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[1] "Rs ECONOMIC UPDATE & OUTLOOK 1 1 3 7 10 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Execu ve Summary Interna onal Performance and Outlook APRIL 2023 1 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K APRIL 2023 2 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Monthly Performance of Pakistan's Economy APRIL 2023 3 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K APRIL 2023 4 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K APRIL 2023 5 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K APRIL 2023 6 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Â§ Economic Outlook Â§ Â§ Â§ Â§ Â§ APRIL 2023 7 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K APRIL 2023 8 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K APRIL 2023 9 \fRemi ances ($ bn) Exports FOB ($ bn) Imports FOB ($ bn) Current Account Deï¬\u0081cit ($ bn) Source: SBP FDI ($ mn) Total Foreign Investment ($ mn) Source: FBR & Budget Wing FBR Revenue (Rs.bn) Non-Tax Revenue (Rs.bn) Source: SBP PSDP (Rs.bn) Agriculture Credit (Provisional) Jul-Feb (Jul-Mar) (Jul-Mar) PSX Index 26-Apr-2023 1-Jul-2022 Market Capitaliza on (Rs. bn) 26-Apr-2023 1-Jul-2022 Market Capitaliza on ($ bn) 26-Apr-2023 1-Jul-2022 Mar) \* : Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX & SECP APRIL 2023 10 \f"

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[1] " RS MONTHLY ECONOMIC UPDATE & OUTLOOK APRIL 2024 GOVERNMENT OF PAKISTAN - FINANCE DIVISION - ECONOMIC ADVISERâ€™S WING finance.gov.pk \f M O N T H LY E C O N O M I C U P D AT E & O U T L O O K respectively. Whereas a 33.6 percent surge was observed in agricultural credit Contents disbursement during Jul-Feb FY2024. The sector witnessed an exceptional increase in the production of major crops; cotton production doubled; rice grew by 34.8 01 Executive Summary percent; maize increased by 5.6 percent. 02 International Performance and Outlook The LSM observed a marginal decline of 0.5 percent during Jul-Feb FY2024 against 04 Performance of Pakistan's Economy a contraction of 4.0 percent last year. At the sub-sector level, a mixed trend has been 07 Economic Outlook observed. During the period under review, 11 out of 22 sectors witnessed positive 11 Economic Indicators growth. Headline inflation observed the lowest Executive reading after 21 months. In March, CPI inflation recorded the third consecutive YoY Summary decline, dropping to 20.7 percent from 35.4 percent last year. This decrease was observed throughout the third quarter of T he economic journey in the ongoing FY2024. The major contributors to the YoY FY2024 has been optimistic. inflation included food items, Housing, Recently IMF Executive Board has Water, Electricity, Gas & Fuel, Furnishing & approved the second review under the SBA Household equipment maintenance, Health, for Pakistan allowing for an immediate Clothing and Footwear. disbursement of $1.1 billion. Economic growth is showing signs of recovery while On the fiscal front, the primary balance inflation is trending downward. These posted a surplus of Rs 1834.0 billion during improvements are primarily due to favorable Jul-Feb FY2024 against Rs 780.5 billion last external conditions and sound prudent year. The net federal revenues witnessed a st policy management. The growth in the 1 substantial growth of 51 percent on the nd and 2 quarter has been estimated at 2.5 back of significant growth in both tax and percent and 1.0 percent, respectively. Both non-tax collection. Tax collection grew by 30 fiscal and external sectors have percent, exceeding monthly as well as 9- demonstrated resilience. The market month targets. However, total expenditures confidence is also upbeat, reflected in the remained under pressure due to higher notable performances of Pakistan Stock mark-up payments slightly raising fiscal Exchange (PSX). The economy is on a deficit to 3.0 percent of GDP as compared resilient track to achieve modest growth this to 2.8 percent last year. The government is year, setting the basis for better cognizant of the fiscal sustainability performance in the upcoming fiscal year. challenges and endeavoring to ensure prudent fiscal management through In the real sector, agriculture emerged as a effective revenue mobilization and cautious main driver of economic growth in the expenditure management. current fiscal year, registering growth of 8.6 and 5.0 percent in Q1 and Q2 of FY2024, On the external front, the current account respectively. The agriculture sector's posted a deficit of $ 0.5 billion for Jul-Mar recovery is mainly attributed to government FY2024, a substantial reduction of $4.1 initiatives through improved input supply billion last year. The improvement is and increased credit disbursement to reflective of a sizable reduction in the trade farmers. The input situation remained deficit. In March 2024, the current account encouraging as farm tractor production and posted a surplus of $ 619 million against $ sales increased by 59.7 and 65.8 percent, 98 million in February 2024. The APRIL - 2024 1 \f M O N T H LY E C O N O M I C U P D AT E & O U T L O O K remittances observed an outstanding YoY The recent robust recovery of the US growth of 16.4 percent in March 2024 ($ 3.0 economy, driven by rising productivity, billion) as compared to March 2023 ($ 2.5 employment growth, and strong demand billion). MoM remittances surged resulted in an overheated economy. It substantially by 31.3 percent as compared requires a prudent approach for fiscal and to February 2024 ($ 2.3 billion). monetary policies to manage long-term fiscal and financial stability risks for the FDI inflows witnessed an increase of 89.4 global economy. percent to $ 258 million as against $ 136.3 million last month. The improvement in FDI The euro area witnessed a recovery in inflows is attributed to improvements in the growth but at a modest level, since the investment environment and a reduction in impact of past shocks and tight monetary uncertainty. policy weigh on economic activity. However, potential recovery and target inflation path SBP has maintained the policy rate at 22% hinges on the European Central Bank's since July 2024 till the MPC meeting st careful monetary easing calibration. recently held on April 29, 2024. During 1 th July â€“ 29 March, FY2024 money supply China's economy remains affected by the (M2) showed growth of 5.9 percent (Rs downturn in its property sector. The growth 1846.2 billion) compared to 4.4 percent cycle may further face risks of low domestic growth (Rs 1211.5 billion) in last year. demand, geopolitical and trade tensions. Overall, there are visible signs of moderate According to the Asian Development recovery in macroeconomic conditions. To Outlook (April 2024), growth in developing maintain the positive momentum, it is Asia will remain robust in 2024, despite imperative to continue prudent policy efforts uncertainty in the external environment. The and reforms. end of interest rate hiking cycles in most economies as well as continued recovery in goods exports will mainly support growth. International For the region, the outlook is broadly Performance positive, with developing Asia forecasted to grow by 4.9 percent in 2024 and 2025 after and Outlook observing 5.0 percent growth in 2023. Inflation will continue to moderate from 3.3 percent in 2023 to 3.2 percent in 2024 and According to the World Economic Outlook 3.0 percent in 2025. (April 2024), global growth is resilient but However, some downside risks are also recovering at a slow pace. The global associated which may hinder growth trends. economy is expected to grow at 3.2 percent Escalating conflict and geopolitical tensions in 2024 and 2025, the same as in 2023. The could disrupt supply chains and amplify growth forecast has been revised slightly commodity price volatility. Additional risks to upward. The growth in advanced the region include uncertainty about the economies is expected to rise from 1.6 path of US monetary policy, property market percent in 2023 to 1.7 percent in 2024 and stress in China, and the effects of adverse 1.8 percent in 2025. This will be offset by a climate-related events. modest slowdown in emerging markets and developing economies from 4.3 percent in The US consumer price index rose 0.4 2023 to 4.2 percent in both 2024 and 2025. percent on a MoM basis in March, the same While global inflation has been forecasted as in February. On a YoY basis, CPI downward, from 6.8 percent in 2023 to 5.9 increased by 3.5 percent, the highest percent in 2024 and 4.5 percent in 2025, as reading since September compared to 3.2 advanced economies returning to their percent in February. The core CPI inflation inflation targets earlier than emerging rose by 3.8 percent, similar to the increase market and developing economies. in February. It increased at a 4.2 percent APRIL - 2024 2 \f M O N T H LY E C O N O M I C U P D AT E & O U T L O O K annualized rate in the first quarter, accelerating from the October-December Fig-2 (a): Composite Leading Indicator quarter's 3.4 percent pace. Though the annual increase in consumer prices has declined from a peak of 9.1 percent in June 2022 but still stalled well above the U.S. central bank's 2 percent target. US GDP expanding above potential at 2.4 percent for the Jan-Mar period. This is also evident through growth in WEI which is hovering around 2.0 percent in recent months. (Fig- 1). Fig-1: Growth in WEI (Percent) Fig-2 (b): Composite Leading Indicator MAX: 2.35% MIN: 0.74% 04/01/2023 09/30/2023 04/06/2024 The J. P. Morgan Global Composite Output Index increased to a nine-month high of 52.3 in March 2024 as against 52.1 in February 2024. The month of March observed expansion in both the manufacturing and service sectors. The FAO food prices index (FFPI) averaged Combined manufacturing and service sector 118.3 points in March 2024, up by 1.3 output growth strengthened in both points from its revised February level, as developed and emerging markets during increases in the price indices for vegetable March. Output growth stimulated by oils, dairy products, and meat slightly more strengthened demand and improved than offset decreases in sugar and cereals. business optimism which encouraged companies to raise employment at a Global commodity prices increased in moderate level. March 2024. Energy prices increased by 2 percent, led by coal (5.9 percent) and Monthly output expansion is also reflected natural gas in Europe (5 percent). Non- through the monthly position of CLI of energy prices increased by 2.2 percent. Pakistan's main export market, of which UK, Food prices soared by 0.6 percent. Raw US, China, and the euro area all are materials gained 1.1 percent, while showing expansion in March compared to beverages surged by 14 percent. Fertilizer February. prices eased by 