.46 billion in Sept 2024 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the remittance inflows went up by 23.9% when compared to $2.86 billion received a year ago in the same month. Further, on a cumulative basis, remittances increased by almost 35.0% to $11.85 billion in the Jul-Oct period of FY25, when compared with $8.80 billion for the same period last year.



Remittances Share
Jul-Oct FY25

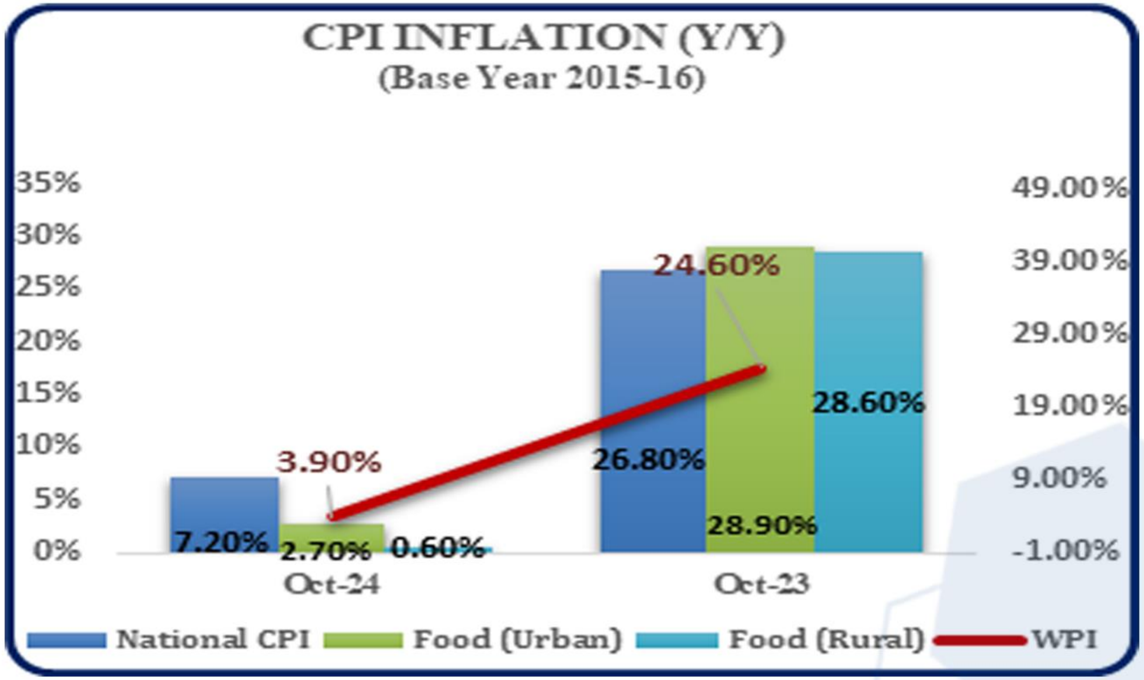


6. CONSUMER PRICE INDEX INFLATION

Pakistan's headline inflation rose to 7.2% Y-o-Y in October 2024, up slightly from 6.9% recorded in September 2024. The inflation has mainly decrease due to last year's base effect. Further, inflation has been below the key policy rate for seven consecutive months. Additionally, the average inflation in the Jul-Oct period of FY24 amounted to 8.7%. Moreover, on a monthly basis, the National CPI has recorded a hike of 1.2%. Similarly, the Food inflation rate stood at 1.6% and 2.2% for urban and rural areas compared to Sept 2024, respectively. Lastly, in Oct 2024, the Core inflation, which is calculated by excluding energy and food items, rose by 8.6% and 11.7% in urban and rural areas on a Y-o-Y basis, respectively.

