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Pakonomics

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Highlights

In the inter-bank market, the value of the national currency stands at PKR 278.83/USD as of January 27th, 2025. 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 250.2/USD after incorporating the Jul-Dec period of FY25's Current Account Deficit ("CAD").

Moreover, if the currency parity had been adjusted earlier, inflation in FY23 would have been 26.31% instead of 29.2%. In FY24, it could have dropped to 8.7% rather than 23.41%, and in FY25, a deflation of -6.23% could have occurred instead of an inflation of 7.22%. This highlights how timely adjustments could have mitigated inflationary pressures significantly.

On January 27, 2025, the State Bank of Pakistan ("SBP") announced that the Monetary Policy Committee ("MPC") had decided to reduce the policy rate by 100 basis points, lowering it to 12% from 13%.

According to the Pakistan Bureau Statistics ("PBS"), Pakistan's LSM sector showed a contraction of 3.81% in Nov 2024 on a Year-on-Year ("Y-o-Y") basis vs. Nov 2023.

According to the SBP, the remittances sent by Overseas Pakistani workers have increased by 5.62% to $3.08 billion in Dec 2024 vs. $2.92 billion in Nov 2024 on a M-o-M basis.

As per the data published by the Federal Board of Revenue ("FBR"), the FBR collected PKR 5,623 billion worth of tax revenue in the Jul-Dec of FY25 and has failed to achieve its sixth months target by PKR 386 billion.

The Net foreign currency reserves held by the SBP stood at $11.45 billion as of 17th Jan 2025.

The Broad Money (M2) stock from 1st July 2024 to 17th January 2025 has contracted to a negative of PKR 973 billion, compared to PKR 416 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 in at 4.1% on a Y-o-Y basis in Dec 2024 vs. 29.7% last year.

Pakistan's net FDI has surged by 20.0% or $221 million to $ 1,329 million provisionally during the Jul-Dec period of FY25, as compared to $1,108 million during the same month of FY24.

The total Net Foreign Investment surged by 5.8% or $68 million to $ 1,247 million on a Y-o-Y basis in Jul-Dec period of FY25 as against the amount of $ 1,179 million in the same period of FY24.

Pakistan reported a Current Account surplus of $1,210 million during the Jul-Dec Period of FY25, compared to CAD of $1,397 million in the same month of FY24.