2.3 percent. Metal price inched up 1.4 percent led by nickel (6.7 APRIL - 2024 3 \f M O N T H LY E C O N O M I C U P D AT E & O U T L O O K percent) and tin (5.2 percent). Precious be closely met, depending on the rain metal increased by 6.8 percent. pattern. Currently, the harvesting is in process and the production data will be available in due time. Performance 2.1-b Manufacturing of Pakistanâ€™s Rs Large Scale Manufacturing (LSM) declined by 0.5 percent during Jul-Feb FY2024 Economy against the contraction of 4.0 percent same period last year. In February 2024, LSM 2.1 Real Sector increased by 0.1 percent on a YoY basis against the decline of 11.7 percent in 2.1-a Agriculture February last year. While on a MoM basis, it decreased by 4.1 percent in February The agriculture sector has been the main against the decrease of 0.7 percent in driver of economic growth in the current January. fiscal year. The National Accounts Committee reported a 5.02 percent growth nd in this sector compared to the last year's 2 Fig-3: LSM Growth (Jul-Feb) quarter. Key government initiatives have (Percent) played an imperative role, especially in increasing agriculture credit allocations and providing timely loans for farmers to purchase necessary inputs. During Jul-Mar FY2024, farm tractor production and sales were recorded at 36,133 and 35,199 showing an increase of 59.7 percent and 65.8 percent, respectively, over the same period last year. During Jul-Feb FY2024, the agriculture credit disbursement increased by 33.6 percent to Rs 1,434.3 billion from Rs 1,073.5 billion same period last year. Urea offtake during Rabi 2023-24 (Oct-March) was 3,525 thousand tonnes (1.6 percent) whereas DAP offtake was 874 thousand tonnes (23.1 percent higher than During Jul-Feb FY2024, 11 out of Rabi 2022-23). 22 sectors witnessed positive growth which includes, Food, Beverages, Wearing The ongoing year witnessed an increase in apparel, Leather, Wood products, Coke & production of cotton by 108.2 percent (to Petroleum Products, Chemicals, 10.22 million bales against 4.91 million Pharmaceuticals, Rubber Products, bales last year), rice by 34.8 percent (to Machinery & Equipment, and Furniture. 9.87 million tonnes against 7.32 million tonnes last year) and maize by 5.6 percent During Jul-Mar FY2024, the performance of (to 11.6 million tonnes against 10.98 million auto-industry remains subdued due to tonnes last year). However, the growth in massive increases in input prices and livestock, forestry, and fishing is estimated tightened auto finance. Car production and at 4.34 percent, 3.61 percent, and 0.78 sales decreased by 36.6 percent and 36.9 percent, respectively. Wheat as an percent, while Trucks & Buses production important Rabi crop, has recorded an and sales decreased by 45.2 percent and increase of 6.7 percent in area sown 44.2 percent. However, the Tractor's (according to available estimates) will have production and sales increased by 59.7 positive implications for food security. The percent and 65.8 percent respectively. target of 32.12 million tonnes is expected to During the first nine months of FY2024, APRIL - 2024 4 \f M O N T H LY E C O N O M I C U P D AT E & O U T L O O K sales of total petroleum products dropped contributor to the overall revenue increase, by 11 percent to 11.34 million tons growing by 101 percent to Rs 2268 billion in compared to 12.80 million tons in the same Jul-Feb FY2024 against Rs 1130 billion last period last year. year. Higher receipts from mark up (PSEs & others), SBP profit, and petroleum levy During Jul-Mar FY2024, total cement propelled nontax collection to achieve dispatches (domestic and exports) were significant growth during the first eight 34.502 million tons, that is 2.68 percent months of the current fiscal year. higher than 33.600 million tons dispatched during the corresponding period of the last Tax collection not only maintained its pace fiscal year. Domestic dispatches during this but also surpassed both monthly as well 9 period were 29.401 million tons against months targets despite the issuance of 30.564 million tons during the same period unprecedented refunds. According to the last year showing a reduction of 3.81 latest available data, FBR net provisional percent. However, export dispatches tax collection grew by 30.2 percent to Rs showed a healthy increase of 68.03 percent 6712 billion during Jul-Mar FY2024 against as the volumes increased to 5.101 million Rs 5156 billion in the same period of last tons compared to 3.036 million tons year. Within total, FED grew by 64.2 percent exported during the same period last year. followed by direct taxes by 41.4 percent, sales tax by 17.7 percent, and customs duty 2.2 Inflation by 15.2 percent. March 2024 marked the third consecutive decline in CPI inflation YoY basis, inflation descended from 35.4 percent to 20.7 Fig-4: FBR Tax Collection percent YoY basis, reflecting the lowest (Rs billion) - FY2024 inflation after 18 months. A steady decline was observed in the third quarter of FY2024. During Jul-Mar FY2024, CPI stood at 27.1 percent against 27.3 percent in the same period last year. Major drivers contributing to the YoY inflation include Perishable food items (42.2 percent), Housing, Water, Electricity, gas & Fuel (36.6 percent), Furnishing & Household equipment maintenance (20.6 percent), Health (19.6 percent), Clothing & Footwear (16.1 percent), Non-perishable food items (13.3 percent), Transport (11.2 percent) and Alcoholic Beverages & Tobacco (3.6 percent). Total expenditures grew by 44.6 percent to The SPI for the week ended on 25th April stand at Rs 8408.3 billion during Jul-Feb 2024, recorded a decline of 1.10 percent as FY2024, against Rs 5815.3 billion last year. compared to the previous week. Prices of Current expenditures increased to 8158.4 15 items increased, 26 items remained billion during Jul-Feb FY2024 from Rs stable, and 10 items decreased. 5528.7 billion, thus grew by 46 percent. The 2.3 Fiscal significant rise in current spending has been realized on the back of a 59 percent The net federal revenue witnessed a increase in mark up payments. While non- substantial growth of 51 percent to reach Rs mark up spending increased by 29 percent 4732 billion during Jul-Feb FY2024 as during the first eight months of FY2024. compared to Rs 3133 billion last year. Non- tax revenues continue to be the major Consequently, the fiscal deficit widened to 3.0 percent of GDP during Jul-Feb FY2024 APRIL - 2024 5 \f M O N T H LY E C O N O M I C U P D AT E & O U T L O O K against 2.8 percent of GDP last year. in value) Rubber Tyres & Tubes (14.3 However, the primary balance posted a percent in quantity & 49.8 percent in value), surplus of Rs 1834.0 billion (1.7 percent of and Plastic Materials (111.9 percent in GDP) during Jul-Feb FY2024 against the quantity & 61.1 percent in value). Whereas, surplus of Rs 780.5 billion (1.0 percent of main imported commodities were Petroleum GDP) last year. products ($ 4.6 billion), Petroleum crude ($ 3.9 billion), LNG ($ 2.9 billion), Palm Oil ($ 2.4 Monetary Sector 2.1 billion), Plastic materials ($ 1.7 million), st th During 1 July â€“ 29 March, FY2024 money Iron & Steel ($ 1.5 billion) and Medicinal supply (M2) grew by 5.9 percent (Rs products ($ 0.8 billion). 1846.2 billion) compared to 4.4 percent (Rs 2.5.1 Foreign Investment 1211.5 billion) last year. Within M2, Net Foreign Assets (NFA) increased by Rs Total foreign investment during Jul-Mar 531.2 billion as compared to a decrease of FY2024 recorded an inflow of $ 1264.0 Rs 2073.0 billion last year. Net Domestic million as against an inflow of $ 202.2 Assets (NDA) of the banking sector million last year. FDI stood at $ 1099.0 increased by Rs 1315.0 billion as compared million ($ 1216.9 million last year) to an increase of Rs 3284.5 billion last year. decreasing by 9.7 percent. In March 2024, The private sector has borrowed Rs 191.5 FDI witnessed an increase of 89.4 percent billion as compared to the borrowing of Rs to $ 258.0 million as against an inflow of $ 299.5 billion last year. 136.3 million last month. Major sources of FDI were Hong Kong $ 264.0 million (24.0 2.5 External Sector percent), China $ 261.9 million (23.8 The current account posted a deficit of $ 0.5 percent), UK $ 196.3 million (17.9 percent), billion for Jul-Mar FY2024 as against a US $ 100.7 million (9.2 percent), and deficit of $ 4.1 billion last year, largely Netherlands $ 67.2 million (6.1 percent). reflecting an improvement in trade balance. The power sector attracted the highest FDI In March 2024 current account posted a of $ 443.4 million (40.3 percent of total FDI), surplus of $ 619 million as against a surplus followed by Oil & Gas exploration $ 171.1 of $ 537 million the same month last year. million (15.6 percent), and Financial Exports (fob) increased by 9.3 percent and Business $ 151.3 million (13.8 percent). reached $ 23.0 billion ($ 21.1 billion last Foreign Private Portfolio Investment has year). Imports (fob) declined by 8.0 percent registered a net inflow of $ 64.9 million reaching $ 38.8 billion ($ 42.1 billion last during the period under review. Foreign year). Resultantly, the trade deficit narrowed Public Portfolio Investment recorded a net down by 25.2 percent recorded at $ 15.7 inflow of $ 100.1 million. The total foreign billion as against $ 21.1 billion last year. portfolio investment (net) recorded an inflow During the period under review, exports in of $ 165.0 million as against an outflow of $ services decreased marginally by 0.1 1014.7 million last year. percent to $ 5.8 billion. However, the 2.5.2 Worker's Remittances imports in services increased by 20.6 percent to $ 7.5 billion as compared to $ 6.2 Jul-Mar FY2024, workers' remittances billion same period last year. The trade recorded at $ 21.0 billion ($ 20.8 billion last deficit in services increased to $ 1.7 billion year), increased by 0.9 percent. YoY as against $ 0.4 billion last year. remittances increased by 16.4 percent in March 2024 ($ 3.0 billion) as compared to As per PBS, the export commodities that March 2023 ($ 2.5 billion) while MoM registered positive growth include Rice remittances increased substantially by 31.3 (54.8 percent in quantity & and 83.4 percent present as compared to February 2024 ($ in value), Fruits (46.8 percent in quantity 2.3 billion) mainly owing to Ramazan and &17.3 percent in value), Cotton Yarn (58.2 Eid factors. During March 2024, BE & OE percent in quantity & 38.2 percent in value), registered 50,263 workers for overseas Towel (15.1 percent in quantity &5.2 percent APRIL - 2024 6 \f M O N T H LY E C O N O M I C U P D AT E & O U T L O O K employment in different countries. Share of remittances (Jul-Mar FY2024) from Fig-5: Trend of Major World Standardized Saudi Arabia remained highest at 24.2 Indices percent ($ 5.1 billion), U.A.E 17.4 percent ($ 3.7 billion), U.K 15.0 percent ($ 3.2 billion), USA 12.0 percent ($ 2.5 billion), other GCC countries 10.8 percent ($ 2.3 billion), EU 12.2 percent ($ 2.6 billion), Australia 2.2 percent ($ 0.5 billion), and other countries 6.2 percent ($ 1.3 billion). 