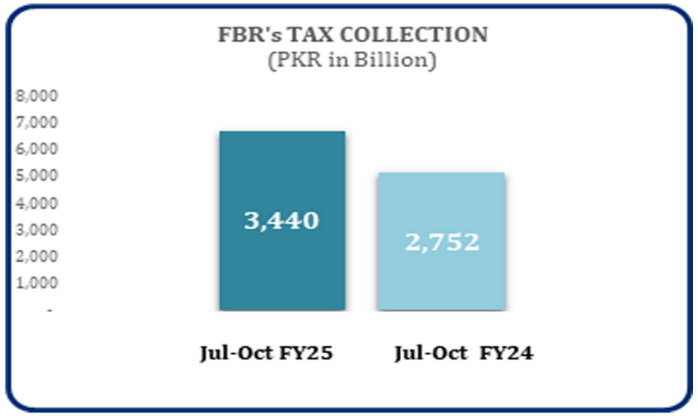
Group	Weight (%)	% Change over	
		Sept-24	Oct-23
Food	34.58	2.17	0.93
Non-perishable	29.60	1.01	(1.46)
Perishable	4.99	8.84	15.91
Utility	23.63	1.61	19.24
Health	2.79	1.49	12.29
Transport	5.91	(1.53)	(6.13)
Education	3.79	0.18	10.03
Restaurants & Hotels	6.92	0.46	7.94

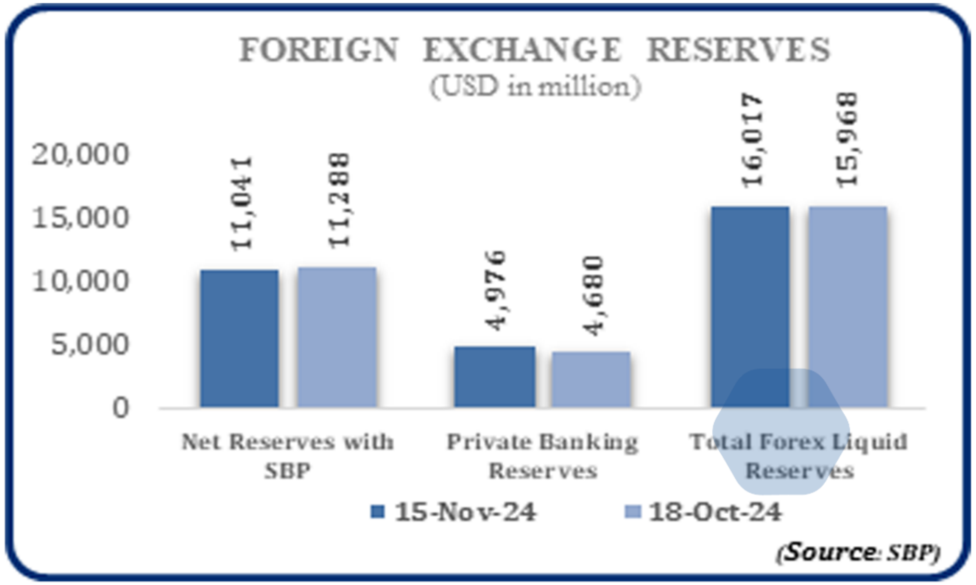
(Source: PBS)



7. FBR TAX REVENUE COLLECTION

As per the data published by the FBR, the FBR collected PKR 3,440 billion worth of tax revenue in the first four months of FY25 and failed to achieve its monthly target by PKR 192 billion. The tax collection surged to PKR 877 billion in October 2024, whereby the FBR failed to achieve the monthly target of PKR 980 billion, despite delaying legitimate taxpayer refunds. As per Mr. Shahbaz Rana's article titled "***Four-month tax target missed***" published on 1st Nov 2024 in the Express Tribune, the FBR must maintain a 40% growth rate to achieve its annual revenue target of nearly PKR 13 trillion; however, the first-quarter results have fallen short. As per the article, a cumulative shortfall of PKR 325 billion to PKR 350 billion is anticipated in the first half of the fiscal year.