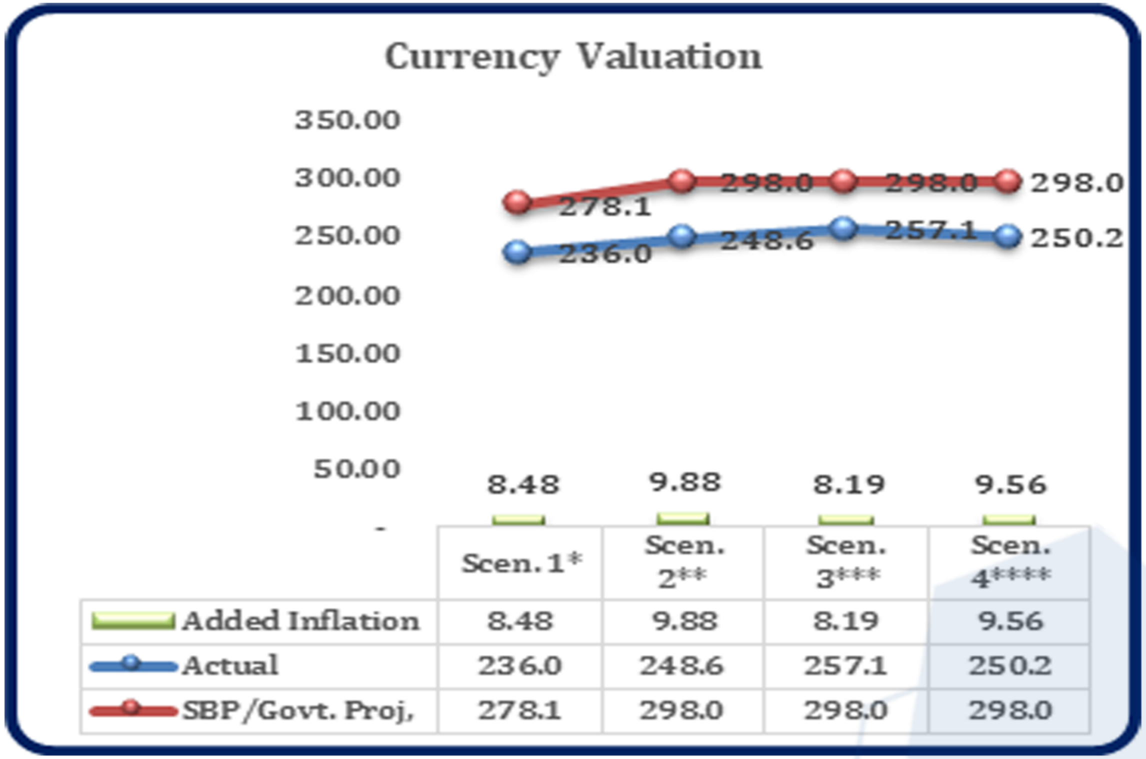
ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	November	↓	(3.81) %	(0.71) %
Central Government Debt	November	↑	PKR 70,366 Billion	PKR 63,391 Billion
Credit to Private Sector	Jul – 17th January	↑	PKR 1,398 Billion	PKR 152 Billion
Worker's Remittances	December	↑	US $3,079 Million	US $2,382 Million
Currency in Circulation	Jul – 17th January	↑	PKR 223 Billion	PKR (545) Billion
Net Government Sector borrowing	Jul – 17th January	↓	PKR (2,126) Billion	PKR 2,440 Billion
National CPI (Base Year 2015-16)	November	↓	4.1%	29.7%
FBR Tax Collection	Jul-Dec	↑	PKR 5,623Billion	PKR 4,463 Billion
Foreign Exchange Reserves with SBP	As of 17th Jan	↑	$11.45 Billion	$8.03 Billion
Foreign Direct Investments	Jul-Dec	↑	$1,329 Million	$1,108 Million
Trade Deficit in Goods	Jul-Dec	↑	US$ (11,203) Million	US$ (11,152) Million
Current Account Deficit	Jul-Dec	↓	$1,210 Million	$(1,397) Million

1. VALUATION OF THE PAKISTANI RUPEE PARITY

According to valuation of TA, the value of PKR is 250.2/USD after adjusting the Jul-Dec FY24 month's CAD. The PKR value has been kept artificially undervalued at PKR 278.4/USD, otherwise the present value of PKR currency is 250.2/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; and (d) the last scenario is calculating the PKR value based on the adjusted CAD projection of the Government adjusted for the Jul-Dec 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”)

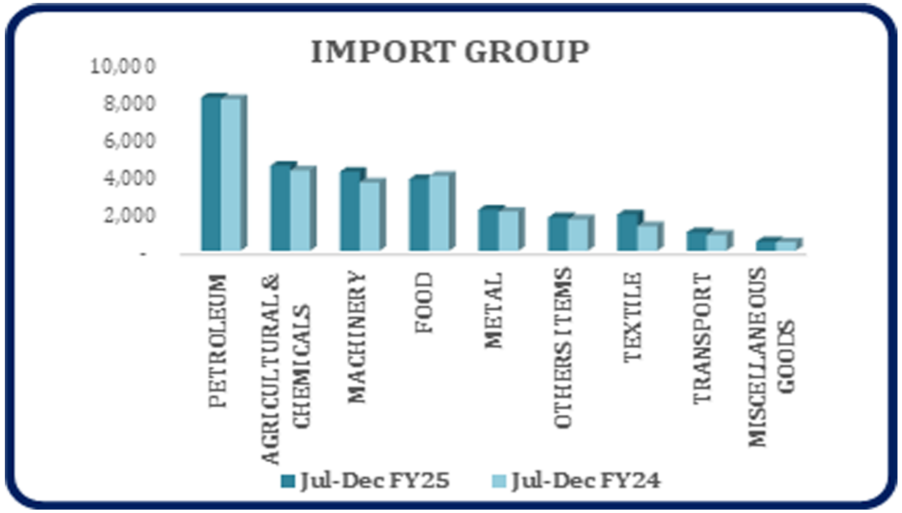
Pakistan has recorded a current account surplus (“CAS”) for the fifth consecutive month in FY25. The CAS stood at a $582 million in December 2024, a increase of 109 times compared to the same month last year. On a cumulative basis, the CAD has declined to a $1,210 million of surplus, a 215 times reduction compared to a CAD of $1,397 million during the Jul-Dec period of the previous FY24. This sustainable CAS in FY25 is attributed to strong remittance inflows.