2.5.3 Foreign Exchange Reserves Pakistan's total liquid foreign exchange reserves increased to $ 13.3 billion on April 25, 2024, with SBP's reserves stood at $ 8.0 billion and Commercial banks' reserves remained at $ 5.3 billion. 2.6 Performance of KSE Index The Pakistan Stock Exchange (PSX) Rs 101.88 billion have been disbursed registered a notable performance in March to the borrowers. 2024. The benchmark of PSX, the KSE-100 index gained 2,427 points in March and Â§ Pakistan is one of the largest labour closed at 67,005 points as of the end March exporting countries in the region. 2024. Similarly, the market capitalization of During March 2024 the Bureau of PSX increased by Rs 223 billion to settle at Emigration & Overseas Employment Rs 9448 billion. The performance of major registered 50263 workers for overseas world stock market indices also showed an employment in different countries while encouraging trend in March 2024. During 68828 in March 2023. the period under review, CAC 40 of France Â§ Under the Prime Minister Youth increased by 4.2 percent followed by the Business & Agriculture Loan Scheme, KSE-100 index (3.8 percent), S&P 500 of the government has disbursed Rs US (3.1 percent), BSE Sensex 30 of India 71,248 million to 115,127 beneficiaries (1.6 percent), and SSE Composite of China for business from Feb 2023 to Jan (0.9 percent). The performance of major 2024. world indices indexed at 100 is depicted in Figure-5: 2.7 Social Sector Rs Economic Â§ Till 21st March 2024, Rs 45 billion have Outlook rd been disbursed for the 3 Quarter among around 45,00,000 beneficiaries of the Benazir Kafaalat Programme 3.1 Inflation which makes up 49.5 percent of the total beneficiaries. The inflation outlook for April 2024 continues a downward trajectory, attributed Â§ PPAF through its 24 Partner to the favorable base effect from the Organizations has disbursed 25,724 previous year and improvements in the interest-free loans amounting to Rs domestic supply chain of essential items. 1.15 billion during the month of March 2024. From July 2019 to March 2024, a The inflation outlook appears moderate as total of 2,680,786 interest-free loans the government is determined to reduce amounting to inflation by actively taking strict APRIL - 2024 7 \f M O N T H LY E C O N O M I C U P D AT E & O U T L O O K administrative measures. Increasing crude automobiles, textile production, etc. in the oil prices in the international market have month of February. However, it is expected prompted the government to raise domestic that LSM output will show positive YoY petrol prices. The rise in petroleum prices is growth in the remaining months of the expected to be offset by the government current fiscal year due to better crop initiative to reduce wheat flour prices and production and improved foreign demand. administrative measures. YoY growth of LSM will also benefit in the short term from low base effects in the The Food and Agriculture Organization's corresponding months of FY2023. food price index registered an increase of 1.1 percent in March 2024 over the revised February level. The increase was observed Fig-6: Relationship between CLI and LSM cycle in vegetable oils, dairy products, and meat while a decline was recorded in sugar and cereals. Inflation is projected to hover around 18.5- 19.5 percent in April 2024. However, there are expectations of a gradual easing further to 17.5-18.5 percent in May 2024. 3.2 Agriculture The prioritization of investment in agricultural infrastructure, diversification, and climate resilience strategies will remain a critical aspect. The other priority areas include enhancing market access, value chain development, and livestock promotion to ensure a sustainable agriculture sector. 3.3 Industrial activity 3.4 Overall Economic Activity The LSM cycle usually follows the cyclical The Monthly Economic Indicator (MEI) is movements in the main trading partners, but developed as a tool to distribute the past since it is focused on the main industrial annual GDP numbers, reported by the PBS, sectors and not on total GDP, it is on a monthly/quarterly basis, and to somewhat more volatile than the cyclical nowcast GDP growth for the FY in which the component of GDP in Pakistan's main National Accounts are not yet available on export markets. The economic situation in the same frequency. The figure presents the the major export markets has been MEI every month since July 2019. It should improving since October 2022 and now their be noted that some of the data underlying cyclical component of GDP is above the the March 2024 MEI is still provisional and neutral 100 benchmark for 3rd consecutive may be revised next month. month, as evident from the aggregate CLI of The MEI has maintained an upward those markets. trajectory since the start of FY2024. The The cyclical component of LSM recorded positive trend is propelled by YoY growth in above the potential level for the months of LSM, a deceleration of YoY inflation, and an December and January FY2024, despite improvement in foreign economic the challenging environment for the conditions. Furthermore, the stability in the industrial sector. Nonetheless, the cyclical external sector has eased the pressure on component of LSM is recorded below the exchange rate. All these positive factors potential for February mainly due to the YoY indicate a further improvement in economic negative growth of high-frequency variables activity in the coming months. such as cement dispatches, production of According to the quarterly national accounts APRIL - 2024 8 \f M O N T H LY E C O N O M I C U P D AT E & O U T L O O K estimates, the GDP growth for Q2 FY2024 2.3-2.5 bn. Considering all these factors, has been estimated at 1.00 percent (2.50 current account will remain in sustainable percent in Q1 FY2024). The GDP growth in limit. the last two-quarters of FY2023 contracted 3.6 Fiscal by 0.42 percent and 3.29 percent, respectively. Usually, the latter half of the The fiscal performance during Jul-Feb fiscal year sees stronger GDP growth FY2024 reveals some positive compared to the first half. Considering this developments alongside various historical pattern and the low base effect challenges. On the positive side, the from the previous fiscal year, together with revenue collection has increased the government's measures to revive significantly, particularly, non-tax collection. economic activity, we expect further Similarly, tax collection has not only improvement in GDP growth in the second maintained its pace but also exceeded the half of FY2024. target during Jul-Mar FY2024. The revenue performance is an indication of improved economic activity, effective tax Fig-7: Monthly Economic Indicator (MEI) administration, and compliance measures. The government is striving hard to maintain this momentum to achieve the target for FY2024 through an effective revenue mobilization strategy. However, a significant challenge arises from the growing pressure on expenditures, primarily driven by higher mark up payments. This has caused the fiscal deficit to widen during the first eight months of the current fiscal year. However, the primary balance surplus continues to improve indicating that the government can cover its Jul-19 Sep-20 Nov-21 Jan-23 Mar-24 primary expenditures. However, to deal with the challenges, the government is putting all its efforts into enhancing revenue collection, 3.5 External controlling expenditures, and maintaining BoP is showing an improvement during the fiscal discipline. first nine months of FY2024. In March 2024, 3.7 Final Remarks exports of goods and services posted a growth of 2.1 percent (MoM) and 4.6 During the first nine months of the current percent (YoY). Imports of goods and fiscal year, there is a visible sign of services increased by 3.7 percent (MoM) moderate recovery in macroeconomic and 7.9 percent (YoY). As a result, trade conditions supported by encouraging deficit widened by 6.4 percent (MoM) and growth in agriculture, receding inflationary 13.7 percent (YoY). However, trade deficit pressures, and stability in external impact has been offset by exceptional accounts. According to the available growth of 31 percent (MoM) and 16.4 quarterly estimates, GDP growth in Q1 and percent (YoY) in remittances during March. Q2 of FY2024 is estimated at 2.5 percent Resultantly, current account posted surplus and 1.0 percent, respectively. of $ 619 mn ($ 98 mn in February). For The positive momentum in the LSM sector upcoming month, it is expected that imports since December 2023 is expected to remain will get some increasing momentum to intact for the remaining months of FY2024 stimulate economic activities and exports mainly due to a significant rise in agriculture will continue to observe its improved trend. produce, higher export demand, Moreover, remittances will remain around $ improvement in Composite Leading APRIL - 2024 9 \f M O N T H LY E C O N O M I C U P D AT E & O U T L O O K Indicator of Pakistan's main export markets Therefore, the government is stringently along with anticipation of exchange rate focusing on fiscal consolidation measures to stability. ensure fiscal discipline. Consequently, the primary balance surplus continues to The fiscal performance indicates some improve during the first eight months of positive developments on the back of FY2024. Overall, the positive momentum in significant growth in revenues, however, key indicators, coupled with prudent fiscal growing pressure on expenditures due to management, lays a strong basis for better higher markup payments presents growth prospects. Furthermore, the significant challenges for fiscal government's measures to improve various management. For a stabilization path, it is sectors are poised to navigate challenges imperative to ensure fiscal consolidation, to and will lead the economy towards higher lay the foundation for progressing towards and sustainable growth. higher and sustainable economic growth. APRIL - 2024 10 \f 30th April 2024 ECONOMIC INDICATORS Remi ances ($ bn) Exports FOB ($ bn) Imports FOB ($ bn) Current Account Deï¬\u0081cit ($ bn) Source: SBP FDI ($ mn) Total Foreign Investment ($ mn) Source: FBR & Budget Wing FBR Revenue (Rs.bn) Non-Tax Revenue (Rs.bn) PSDP (Rs.bn) Source: SBP Agriculture Credit (Provisional) PSX Index Market Capitaliza on (Rs. tr) Market Capitaliza on ($ bn) \* : Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX & SECP APRIL - 2024 11 \f"