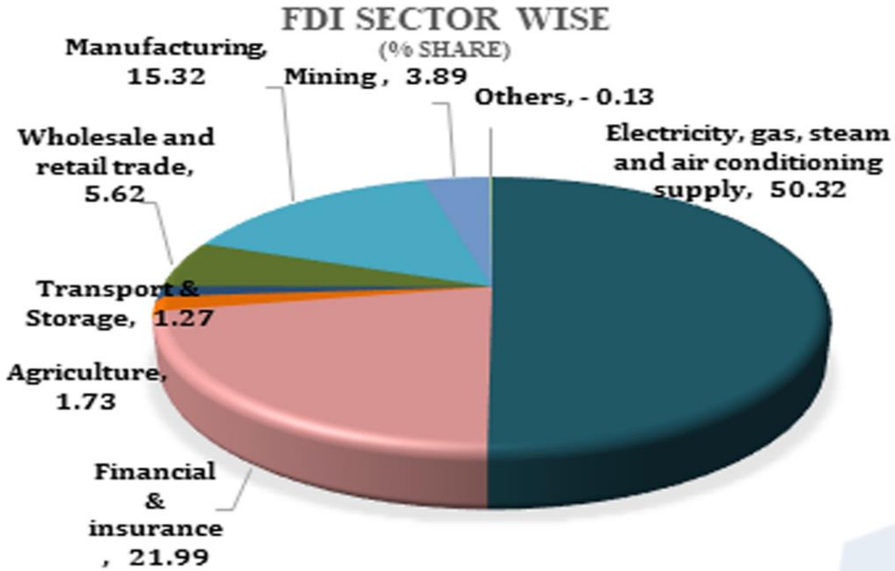


8. FOREIGN EXCHANGE RESERVES

The Net foreign exchange reserves of the SBP stood at $11.29 billion as of November 15th, 2024, representing an increase of 0.26%, or $29.4 million, compared to last week's reserves of $11.26 billion on November 8th, 2024. Moreover, when compared to the reserves of the previous month (which were $11.04 billion on Oct 18th, 2024), the Net reserves have gone up by 2.24%. The boost in foreign reserves is mainly credited to the acquisition of the second and final installment totaling $1.1 billion from the IMF.

9. FOREIGN DIRECT INVESTMENT

Pakistan's net FDI has surged by 32.3% or $221 million to $904 million provisionally during the Jul-Oct period of FY25, as compared to $684 million during the same month of FY24. Whereas, the total Net Foreign Investment surged by 56.2% or $392 million to $1,090 million on a Y-o-Y basis in Jul-Oct period of FY25 as against the amount of $698 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 four months of FY25.



10. DEBT PROFILE

The total central Government debt, comprising of the Government's domestic debt and external debt, has surged to PKR 69.57 trillion in Sept 2024, marking a substantial 11.7% increase compared to the same month of the previous Fiscal Year. 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)	Sept-24	Sept-23	% change
Domestic Debt	47,536	39,698	19.74
% of GDP	**38.29**	**37.43**	
External Debt	22,034	22,594	(2.48)
% of GDP	**17.75**	**21.31**	
Gross Public Debt	69,570	62,291	11.69
% of GDP	**56.04**	**58.74**	
Nominal GDP	124,150	106,045	17.07