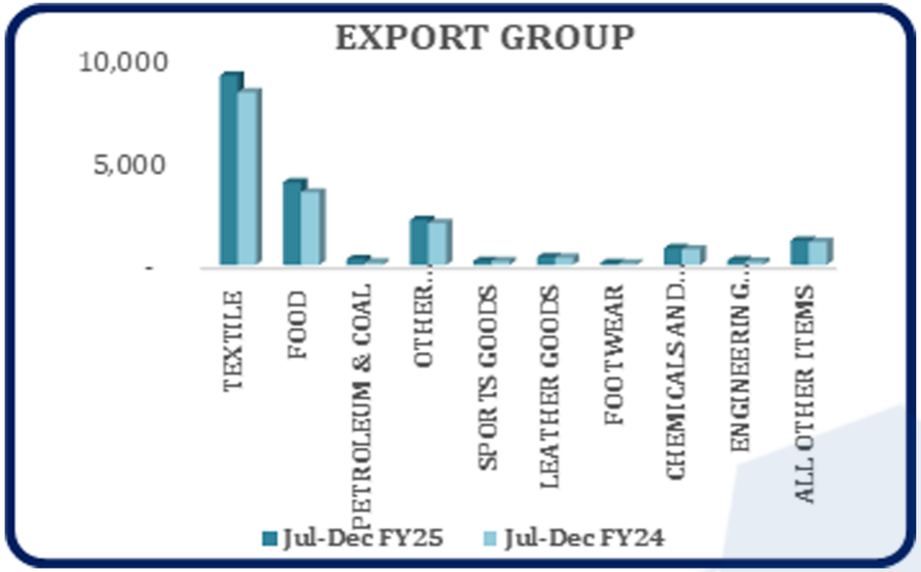
	Month wise Comparison			Commulative Comparison		
CAD	Dec-24	Nov-24	Dec-23	Jul-Dec FY24	Jul-Dec FY25	Jul-June FY25 Proj.
i. Balance of Trade in Goods	**(1,725)**	**(1,355)**	**(1,391)**	**(10,229)**	**(11,514)**	**(24,941)**
Exports of Goods	3,054	2,745	2,782	15,146	16,229	32,341
Imports of Goods	4,779	4,100	4,173	25,375	27,743	57,283
ii. Balance of Trade in Services	**(218)**	**(200)**	**(101)**	**(1,361)**	**(1,589)**	**(2,738)**
Exports of Services	784	666	748	3,791	4,050	8,169
Imports of Services	1,002	866	849	5,152	5,639	10,907
iii. Balance on Primary Income	**(743)**	**(841)**	**(826)**	**(4,054)**	**(4,507)**	**(7,648)**
iv. Balance on Secondary Income	**3,268**	**3,080**	**2,597**	**14,247**	**18,820**	**31,620**
Secondary Income Credit	3,380	3,120	2,631	14,468	19,156	N/A
Worker Remittances	3,079	2,915	2,382	13,436	17,846	30,278
Secondary Income Debit	112	40	34	221	336	N/A
CAD (i + ii + iii + iv)	**582**	**684**	**279**	**(1,397)**	**1,210**	**(3,707)**

(Source: SBP)

3. BALANCE OF TRADE IN GOODS

According to the PBS, Pakistan's trade deficit increased by 36.5% to $2.48 billion in Dec of FY25, compared to $1.81 billion in the same period of FY24, amidst a higher increase in imports. Moreover, exports rose by almost 3.4% to $2.92 billion during the sixth month of ongoing FY compared to $2.82 billion in the same month of last FY. Further, the imports increased by 16.4% to $5.39 billion in Dec of FY25 compared to $4.64 billion in the same period of FY24. Additionally, on a M-o-M basis, exports increased by 3.0% compared to $2.83 billion in Nov 2024. Furthermore, the country's trade deficit increased by 48.5% compared to $1.67 billion in Nov 2024. On a cumulative basis, exports surged to $16.64 billion in the Jul-Dec period of FY25 compared to almost $15.0 billion in the same period last year. Similarly, the trade deficit increased by 0.5% to $11.20 billion in the first half of FY25 compared to $11.15 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-Dec.