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[1] "RS MONTHLY ECONOMIC UPDATE & OUTLOOK AUGUST 2023 GOVERNMENT OF PAKISTAN - FINANCE DIVISION - ECONOMIC ADVISERâ€™S WING \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Contents 01 Executive Summary 01 International Performance and Outlook 03 Performance of Pakistan's Economy 07 Economic Outlook 10 Economic Indicators Executive Summary T he IMF has revised global economic growth modestly higher, yet lower than 2022 due to weak performance in advanced economies. According to the latest World Economic Outlook (WEO), global growth is expected to decelerate to 3.0 percent in 2023 from 3.5 percent in 2022. The inflation rate is projected to decline globally, but tight monetary policy stance will continue at global level to address the problem of inflation which is likely to deteriorate global growth prospects further. This situation raises the cost of external borrowing for the developing countries and created currency stability predicament. Therefore, developing countries are facing the supply-side and exchange rate shock whereas there is marginal space for the policymakers to deal the short-term issues. In Pakistan, the real sector, agriculture and manufacturing experienced mixed trends. In agriculture sector, cotton arrivals increased due to the improved seed quality. It is expected that the recent year's target of 12.77 million bales will be achieved with the use of improved quality of seed in both Sindh and Punjab. While, Large Scale Manufacturing (LSM) has faced challenges due to supply chain disruptions and policy stances. Key sectors such as automobiles, petroleum, and cement have witnessed varying levels of growth and decline. Consumer Price Index (CPI) inflation has risen on a year-on-year (YoY) basis, and there are up-down fluctuations in inflation rates on a month-on-month (MoM) basis. In the month of July 2023, CPI inflation increased to 28.3 percent on YoY basis as compared to 24.9 percent in July 2022 whereas it increased to 29.4 percent in the previous month. Pakistan's fiscal year 2023 witnessed increase in total expenditures, driven by higher current spending. Development expenditure rose due to increased federal Public Sector Development Program (PSDP). Revenues increased due to higher tax collection, with growth in both domestic taxes and customs duty. The Monetary Policy Committee (MPC) has maintained the policy rate, considering improved economic certainty, external sector stability, and fiscal consolidation efforts. Money supply (M2) experienced negative growth, and foreign exchange reserves increased. The current account deficit decreased by 35.8 percent and stood at $ 809 million during July 2023 as against $ 1.3 billion last year, owing to improvement in trade balance. International Performance and Outlook According to WEO-July 2023, global growth is expected to remain at 3.0% both in 2023 and 2024, lower than 3.5% in 2022. While the forecast for 2023 is modestly higher than predicted (2.8% for 2023) in the April 2023-WEO. The rise in central bank policy rates to fight inflation continues to weigh on economic activity. The growth in advanced economies would decline from 2.7% in 2022 to 1.5% in 2023 and remain restrained at 1.4% in 2024. The Euro area is still recovering from war induced rise in gas price - would deteriorate profoundly. On the contrary, emerging markets and developing economies is forecasted to grow by 4.1% in AUGUST- 2023 1 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K 2023 and 2024 from 3.1% in 2022. Global inflation is projected to decline from 8.7 percent in 2022 to 6.8% in 2023 and 5.2% in 2024. The Fed has raised the federal funds rate by 5.25 percentage points since March 2022, with policymakers approving rate increases at 11 of the last 12 meetings in a sequence of actions meant to discourage borrowing and spending, and slow both the economy and the pace of price increases. CPI rose at a 3.2% annual rate in July, which was a slight increase over June's 3%. But underlying price trends showed continued slowing. According to Federal Reserve Bank of New York's July 2023 â€œSurvey of Consumer Expectationsâ€\u009d, illustrates that median inflation expectations decreased across all three horizons, declining to 3.5% at the short-term horizon, 2.9%at the medium and long term horizons. Year-ahead price growth expectation for food, medical care and rent declined to their lowest levels since early 2021. Households' perceptions about their current financial situations and expectations for the future improved. After second quarter, outlook for US economy for 2023 has improved. Both JP Morgan and Bank of America raises US economic growth estimate-no longer expects 2023 recession. GDP growth will grow by 2.0%, up from a previous forecast value of 1.5%. US economy grew faster than expected in the second quarter as a resilient labor market supported consumer spending, while businesses boosted investment in equipment and built more factories. This also reflected through growth in WEI which is currently moving around 2.0% (Fig-1). The J. P. Morgan Global Composite Output Index decreased to 51.7 in July 2023, from 52.7 in June 2023. The global economic growth eases at start of third quarter as slowdown in new orders continues. The rate of expansion in output and new orders weakened, as manufacturers sector contraction was accompanied by a further slowdown at service providers. Fig-1: Growth in WEI (%) 3.27 1.42 Source: Federal Reserve Bank of New York Fig-2 (a): Composite Leading Indicator UK US China Source: OECD Fig-2 (b): Composite Leading Indicator France Itlay Germany Source: OECD AUGUST- 2023 2 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Within PMI data, China, UK, and US shows moderate expansion in output for the month of July against deterioration observed in eurozone. This growth pattern also reflected through CLI position of Pakistan's main exports market for July-2023 (Fig-2). The FAO food prices index (FFPI) averaged 123.9 points in July 2023, up by 1.5 points from June. The rebound decline in July was driven by a significant increase in the price indices for vegetable oils, partially offset by a considerable decline in the sugar along with a marginal reduction in cereals, dairy and meat. Global commodity prices soared in July 2023. Energy prices increased by 6 percent, led by natural gas U.S 17 percent and oil 7.8 percent. Non-energy prices rose by 0.7 percent. Food prices gained 0.9 percent. Beverage eased by 1.8 percent while raw materials changed little. Fertilizer prices soared 5.3 percent. Metal price increased 0.4 percent led by tin 5.6 percent. Precious metal rose by 0.9 percent. Rs Performance of Pakistanâ€™s Economy 2.1Real Sector 2.1-a Agriculture According to Pakistan Cotton Ginners' Association (PCGA), the cotton arrivals in factories reached to 2.12 million bales (Punjab: 0.64 million bales & Sindh: 1.48 million bales) as on 15th August 2023.The improved & pest resilient quality seeds of cotton has been used both in Punjab and Sindh which will contribute to achieve current year's target of 12.77 million bales. To develop agriculture sector, under Kissan package government is providing subsidy for interest-free loans for subsistence farmers in flood affected areas, PM's Youth Business and Agriculture Loan Scheme (PMYBALS), Markup Subsidy & Risk Sharing scheme for Farm Mechanization (MSRSSFM), and Interest Free Loans to subsistence farmers in the flood affected areas. During July FY2024, the agriculture credit disbursement recorded at Rs 151 billion as compared to Rs 112 billion last year showing increase of 35.1 percent. During July 2023, Urea offtake was recorded at 629 thousand tonnes showing an increase of 36.0 percent while DAP offtake stood at 113 thousand tonnes; increased by 67.7 percent over July 2022. 2.1-b Manufacturing LSM witnessed a decline of 10.26 percent during FY2023 due to supply chain disruptions, inflationary pressures and resultant hike in input prices, and continued contractionary policy stance at the domestic level to correct the imbalances. On a YoY basis, LSM nosedived by 14.96 percent in June 2023 and while on MoM basis, it inched up by 0.98 percent. During the period, 4 sectors witnessed positive growth which includes, Wearing apparel, Leather Products, Furniture, and others (Football). In July FY2024, the performance of autoindustry remains subdued due to massive increases in inputs prices, and tightening auto finance. Car production and sale decreased by 75.7percent and 64.3percent, while Trucks & Buses production and sale decreased by 72.3 percent and 28.8percent, respectively. The sale of petroleum products declined by 6 percent in July FY2024 to 1.35 mn tons against 1.44 mn tons in the same period last year. While on MoM basis, it remained stable. Fig-3: LSM Growth Rates (%) Source: PBS AUGUST- 2023 3 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Total cement dispatches bounced back with the growth of 57.44percentin July FY2024, and reached to 3.212 mn tons against the period of last year. Local cement sales by the industry reached at 2.776 mn tons in July 2023, a substantial growth of 47.26 percent from the last year. Whereas exports also witnessed a healthy increase of 183.9 percent from 153,517 tons to 435,854 tons during the same period. Fig-4: FBR Tax Collection (Rs. bn) (Jul FY24) 2.2 Inflation CPI inflation increased to 28.3 percent on YoY basis in July 2023 as compared to 24.9 percent in July 2022 whereas it reached to 29.4 percent in the previous month. On MoM basis, it increased to 3.5 percent in July 2023 compared to a decrease of 0.3 percent in the previous month. The nonperishable items and perishable items increased by 3.9 percent and 5.6 percent respectively on MoM basis. Similarly, the increase observed in Housing, water, electricity, gas & fuels 8.0 percent, Health 2.2 percent, Furnishing & Household equipment maintenance 1.7 percent, Restaurant & Hotels 1.7 percent and Clothing & Footwear 0.6 percent. However, the only decline observed in Transport 0.2 percent. st The SPI for the week ended on 31 August 2023, recorded an increase of 0.54 percent as compared to previous week. Prices of 08 items declined, 23 items remained stable and 20 items increased. 