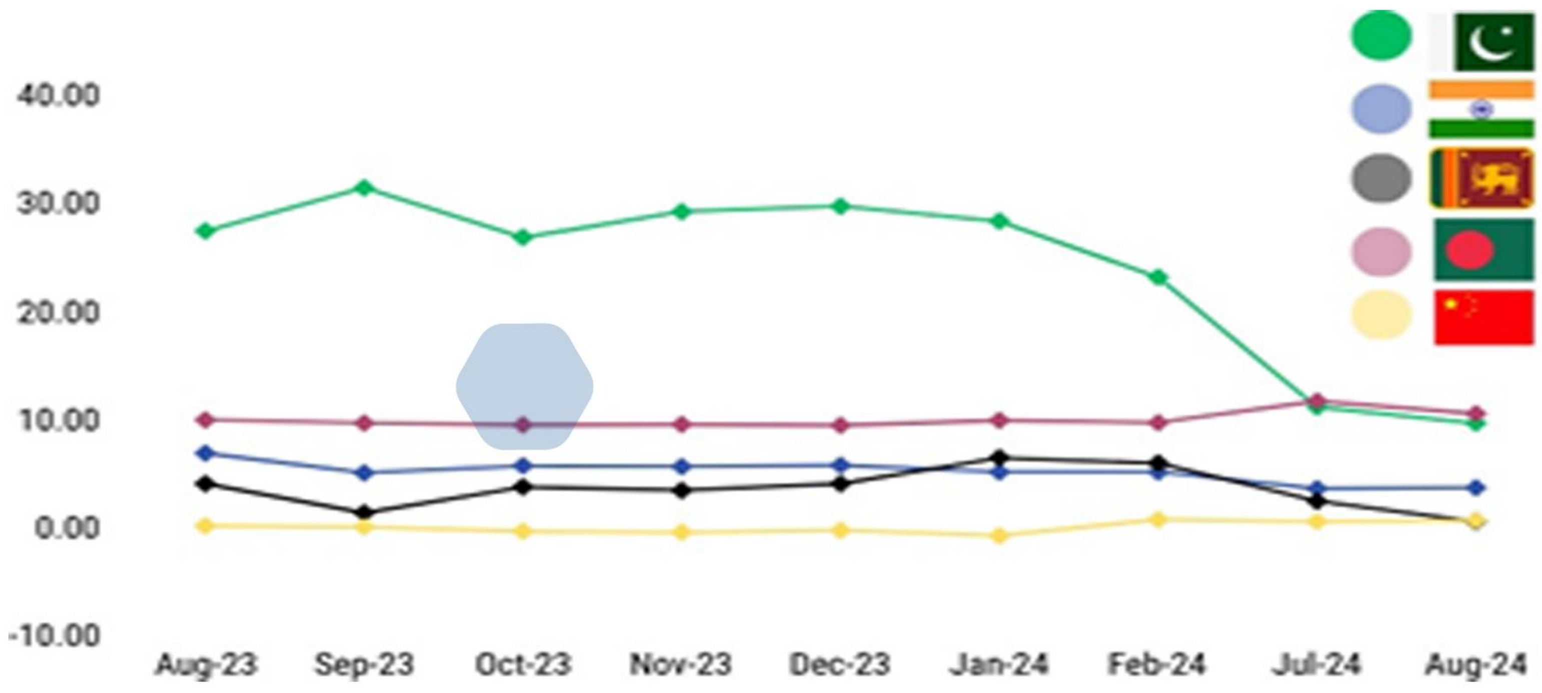
(Source: SBP & MOF)

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 single digit inflation rate in October. After months of political crisis, inflation in Bangladesh has reached to double digit amidst a higher food price. In Sri Lanka, CPI has dipped to a deflation rate of -0.8%, down from 0.5% deflation in the previous month, influenced by the statistical base effect and weak aggregate demand in the country. Meanwhile, India's inflation rose to 6.2%, primarily driven by rising prices of food articles and food products. Additionally, China has experienced a slight but steady increase in prices following months of deflation, with inflation recorded at 0.3% in October 2024.

Country	CPI (%)	Local Currency Units per USD (As of 26th Nov)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	7.2	278.0	2.62
India	6.2	84.5	(1.35)
Bangladesh	10.9	119.2	(8.32)
China	0.3	7.3	(1.56)
Sri Lanka	(0.8)	290.1	11.61

(Source: Trading Economics)



Outlook

Pakistan's economic outlook shows cautious optimism as inflation eased significantly, dropping to 6.9% in September and 7.2% in October 2024, down from 9.6% in August 2024. This decline is attributed to subdued demand, improved food supply, stable global oil prices, and a favorable base effect. The MPC now projects average inflation for FY25 to be below its earlier estimate of 11.5%–13.5%. However, risks such as conflicts in the Middle East, food price volatility, and revenue shortfall measures could challenge this outlook. Sustaining current favorable conditions remains key to economic stability.

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.