4. LARGE SCALE MANUFACTURING

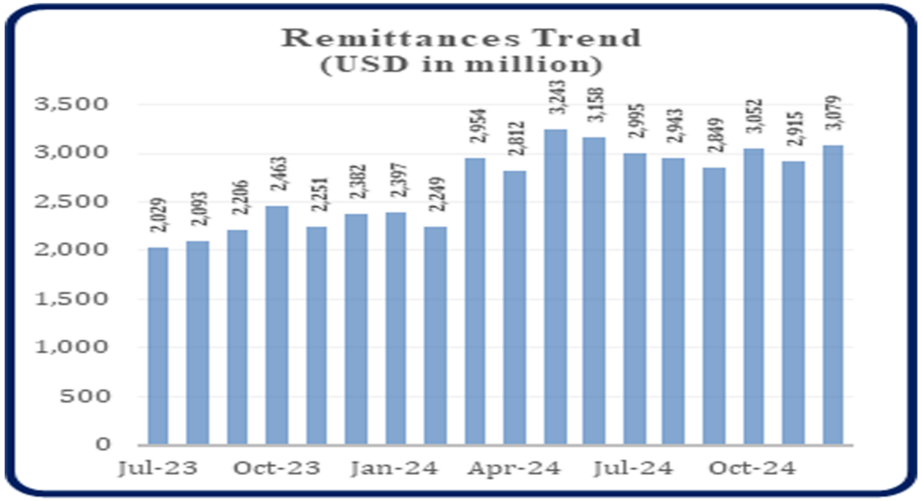
According to the PBS, Pakistan's LSM sector showed a contraction of 3.81% in Nov 2024 on a Y-o-Y basis vs. Nov 2023. Likewise, on a M-o-M basis, the overall output growth decreased by 1.19%, compared to the month of Oct 2024. Additionally, the cumulative LSM growth exhibited a negative trend, with an almost 1.25% contraction in the Jul-Nov 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%, 0.8% and 11.49% respectively, whilst the Cement industry showed a contraction of 9.66% in the first five months of FY25.

LSM (%)	Weight	Nov-24	Oct-24	Nov-23	Jul-Nov FY25
Textile	18.2	1.04	0.92	0.39	2.28
Food	10.7	(0.05)	1.83	3.98	1.72
Coke & Petroleum Products	6.7	(16.18)	(18.97)	2.77	(2.44)
Chemicals	6.5	(7.15)	2.11	9.43	(1.43)
Wearing Apparel	6.1	5.67	12.02	(1.72)	11.49
Pharmaceuticals	5.2	1.21	9.16	23.62	1.88
Non-Metallic Minerals Products	5.0	9.78	(2.98)	(3.42)	(13.98)
Beverages	3.8	10.92	(1.59)	12.11	1.37
Iron and Steel Products	3.4	(11.25)	(11.86)	(0.63)	(12.19)
Automobiles	3.1	89.06	109.63	(65.90)	50.70
Tobacco	2.1	22.58	16.86	(43.79)	30.85
Electrical Equipment	2.0	(11.90)	(14.44)	(7.91)	(19.64)
Paper & Board	1.6	2.26	(4.94)	(4.87)	2.95
Leather Products	1.2	1.23	0.81	3.55	(0.02)
Other Transport Equipment	0.7	42.75	28.56	(21.84)	27.37
LSM Growth for Nov 2024 (Y/Y)					**(3.81) %**
LSM Growth of Nov 2024 vs. Oct 2024 (M/M)					**(1.19) %**
LSM Growth Jul-Nov FY25					**(1.25) %**

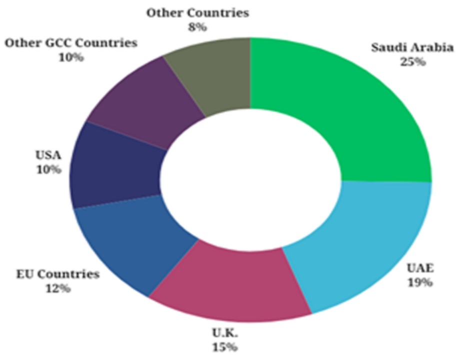
(Source: PBS)

5. Worker's Remittances

As per the SBP, the remittances sent by Overseas Pakistani workers have increased by 5.62% to $3.08 billion in Dec 2024 vs. $2.92 billion in Nov 2024 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the remittance inflows went up by 29.28% when compared to $2.38 billion received a year ago in the same month. Further, on a cumulative basis, remittances increased by almost 32.80% to $17.85 billion in the Jul-Dec period of FY25, when compared with $13.44 billion for the same period last year.