2.3 Fiscal The fiscal year 2023 witnessed a significant rise in total expenditure that grew by 21.5 percent to Rs.16155 billion against Rs.13295 billion in FY2022. Higher expenditures were realized mainly due to a 26.6 percent increase in current spending. In absolute terms, it stood at Rs.14583 billion in FY2023 against Rs.11521 billion recorded in FY2022. The increase in current expenditure is largely attributed to 83.2 percent rise in markup payments while nonmarkup spending was restricted to 5 percent. Development expenditure grew by 17.1 percent largely due to a 62.8 percent FY2024 FY2023 Source: FBR rise in federal PSDP during FY2023. On the revenue side, total revenues grew by 19.9 percent to reach Rs.9634 billion in FY2023 from Rs.8035 billion in FY2022. Within total, tax revenues (federal and provincial) grew by 15.7 to Rs.7819 billion in FY2023 as compared to Rs.6755 billion in FY2022. During FY2023, FBR tax collection grew by 16.7 percent to Rs.7169 billion against Rs.6143 billion in the same period of last year. According to the latest available data, in Jul FY2024, FBR tax collection not only grew by 17.5 percent but also surpassed the collection target by Rs.4 billion. Within total tax collection, revenues from domestic taxes grew by 19 percent while from customs duty 9 percent growth has been registered. On the other hand, FY2023 registered a significant rise in non-tax collection largely attributed to higher receipts from petroleum levy followed by markup (PSEs & others) and Royalties on oil/gas. Overall, non-tax collection grew by 42 percent to Rs.1815 billion in FY2023 against Rs.1280 billion in FY2022. Thus, FY2023 witnessed a fiscal deficit of 7.7 percent of GDP (Rs.6521 billion) against 7.9 percent of GDP (Rs.5260 billion) in the last year. Similarly, the primary deficit was restricted to 0.8 percent of GDP in FY2023 against 3.1 percent of GDP recorded in FY2022 mainly due to limited growth in nonmarkup spending. AUGUST- 2023 4 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Fig-5: Fiscal Indicators % of GDP (Jul-Jun) Fiscal Deï¬\u0081cit Primary Deï¬\u0081cit FY2023 FY2022 2.4 Monetary MPC has maintained the policy rate at 22 st percent, decision held on 31 July, 2023. The decision is based on improved economic certainty, external sector stability, investor confidence, expected lagged impact of the accumulated monetary tightening, budgeted fiscal consolidation, and the tepid growth outlook for FY2024. st th During the period 01 â€“ 28 July, FY2024 money supply (M2) shows negative growth of 2.0 percent (Rs. -641.7 billion) compared negative growth of 1.5 percent (Rs. -405.5 billion) in last year. Within M2, NFA increased by Rs 368.6 billion as compared decrease of Rs. 599.0 billion in last year. Whereas NDA of the banking sector decreased by Rs. 1010.2 billion as compared an increase of Rs. 193.5 billion last year. Private Sector has retired Rs. 172.6 billion as compared borrowing of Rs. 151.9 billion in last year. 2.5 External Sector The Current Account posted a deficit of $ 809 million for July FY2024 as against a deficit of $ 1.3 billion last year, largely reflecting an improvement in trade balance. Exports on fob declined by 4.6 percent during July FY2024 and reached $ 2.1 billion ($ 2.2 billion last year). Imports on fob declined by 23.5 percent during July FY2024 and reached $ 4.2 billion ($ 5.5 billion last year). Resultantly the trade deficit (July FY2024) reached to $ 2.1 billion as against $ 3.3 billion last year. Exports in Services during July FY2024 increased by 2.3 percent to $ 538 million as against $ 526 million. The imports in services increased by 45.3 percent to $ 811 million as compared to $ 558 million same period last year. The trade deficit in services stood at $ 273 million as against $ 32 million last year. As per PBS, during July FY 2024, exports stood at $ 2.1 billion ($ 2.3 billion last year), declined by 8.1 percent. The major export commodities which have shown positive growth during the review period include Fish & Fish Preparation (27.2 percent in quantity & 2.2 percent in value), Fruits (29.5 percent in quantity & 4.6 percent in value), Cotton Yarn (37.8 percent in quantity& 36.0 percent in value), Plastic Materials (176.2 percent in quantity & 64.8 percent in value) and pharmaceutical products (144.3 percent in quantity & 8.9 percent in value). 2.5.1 Foreign Investment FDI reached $ 87.7 million during JulyFY2024 ($ 74.8 million last year) increased by 17.3 percent. FDI received from China $ 18.0 million (20.5 percent), Hong Kong $ 16.9 million (19.2 percent), Netherland $ 12.1 million (13.8 percent) and Switzerland $ 10.1 million (11.5 percent of total FDI). Power sector attracted highest FDI of $ 45.1 million (51.4 percent of total FDI), Oil & Gas Explorations $ 15.2 million (17.3 percent), and communication $ 8.0 million (9.1 percent). Foreign Private Portfolio Investment has registered a net inflow of $ 16.3 million during July FY2024. Foreign Public Portfolio Investment recorded a net inflow of $ 6.0 million. The total foreign portfolio investment recorded an inflow of $ 22.3 million during July FY2024 as against an outflow of 13.9 million last. Total foreign investment during July FY2024 recorded an inflow of $ 110.0 million as against $ 60.9 million last year. 2.5.2 Worker's Remittances In July FY2024, workers' remittances recorded at $ 2.0 billion ($ 2.5 billion last year), decreased by 19.3 percent, due to AUGUST- 2023 5 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K several reasons included: seasonal factors post-Eid decline, political and economic uncertainty. MoM, remittances decreased by 7.3 percent in July 2023 ($ 2.0 billion) as compared to June 2023 ($ 2.2 billion). Share of remittances (July FY2024) Saudi Arabia remained 24.0 percent ($ 486.7 million), U.A.E 15.5 percent ($ 315.1 million), U.K 15.1 percent ($ 305.7 million), USA 11.7 percent ($ 238.1 million), other GCC countries 11.3 percent ($ 228.3 million), EU 14.0 percent ($ 283.6 million), Canada 1.8 percent ($ 36.9 million), and other countries 6.5 percent ($ 132.4 million). The decline is also attributed to global economic slowdown as higher inflation in developed countries has led to higher cost of living abroad, thus reducing the surplus funds that could be sent back to homeland as remittances. Fig-6: Trend of Major World Standardized Indices Source: PSX, Investing.com Note: All indices are standardized to 100 on the initial day of the sample taken in this ï¬\u0081gure. 471 billion record budget for FY2024 which included Rs 361.5 billion for Benazir Kafaalat Programme, covering 9.3 million families, Rs 32.27 billion for Benazir Nashonuma Programme covering 1.5 million individuals, Rs 55.4 billion for Benazir Taleemi Wazaif which would benefit 9.2 million children. 2.5.3 Foreign Exchange Reserves Pakistan's total liquid foreign exchange reserves increased to $ 13.1 billion on August 29, 2023, as with the SBP's reserves raise significantly to $ 7.8 billion and Commercial banks' reserves remained at $ 5.3 billion. 2.6 Performance of KSE Index The Pakistan Stock Exchange (PSX) performed remarkably well in the month of July 2023. The benchmark of PSX KSE-100 index crossed 48,000 points mark after 2 st years closed at 48,035 points as on 31 July 2023, gained 6,582 points in a single month. Similarly, market capitalization of PSX gained Rs 863 billion in the month of July and settled at Rs 7,232 billion. During June-July 2023, the major world stock market indices remained positive. The KSE-100 index increased by 16.4 percent (Fig-6), S&P 500 of U.S (8.7 percent), Sensex 30 of India (6.6 percent), CAC 40 of France (5.0 percent) and SSE Composite of China (2.7 percent). 2.7 Social Sector Â§ In a significant development towards empowering women and enhancing social protection measures, BISP's Board in its 60th meeting approved Rs Â§ In addition, 6.0 billion have been earmarked for Benazir Scholarships for Undergraduates. Â§ PPAF through its 24 Partner Organizations has disbursed 31,636 interest free loans amounting to Rs 1.40 billion during the month of July, 2023. Since inception of interest free loan component, a total of 2,434,133 interest free loans amounting to Rs 90.91 billion have been disbursed to the borrowers. Â§ Council of Common Interest (CCI) has approved the results of First Ever Digital Census of Pakistan in its 50th meeting on 5th August, 2023. Â§ According to the results of 7th Population and Housing Census-2023 Pakistan's population has reached at 241.49 million with a growth rate of 2.55%. The percentage of the rural population in the country is 61.18 % (147.75 million) while urban is 38.82% AUGUST- 2023 6 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K (93.75 million). Â§ Bureau of Emigration and Overseas Employment has registered 54865 workers during July, 2023 for overseas employment in different countries. Â§ Under Prime Minister Youth Business & Agriculture Loan Scheme the government has disbursed Rs. 22,546 million till May, 2023 to 45,129 beneficiaries for business and for Agriculture purpose. Rs Economic Outlook 3.1 Inflation The international commodity price outlook is promising and is expected to offset the negative impact of local currency depreciation in Pakistan and help lower the pressure on imported commodities' prices. Moreover, the FAO Food Price Index, which tracks international prices of the most globally traded food commodities, stood at 123.9 points in July 2023, showing a decrease of 11.8 percent as compared to July 2022. Four of the FAO's five food subindices - cereals, meat, dairy, and vegetable oils - recorded a decline of 14.5 percent, 5.1 percent, 20.6 percent, and 23.1 percent, respectively, which would be instrumental to ease out domestic prices. Domestically, the high base effect would provide a little solace to inflation growth however, the two massive fuel price hikes witnessed in the month of August 2023 and upward adjustment in energy tariffs, would strain the inflationary pressures in the coming months. Nevertheless, the expected lagged impact of accumulated monetary tightening, fiscal consolidation efforts of the government and better growth outlook would help easing out inflationary pressures in later half of FY 2024. In view of above, inflation is anticipated to remain around 29 to 31 percent in August 2023. The two times raise in fuel prices drives a broad-based increase by impacting the transportation cost. 3.2 Agriculture The extension of Kissan Package-2022 will certainly have positive impact on agriculture sector which in turn raise the livelihood of the farmers and it will contribute in achieving the targeted growth for FY2024. 3.3 Industrial activity The LSM cycle usually follows the cyclical movements in the main trading partners, but since it is focused on the main industrial sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets. The aggregate CLI in the main export markets remained relatively stable showing no significant upward movement. As expected, the cyclical LSM pattern in the month of June remained negative due to the high base effect and deterred economic environment. However, for the month of July, the pressure is expected to ease out on the back of significant rebound in cement dispatches indicating a rise in construction activities and the removal of import restrictions. Fig-7: Relationship between CLI and LSM cycle Source: PBS, OECD and EAW Calcula ons 3.4 Overall Economic Activity The Monthly Economic Indicator (MEI) is developed as a tool to distribute the past annual GDP numbers, as reported by the PBS, on a monthly/quarterly basis, and to AUGUST- 2023 7 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K nowcast on that same frequency GDP growth for the FY in which the National Accounts are not yet available. Fig-8 presents the MEI on a monthly basis since January 2019. It should be noted that some of the data underlying the July MEI are still provisional and may be revised next month. The MEI calculated for July 2023 shows the revival of economic fundamentals, as it recorded positive growth after Feb-2023. It lays the foundation of inclusive growth and is expected to be positive throughout the current fiscal to achieve the targeted growth of 3.5 percent. Fig-8: Monthly Economic Indicator (MEI) 19.4 -9.4 Source: EA Wingâ€™s Calculation 3.5 External BoP data for the month of July-FY2024 shows that exports of goods and services continued to observe last year's trend and declined by 3.2 and 1.4 percent, respectively, on YoY and MoM basis. However, imports have changed their behavior after lifting the restriction, which increased by 29.8 percent on MoM basis in the month of July-FY2024. This has been translated in trade deficit of goods and services, widened from $1.18 billion in June 2023 to $ 2.4 billion in July 2023. Similarly, remittances decreased by 19.3 and 7.3 percent on YoY and MoM basis respectively. As a result, the current account turns to deficit of $ 809 million against surplus of $ 504 million in June 2023. For the outlook, imports will gradually increase in next months, to increase in economic activities. However, exports are facing both global and domestic headwinds which may hinder growth in coming months. Taking other factors into account, current account will remain around the same level observed in July 2023. 3.6 Fiscal The fiscal sector remained under significant pressure during FY2023 due to various factors. On the expenditure side, massive floods raised expenditure needs for urgent relief and rehabilitation activities. Additionally, an increase in the policy rate triggered higher markup payments, putting pressure on overall expenditures. On the revenue side, the import compression policy during FY2023 substantially reduced the revenues from import-related taxes. Furthermore, a considerable decline in LSM caused overall industrial activity to deteriorate. All these factors collectively took a significant toll on overall tax collection. Consequently, the fiscal deficit has been recorded at 7.7 percent of GDP considerably high from its level set in budget 2022-23. Going forward, in FY2024, the budget strategy 2023-24 prioritized fiscal consolidation effort to meet the existing challenges on both revenue and expenditure sides. The objective is to achieve a primary surplus of 0.4 percent and reduce the fiscal deficit to 6.5 percent of GDP in FY2024. To achieve these targets the priorities are geared towards effective resource mobilization through various tax measures and expenditure control by adopting austerity measures. While pursuing fiscal consolidation, the government is committed to safeguarding vulnerable segments of society by expanding social safety nets and ensuring targeted subsidies. These measures would be supportive in mitigating the effect of policy changes for lower-income individuals. 3.7 Final Remarks In FY2023, external sector stabilized as current account deficit contained to $ 2.4 AUGUST- 2023 8 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K billion against $ 17.5 billion in FY2022. On the other hand, fiscal sector remained under tremendous pressure and fiscal deficit reached to 7.7 percent of GDP. Similarly industrial activity suppressed as LSM observed negative growth of 10.26 percent. Despite this, higher and inclusive growth target of 3.5 percent for FY2024 with some facilitation measures have commenced some dividends in July 2023 and FY2024 started with some encouraging signs and expectations - MEI observed positive growth after Feb-2023. However, economy still confronting both global and domestic challenges. At global level, tight monetary policy stance will continue to address the problem of inflation. AUGUST- 2023 9 \f31st August 2023 ECONOMIC INDICATORS Remi ances ($ bn) Exports FOB ($ bn) Imports FOB ($ bn) Current Account Deï¬\u0081cit ($ bn) Source: SBP FDI ($ mn) Total Foreign Investment ($ mn) Source: FBR & Budget Wing FBR Revenue (Rs.bn) Non-Tax Revenue (Rs.bn) Source: SBP PSDP (Rs.bn) Agriculture Credit (Provisional) PSX Index Market Capitaliza on (Rs. bn) Market Capitaliza on ($ bn) \* : Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX & SECP AUGUST- 2023 10 \f"

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[1] "RS MONTHLY ECONOMIC UPDATE & OUTLOOK DECEMBER 2023 GOVERNMENT OF PAKISTAN - FINANCE DIVISION - ECONOMIC ADVISERâ€™S WING \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Contents 01 Executive Summary 02 International Performance and Outlook 03 Performance of Pakistan's Economy 07 Economic Outlook 10 Economic Indicators Executive Summary T he economic recovery process continues at a steady pace, bolstering business conï¬\u0081dence and market sentiment. In November 2023, the Pakistan Stock Exchange (PSX) showcased outstanding performance. The sustained rise in the PSX index over the past ï¬\u0081ve months indicates an improvement in the overall health of the economy and signals a positive economic outlook for the ongoing ï¬\u0081scal year. The real sector is experiencing mixed performance across the economic sectors. In agriculture sector, the prospects for achieving production targets are positive. During the Rabi season of 2023-24, wheat cultivation nearly met its planned area. Notably, Punjab exceeded its wheat sowing target by 2 percent. Farm inputs have also observed an upward trend. Farm tractor production and sales exhibited growth of 60.7 percent and 98.2 percent, respectively, during Jul-Nov FY2024, compared to the corresponding period last year. Similarly, during Oct-Nov 2023, there was a 5.6 percent increase in Urea and a 42 percent increase in DAP offtake compared to the same period last year, indicating positive growth in Rabi crops. However, LSM sector demonstrated a minor negative growth of 0.4 percent during Jul- Oct FY2024, compared to the contraction of 1.7 percent in the previous year. A mixed trend was observed at the sub-sector level: 12 out of 22 sectors witnessed positive growth which include, Food, Beverages, Coke & Petroleum Products, Wearing apparel, Leather, Chemicals, Pharmaceuticals, Non-Metallic Mineral Products, Rubber Products, Fabricated Metals, Machinery and Equipment, and others (Football) while Tobacco, Textile, Wood Products, Paper & Board, Iron & Steel products, Computer, electronics & optical products, Automobiles, Electrical Equipment, Furniture, and Other Transport Equipment witnessed negative growth. In November 2023, the CPI inï¬‚ation recorded at 29.2 percent on YoY basis, up from 23.8 percent in November 2022. The major contributors to this rise include food and non-alcoholic beverages, housing, water, electricity, gas and fuel, transport, and the maintenance of furnishings and household equipment. Fiscal side highlights the successful implementation of consolidation measures in the ï¬\u0081rst four months of FY2024, leading to a signiï¬\u0081cant rise in total revenue receipts that outpaced the growth in expenditures. Consequently, the ï¬\u0081scal deï¬\u0081cit has been curtailed to 0.8 percent of GDP, and the primary surplus has improved to Rs.1429.7 billion during Jul-Oct FY2024. On the external front, the global economic growth is expected to improve in 2023, largely due to increased consumer spending in China and accelerated growth in the U.S. This positive change has helped mitigate the signiï¬\u0081cant slowdown that Europe experienced in 2022, caused by an energy crisis. The external sector indicators show a strong recovery during Jul-Nov FY2024. YoY exports increased by 21.5 percent in November 2023 whereas imports increased by 2.9 percent. This increase is attributed to eased import restrictions, resulting in a smoother supply of raw materials for exportoriented industries. Based on the improved trade balance, the Current Account posted a deï¬\u0081cit of $1.16 billion for Jul-Nov FY2024, in DECEMBER - 2023 1 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K contrast to a deï¬\u0081cit of $3.3 billion in the previous year. FDI reached $ 656.1 million during Jul-Nov FY2024, an increase of 8.1 percent largely due to Chinese investments. YoY remittances grew by 3.6 percent in November on the back of structural reforms related to exchange companies and consequent convergence of exchange rate in interbank and open market. The Monetary Policy Committee (MPC) decided to maintain the policy rate at 22 percent during its meeting on 12th December 2023. The MPC assessed that the real interest rate remains positive on a 12-month forward-looking basis. Further the committee is optimistic that the headline inï¬‚ation rate will decline in the upcoming months of FY2024. This anticipated decrease is likely attributed to the easing of supply constraints, particularly in agricultural products, and a moderation in international commodity prices. International Performance and Outlook The global economic growth has improved in 2023, largely due to increased consumer spending in China and accelerated growth in the U.S. This positive change has helped mitigate the signiï¬\u0081cant slowdown that Europe experienced in 2022, caused by an energy crisis. However, concerns remain about the full effects of recent monetary tightening, China's ongoing real estate downturn, and the eurozone's stagnation. Fitch Ratings anticipate a substantial decrease in world economic growth in 2024, predicting it to fall to 2.1%. For 2023, Fitch has revised its global growth forecast upwards by 0.4 percentage points to 2.9%, from its previous prediction in the September Global Economic Outlook. US growth resilience reï¬‚ects renewed ï¬\u0081scal easing, consumers' willingness to continue drawing on excess savings and robust private-sector ï¬\u0081nances. The impact of monetary tightening through the 'cash ï¬‚ow' channel of rising debt-service costs has been limited so far. The U.S. economy grew faster than expected in the third quarterGDP increased at a 5.2% annualized rate. It was the fastest pace of expansion since the fourth quarter of 2021. The CPI increased by 3.1% in November- lower than 3.2% in October. Inï¬‚ation remains above the Fed's 2% target. The Federal Reserve (Fed) decided to keep the overnight federal funds rate steady in its range of 5.25% to 5.5% in its latest policy meeting held in December2023. This marks the third consecutive meeting where the central bank has chosen to hold off on monetary policy changes. The Fed's statements indicate three quarterpoint