Remittances Share Jul-Dec FY25

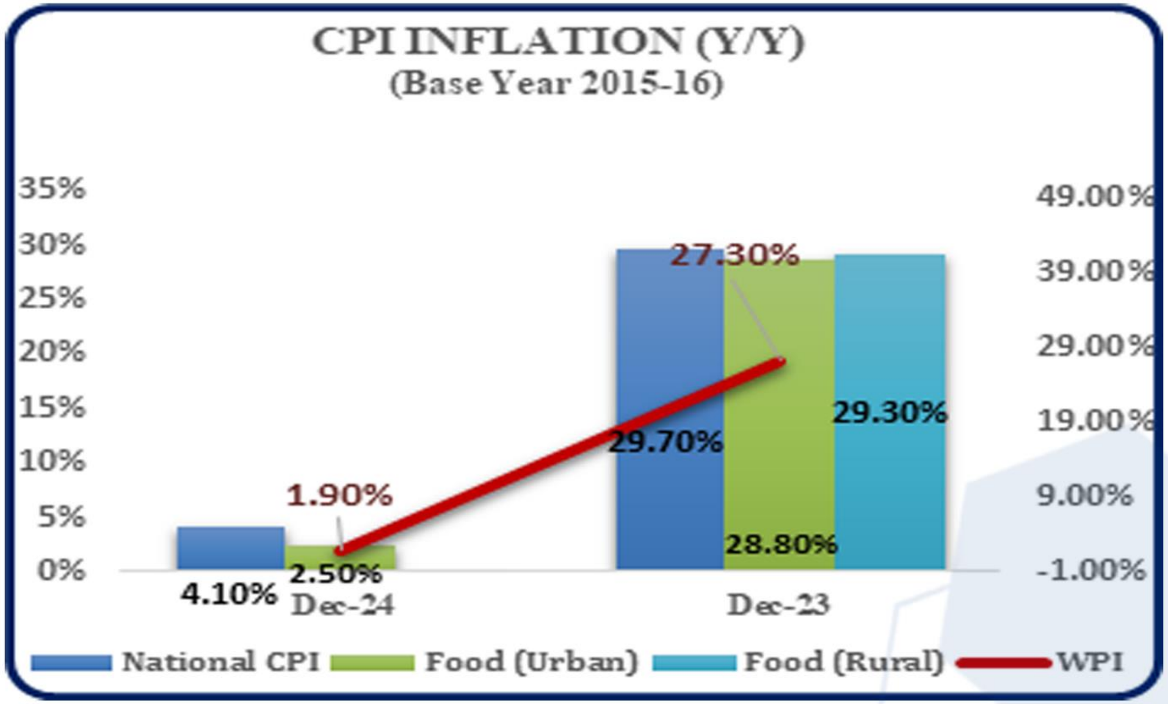


6. CONSUMER PRICE INDEX INFLATION

Group	Weight (%)	% Change over	
		Nov-24	Dec-23
Food	34.58	0.01	0.27
Non-perishable	29.60	0.19	(1.40)
Perishable	4.99	(0.94)	10.58
Utility	23.63	(0.77)	3.38
Health	2.79	3.38	13.28
Transport	5.91	1.05	(2.52)
Education	3.79	0.02	10.32
Restaurants & Hotels	6.92	0.36	7.91

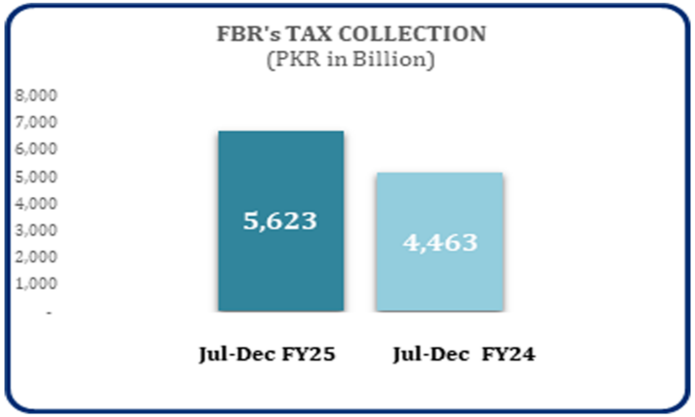
(Source: PBS)