cuts next year. In its statement, the Fed indicated that after its long tightening campaign to battle decades-high inï¬‚ation, â€œinï¬‚ation has eased over the past year but remains elevated. The job gains accelerated in November and the unemployment rate fell to 3.7% from nearly a two-year high of 3.9% in October. According to Federal Reserve Bank of New York's November 2023 â€œSurvey of Consumer Expectationsâ€\u009d, median inï¬‚ation expectations decreased slightly to 3.4%, the lowest reading since April 2021. The US economic situation also reï¬‚ected through growth in WEI-touches the 2.5 percent mark, highest during last one year (Fig-1). Developing Asia's growth has been upbeat this year despite persistent headwinds. Healthy domestic demand, strong DECEMBER - 2023 2 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K remittances, and recovering tourism are underpinning economic activity, which continued to expand even as inï¬‚ation moderated. These drivers offset the drag from slower global growth and the lagged effects of monetary policy tightening, and they are expected to continue fostering growth in the region next year. According to Asian Development Outlook (ADO) December 2023, the growth forecast for the world is revised up from ADO September 2023's projection, to 4.9% from 4.7%, on robust domestic demand. The 2024 forecast is maintained at 4.8%. The J. P. Morgan Global Composite Output Index increased to 50.4 in November 2023 as against 50.0 in October 2023, signalling expansion for the ninth time in the past ten months. The services sector again outperformed its manufacturing counterpart in November. There were also some positive signals coming out of the manufacturing industry. Although production volumes decreased for the sixth successive month, the rate of contraction was negligible and the weakest during that sequence. Output growth was registered in seven of the 14 nations for which November Composite PMI data were available. Pakistan's main exports market included US, UK and China observed expansion while Euro Area destinations included Germany and France were among the countries to experience contractions. The monthly economic situation also evident from CLI of Pakistan's main exports destinations (Fig-2). The FAO food prices index averaged at 120.4 points in November 2023, unchanged from its revised October level, as increases in the price indices for vegetable oils, dairy products and sugar area offsetting the decline in cereals and meat. The index stood at 14.4 points (10.7 percent) below its corresponding level one year ago. Global commodity prices plummeted in November 2023. Energy prices eased by 8.2%, led by coal (12.9%) and oil (8.7%). Non-energy prices increased by 1.7%. Food prices increased by 0.9%. beverage gained (7%) and raw materials changed little. Fertilizer prices plunged 2.9%. Metal price soared by 2.7% led by Iron Ore 10.4% and zinc 5.3%. Precious metal rose by 3.7%. Rs Performance of Pakistanâ€™s Economy 2.1 Real Sector 2.1-a Agriculture For the Rabi season 2023-24, wheat crop has been cultivated on an estimated area of 8.733 million hectares against the target of DECEMBER - 2023 3 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K 8.998 million hectares to achieve the production target of 32.3 million tonnes. Punjab has surpassed its sowing target (6.475 million hectares) by 2 percent to 6.592 million hectares, while in other provinces it is in progress. The farm inputs use is on upward trend. The farm tractor production and sales showed growth of 60.7 percent (20,937) and 98.2 percent (20,806), respectively during JulNov FY2024 over the corresponding period last year. During Jul-Oct FY2024, the agriculture credit disbursement recorded at Rs 681.6 billion as compared to Rs 507.8 billion last year, an increase of 34.2 percent. Urea offtake during Rabi 2023-24 (Oct-Nov) remained 1,070 thousand tonnes (5.6 per cent more than Rabi 2022-23) whereas DAP offtake was 437 thousand tonnes (42.0 percent higher than Rabi 2022-23). 2.1-b Manufacturing Large Scale Manufacturing (LSM) declined by 0.4 percent during Jul-Oct FY 2024 against the contraction of 1.7 percent same period last year. In October 2023, LSM decreased by 4.1 percent on YoY basis against -1.4 percent in the same month last year. While on a MoM basis, it is declined by 2.0 percent in October against the decrease of 3.2 percent in September. During Jul-Oct FY2024, 12 out of 22 sectors witnessed positive growth. These include, Food, Beverages, Coke & Petroleum Products, Wearing apparel, Leather, Chemicals, Pharmaceuticals, Non-Metallic Mineral Products, Rubber Products, Fabricated Metals, Machinery and Equipment, and others (Football). In Jul-Nov FY2024, the performance of auto-industry remains subdued due to massive increases in inputs prices, and tightened auto ï¬\u0081nance. Car production and sale decreased by 58.1 percent and 53.3 percent, while Trucks & Buses production and sale decreased by 56.1 percent and 47.2 percent. However, Tractor's production and sale increased by 60.7 percent and 98.2 percent. The sale of petroleum products slumped by 16% to 6.45 mn tons against 7.70 mn tons in the same period last year. While in November 2023, oil sales recorded at 1.37 mn tons, down 11 percent YoY. Cement dispatches in November 2023 were 3.924 million tons (declined by 2.1%) against 4.009 million tons dispatched during the same month last year. During Jul-Nov FY 2024, total cement sales (domestic and exports) were 19.816 million tonnes, 10.8 percent higher than 17.883 million tonnes in the corresponding period last year. Domestic dispatches during this period were 16.688 million tonnes against 16.354 million tonnes during the same period last year, showing an increase of 2.04 percent. Export dispatches were also 104.6 percent higher as the volumes increased to 3.129 million tonnes during the ï¬\u0081rst ï¬\u0081ve months of the current ï¬\u0081scal year compared to 1.529 million tonnes exported during the same period of the last ï¬\u0081scal year. 2.2 Inï¬‚ation CPI inï¬‚ation recorded at 29.2 percent on a YoY basis in November 2023 as compared to 23.8 percent in November 2022. During Jul-Nov FY 2024, CPI stood at 28.6 percent against 25.1 percent in the same period last year. On basis, it increased to 2.7 percent in November 2023 compared to an increase of 1.0 percent in the previous month. Major drivers contributing to YoY increase in CPI include Alcoholic Beverages & Tobacco (82.8%), Furnishing & Household equipment maintenance (34.5%), non DECEMBER - 2023 4 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K perishable food items (31.7%), Housing, Water, Electricity, gas & Fuel (33.0%), Transport (26.5%), Health (24.9%), Clothing & Footwear (20.9%) and Perishable food items (9.6%). The SPI for the week ended on 21st December, 2023, recorded a decline of 0.51 percent as compared to previous week. Prices of 9 items declined, 24 items remained stable and 18 items increased. 2.3 Fiscal A substantial increase in revenues compared to expenditures brought down the ï¬\u0081scal deï¬\u0081cit to 0.8 percent of GDP (Rs.861.7 billion) in Jul-Oct FY2024 from 1.5 percent of GDP (Rs.1265.8 billion) last year. The primary surplus continued to improve owing to contained growth in nonmarkup spending and recorded Rs.1429.7 billion (1.4 percent of GDP) during Jul-oct FY2024 from Rs.136.2 billion (0.2 percent of GDP) last year. Net federal revenue receipts increased to Rs.2806.6 billion in Jul-Oct FY2024 from Rs.1316.8 billion last year. The sharp rise in revenues has been largely attributed to considerable improvement in non-tax revenues that grew by more than 300 percent during the period under review. In absolute terms, it increased to Rs. 1586.5 billion against Rs. 346.4 billion last year. This growth in non-tax collection has been observed across all major heads, indicating a broad-based increase. Similarly, receipts from FBR tax collections grew by 29 percent to Rs.2748.4 billion against Rs.2138.7 billion last year. The net provisional FBR tax collection maintained its momentum with 29.6 percent growth to reach Rs.3484.7 billion during JulNov FY2024 from Rs.2688.4 billion last year. Within total, domestic tax revenues grew by 32 percent driven primarily by a 62.8 percent surge in FED and a 42.2 percent rise in direct taxes. Total expenditures grew by 35 percent to stand at Rs.3706.7 billion during Jul-Oct FY2024 against Rs.2737.2 billion last year. Within total, current spending grew by 44 percent mainly due to a signiï¬\u0081cant rise in markup payments that increased by 63 percent during the ï¬\u0081rst four months of the current ï¬\u0081scal year, while non-markup spending witnessed a restricted growth of 19 percent on account of the government's cautious expenditure management strategy. 2.4 Monetary Sector The Monetary Policy Committee (MPC) has maintained the policy rate at 22 percent in its decision held on 12th December, 2023. MPC noted that Nov-23 inï¬‚ation was higher than expected mainly due to gas price hike. While it may have implications for near-term inï¬‚ation outlook, there are some offsetting developments that include recent decrease in international oil prices and better agricultur output. MPC assessed that real interest rate is positive on 12-month DECEMBER - 2023 5 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K forward-looking basis and headline inï¬‚ation is expected to decline signiï¬\u0081cantly in the second half of FY2024. During 1st July â€“ 01st December, FY2024 money supply (M2) shows growth of 1.3% (Rs. 416.8 billion) compared 0.96% growth (Rs. 264.8 billion) in last year. Within M2, Net Foreign Assets (NFA) increased by Rs 115.8 billion as compared decrease of Rs 1103.6 billion in last year. Whereas, NDA of the banking sector increased by Rs. 301.0 billion as compared an increase of Rs. 1368.3 billion last year. Private Sector has retired Rs. 45.5 billion as compared borrowing of Rs. 86.0 billion in last year. 2.5 External Sector The Current Account posted a deï¬\u0081cit of $ 1.16 billion for Jul-Nov FY2024 against a deï¬\u0081cit of $ 3.3 billion last year, largely reï¬‚ecting an improvement in trade balance. Exports (fob) increased by 5.0 percent and reached $ 12.5 billion ($ 11.9 billion last year). Imports (fob) declined by 16.0 percent reaching $ 21.3 billion ($ 25.3 billion last year). Resultantly, the trade deï¬\u0081cit recorded at $ 8.8 billion as against $ 13.4 billion last year. During the period under review, exports in services decreased by 3.3 percent to $ 2,986 million against $ 3,089 million same period last year. The imports in services increased by 20.7 percent to $ 4,110 million as compared to $ 3,406 million last year. The trade deï¬\u0081cit in services stood at $ 1,124 million as against $317 million last year. As per PBS, the export commodities that registered positive growth include Rice (22.8% in quantity & and 49.4 % in value), Fruits (54.5% in quantity & 15.3% in value), Cotton Yarn (76.1% in quantity & 50.3% in value), Raw Cotton (129.6% in quantity & 253.1% in value), Towel (13.7% in quantity & 0.7% in value) and Plastic Materials (112.1% in quantity & 33.8% in value). Whereas, main imported commodities were Petroleum products ($ 2661.2 million), Petroleum crude ($ 2052.5 million), LNG ($ 1466.4 million), Palm Oil ($1175.2 million), Plastic materials ($ 978.9 million), Iron & Steel ($ 843.6 million) and Medicinal products ($ 434.4 million). 