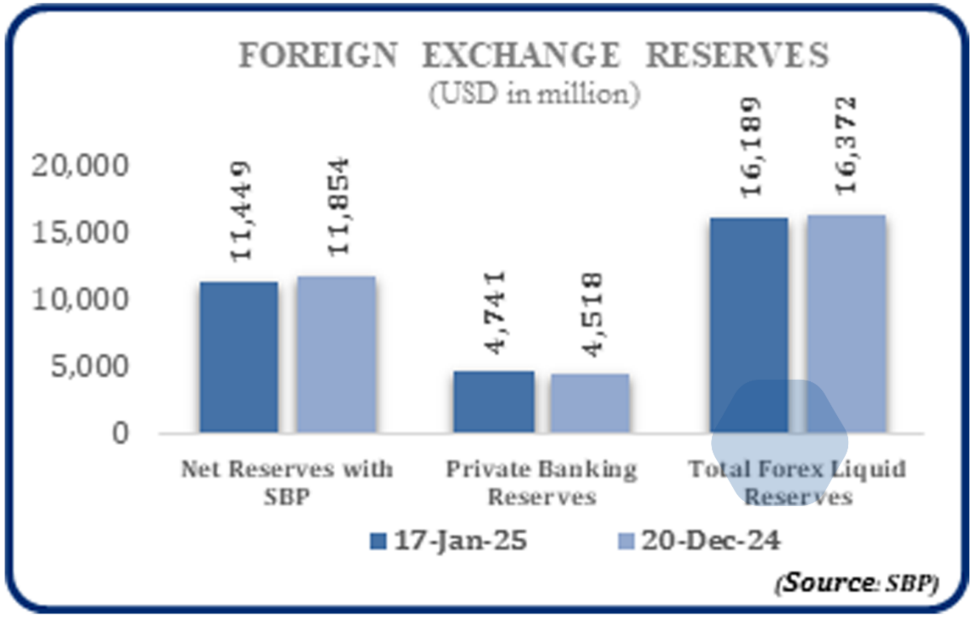
Pakistan's headline inflation declined to 4.1% Y-o-Y in Dec 2024, down slightly from 4.9% recorded in Nov 2024. The inflation has mainly decreased due to last year's base effect. Further, inflation has been below the key policy rate for ninth consecutive months. Additionally, the average inflation in the Jul-Dec period of FY24 amounted to 7.2%. Moreover, on a monthly basis, the National CPI has recorded a hike of 0.1%. Similarly, the Food inflation rate stood at 0.1% for both the urban and rural areas compared to Nov 2024. Lastly, in Dec 2024, the Core inflation, which is calculated by excluding energy and food items, rose by 8.1% and 10.7% 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 5,623 billion worth of tax revenue in the first half of FY25 and failed to achieve its target by PKR 386 billion. The tax collection surged to PKR 1,343 billion in Dec 2024. However, despite this, the FBR failed to achieve its six-month target, even though they collected PKR 271 billion on the last day of December 2024, according to Shahbaz Rana's article in The Express Tribune titled ***"Pakistan Misses Tax Receipt Target".***



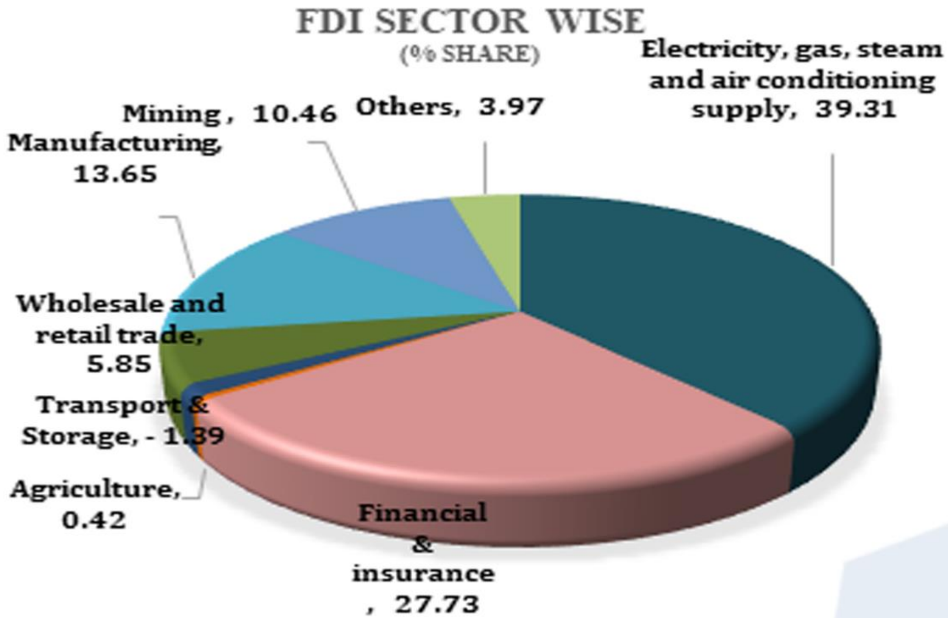


8. FOREIGN EXCHANGE RESERVES

The Net foreign exchange reserves of the SBP stood at $11.45 billion as of January 17th, 2025, representing a decrease of 2.36%, or $276 million, compared to last week's reserves of $11.72 billion on January 10th, 2025. Moreover, when compared to the reserves of the previous month (which were $11.85 billion on Dec 20th, 2024), the Net reserves have gone down by 3.42%. The overall 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 20.0% or $221 million to $ 1,329 million provisionally during the Jul-Dec period of FY25, as compared to $1,108 million during the same month of FY24. Whereas, the total Net Foreign Investment surged by 5.8% or $68 million to $ 1,247 million on a Y-o-Y basis in Jul-Dec period of FY25 as against the amount of $ 1,179 million in the same period of FY24. This Pie chart shows the percentage share of net inflows in different sectors of the Economy in the first half of FY25.



10. DEBT PROFILE

The total central Government debt, comprising of the Government's domestic debt and external debt, has surged to PKR 70.37 trillion in Nov 2024, marking a substantial 19.74% 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)	Nov-24	Nov-23	% change
Domestic Debt	48,585	40,957	19.74
% of GDP	**39.13**	**38.62**	
External Debt	21,780	22,434	(2.48)
% of GDP	**17.54**	**21.16**	
Gross Public Debt	70,366	63,391	11.69
% of GDP	**56.68**	**59.78**	
Nominal GDP	124,150	106,045	17.07

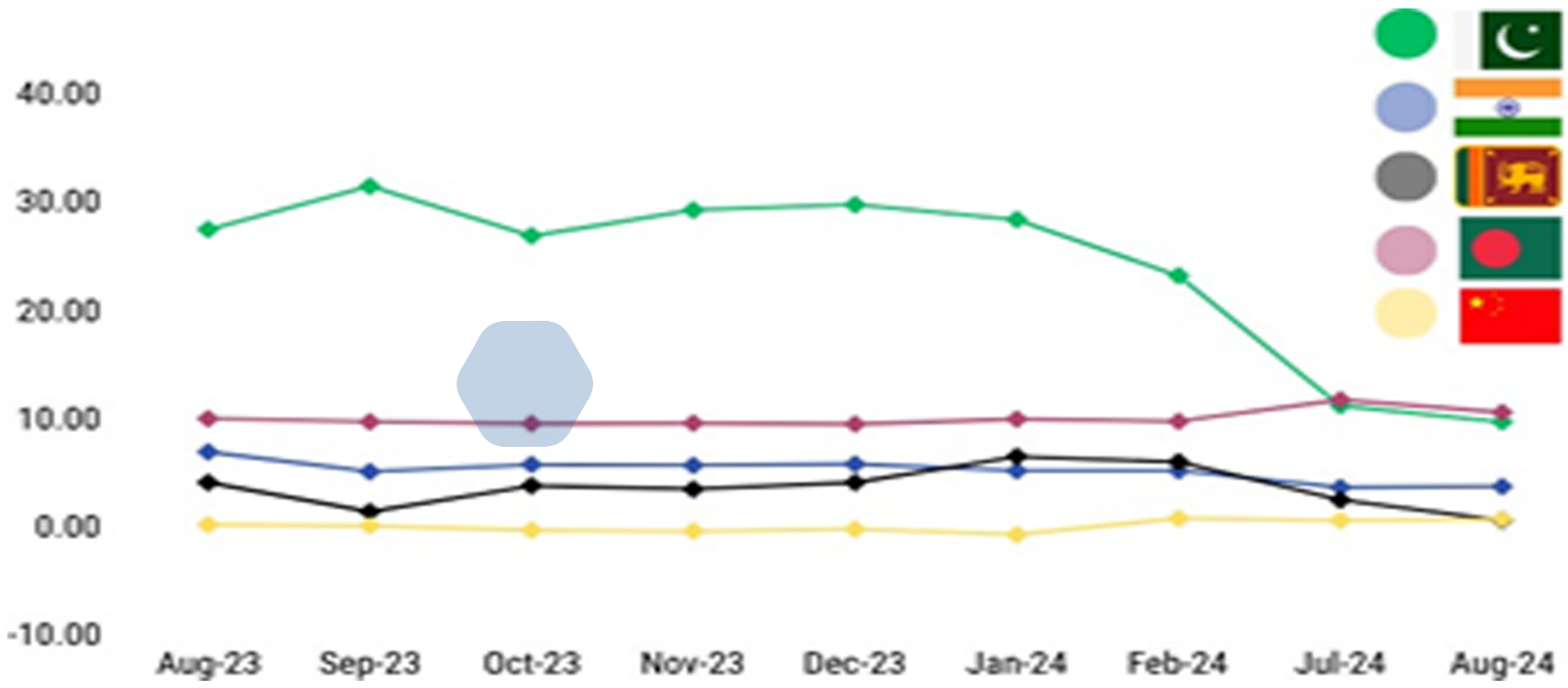
(Source: SBP & MOF)

11. REGIONAL ANALYSIS

When compared to other countries in the region, the Pakistani economy has shown a constant trend against the USD in recent months, along with a high base effect, contributing to a single digit inflation rate in last five months. After months of political crisis, inflation in Bangladesh has continued to be in double digits amidst a higher food price for the last six months. In Sri Lanka, CPI has dipped to a deflation rate of 1.7%, although rate of deflation seems improved from -2.1% when compared to last month, influenced by the statistical base effect and weak aggregate demand in the country. Meanwhile, India's inflation has gone down to 5.2% from 5.5%, primarily driven by declining prices of food articles and food products. Additionally, China has experienced a steady increase in prices following months of deflation, with inflation recorded at 0.1% in Dec 2024.

Country	CPI (%)	Local Currency Units per USD (As of 27th Jan)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	4.1	278.8	2.62
India	5.2	86.4	(3.91)
Bangladesh	10.9	122.2	(11.61)
China	0.1	7.3	(1.17)
Sri Lanka	(1.7)	298.5	5.89

(Source: Trading Economics)



Outlook

Pakistan's economic outlook reflects cautious optimism, as inflation has experienced a remarkable decline, dropping to 4.1% in December 2024. Over the past year, inflation fell dramatically from 29.7% in November 2023 to 11.2% by May 2024 and reached just 4.1% in December 2024, a record drop within a single year. However, the inflation outlook remains vulnerable to several risks, including additional fiscal measures to address revenue shortfalls, a potential resurgence in food inflation, and rising global commodity prices. Despite these challenges and the anticipated phasing out of the favorable base effect, the Committee assessed that the current monetary policy stance is appropriate for stabilizing inflation within the target range.

The IMF's first comprehensive review is scheduled for late February, with several quantitative performance criteria, indicative targets, and structural benchmarks potentially unmet as of December 2024. Successful completion of this review is critical; failure to do so would heighten risk and uncertainty, jeopardizing the rupee's newfound stability in 2024. Ultimately, this will serve as a decisive test of the SBP's economic management in the months ahead.

The reduction in the interest rate to 12.0% is a positive step, though further decreases are warranted, as the real policy rate remains significantly high, almost 8%. Lower interest rates encourage borrowing for investments, fostering industrial growth and overall economic expansion. A decline in interest rates reduces the cost of capital, making financing more affordable for businesses, enabling them to expand operations and invest in new ventures, thereby stimulating industrial activity and driving broader economic development

Further, MPC stated that headline inflation for FY25 will remain between 5.5% – 7.5%. Going forward, inflation outlook is subject to risks emanating from volatile global commodity prices, protectionist policies in major economies, timing and magnitude of administered energy tariff adjustments, volatile perishable food prices, as well as any additional measures to meet the revenue target.

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 minimizing debt servicing.

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