2.5.1 Foreign Investment Total foreign investment during Jul-Nov FY2024 recorded an inï¬‚ow of $ 694.8 million as against $ 575.5 million last year. FDI stood at $ 656.1 million ($ 606.9 million last year) increasing by 8.1 percent. FDI received from China $ 232.7 million (35.5% share), Hong Kong $ 129.2 million (19.7 %), UK $ 88.1 million (13.4%), Netherland $ 41.8 million (6.4%), and Switzerland $ 33.3 million (5.1%). Power sector attracted the highest FDI of $ 333.5 million (50.8% of total FDI) followed by Oil & Gas exploration $ 79.1 million (12.0%), and Financial Business $ 71.1 million (10.8%). Foreign Private Portfolio Investment has registered a net inï¬‚ow of $ 38.4 million during the period under review. Foreign Public Portfolio Investment recorded a net inï¬‚ow of $ 0.2 million. The total FPI recorded an inï¬‚ow of $ 38.7 million as against an outï¬‚ow of $ 31.4 million last year. 2.5.2 Worker's Remittances In Jul-Nov FY2024, workers' remittances recorded at $ 11.0 billion ($ 12.3 billion last year), decreased by 10.3 percent. MoM remittances declined by 8.6 percent in November 2023 ($ 2.3 billion) as compared to October 2023 ($ 2.5 billion). However, YoY remittances increased by 3.6 percent in November 2023 ($ 2.3 billion) as compared to November 2022 ($ 2.2 billion) because of structural reforms related to exchange companies and consequent convergence of exchange rate in interbank and open market. Share of remittances from Saudi Arabia remained 24.2 percent ($ 2673.3 million), U.A.E 17.3 percent ($ 1906.9 million), U.K 14.7 percent ($ 1619.5 million), USA 11.9percent ($ 1312.5 million), other GCC countries 11.2percent ($ 1233.1 million), EU 12.8 percent ($ 1409.8 million), Australia 2.1percent ($ 228.4 million), and other countries 6.0 percent ($ 661.6 million). 2.5.3 Foreign Exchange Reserves Pakistan's total liquid foreign exchange reserves increased to $ 12.9 billion on December 22, 2023, with SBP's reserves DECEMBER - 2023 6 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K stood at $ 7.8 billion and Commercial banks' reserves remained at $ 5.1 billion. Â§ Pakistan is one of the largest labour exporting countries in the region. During November 2023 Bureau of Emigration & Overseas Employment has registered 81,427 workers for overseas employment in different countries. Â§ Under Prime Minister's Youth Business & Agriculture Loan Scheme, the government has disbursed Rs 49,887 million till October, 2023 to 83,826 beneï¬\u0081ciaries. 2.6 Performance of KSE Index The performance of Pakistan Stock Exchange (PSX) remained remarkably well in November 2023. The benchmark KSE100 index closed at 60,527 points as of 30th November 2023, gained 8,550 points MoM. Similarly, market capitalization of PSX increased by Rs 1,178 billion and settled at Rs 8,729 billion as of end November 2023. During November, the performance of major world stock market indices remains positive. The KSE-100 index increased by 16.5 percent followed by S&P 500 of US (8.9 percent), CAC 40 of France (6.2 percent), Sensex 30 of India (4.9 percent) and SSE composite of China posted a minimal growth of 0.4 percent. The performance of major world indices indexed at 100 is depicted in Figure. 2.7 2.7 Social Sector Â§ Pakistan Poverty Alleviation Fund (PPAF) through its 26 Partner Organizations has disbursed 30,805 interest free loans amounting to Rs 1,362 million during October 2023.Since inception of the program till date, a total of 2,532,414 interest free loans amounting to PKR 95,275 million have been disbursed to the borrowers. Rs Economic Outlook 3.1 Inï¬‚ation Inï¬‚ation outlook for the remaining months of FY2024 is seen at a moderate level despite the upward revision of administered prices (gas prices). This is on account of a stable exchange rate, contained aggregate demand, better supply position, moderation in the international commodity prices, and favorable base effect. Moreover, the recent decline in petrol and diesel prices is expected to compensate the inï¬‚ationary pressure exerted through higher gas prices as the decline in fuel prices has a signiï¬\u0081cant impact on the common man through reduced transportation and production costs. Efforts of the sub-national governments to implement lower fares of public transport and freight charges in line with the reduced fuel prices would further ease the inï¬‚ationary pressure. The Food and Agriculture Organization's food price index, which tracks the most globally traded food commodities, averaged 120.4 points in November 2023 unchanged from its revised October level, as increases in the price indices for vegetable oils, dairy products, and sugar counterbalanced decreases in those of cereals and meat. The index stood 14.4 points (10.7 percent) below its corresponding level one year ago. Keeping in view the better supply position and easing out the imported inï¬‚ation along DECEMBER - 2023 7 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K with the high base effect will help to contain the inï¬‚ationary pressure ahead. Inï¬‚ation is anticipated to remain around 27.5-28.5 percent in December 2023 and further ease out to 24-25 percent in January 2024. 3.2 Agriculture The prospects of achieving production targets are positive. The certiï¬\u0081ed seeds were used by the farmers while DAP fertilizer offtake has increased more than urea. December is important for the early growth of Rabi crops 2023-24 in most of the agricultural plains of the country. Farmers may take precautionary measures to protect their crops, vegetables, and orchids from the harmful impacts of expected cold weather conditions. Furthermore, farmers of northern areas and northern Balochistan may complete the sowing of their Rabi crops in time and arrange suitable irrigation for healthier growth of their crops at initial levels. The cyclical LSM pattern for the month of October remained below the potential level. However, improvement in MoM imports, and positive trends in high-frequency indicators like sales and production on tractors, and total cement dispatches indicate a potential recovery in industrial activities. It is expected that industrial activities may recover and improve in the coming months. 3.4 Overall Economic Activity The Monthly Economic Indicator (MEI) is developed as a tool to distribute the past annual GDP numbers, reported by the PBS, on a monthly/quarterly basis, and to nowcast GDP growth for the FY in which the National Accounts are not yet available on the same frequency. The ï¬\u0081gure presents the MEI since July 2019. It should be noted that some of the data underlying the November 2023 MEI are still provisional and may be revised next month. 3.3 Industrial activity The LSM cycle usually follows the cyclical movements in the main trading partners, but since it is focused on the main industrial sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets. The aggregate CLI in the main export markets has improved and reached its potential level. This suggests positive momentum in the external environment, which is crucial for Pakistan's industrial performance. Improvement in CLI of Pakistan's export markets signiï¬\u0081es a favourable export landscape while continuous increase in MoM imports signals increased economic activities and demand for goods and services. Further, reducing inï¬‚ationary pressures supported by a decline in international commodity prices, easing of supply constraints, and the government's various policy and administrative measures demonstrate better growth prospects. According to the ï¬\u0081rst quarter GDP estimates, the economy grew by 2.13 DECEMBER - 2023 8 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K percent against 0.96 percent in ï¬\u0081rst quarter of FY2023. The growth is primarily driven by 5.06 percent in agriculture, 2.48 percent in Industry, and 0.82 percent in the services sector. Based on improvement in key economic indicators, it is expected that this positive momentum observed in the ï¬\u0081rst quarter will gain further traction in the upcoming months. 3.5 External BoP data for November shows some developments, as exports of goods and services increased by 12.2 percent on a YoY basis and marginally by 0.2 percent on a MoM basis, respectively. Exports are consistently above $3.0 billion mark since Aug-23. On the other hand, November imports of goods and services were at $ 5.3 billion, marginally higher than their level of $ 5.2 billion observed in October and $ 5.0 billion in Nov-22. Resultantly, the trade balance of goods and services decreased by 4.3 percent on YoY basis but increased by 3.3 percent on MoM basis. In the coming months, it is expected that exports would remain at around current observed level and take advantage of increase in domestic economic activities and encouraging foreign demand. Similarly, imports will continue to observe their increasing momentum in coming months with assumptions of stable exchange rate and soothed global commodity prices. Current account balance turns to surplus in November, mainly due to decline in primary income debit, which decreased signiï¬\u0081cantly by 36 percent on MoM basis. For the outlook, considering all other components of secondary income included worker's remittances as well as primary income balance, the current account will remain in a manageable limit. 3.6 Fiscal The ï¬\u0081scal performance during the ï¬\u0081rst four months highlights the effective implementation of consolidation measures that resulted in a substantial increase in overall revenue receipts that outpaced the growth in expenditures. As a result, the ï¬\u0081scal deï¬\u0081cit in terms of GDP has been successfully brought down to 0.8 percent of GDP and improved the primary surplus to Rs.1429.7 billion in the ï¬\u0081rst four months of FY2024. On the revenue side, FBR tax revenues have surpassed the target by Rs.27 billion set for Jul-Nov FY2024. The revenue performance indicates that tax policy and administrative measures are paying off in terms of continuous improvement in revenue collection. With this pace, it is expected that the tax collection target for FY2024 will be achieved. Similarly, cautious expenditure management played an instrumental role in controlling non-essential spending, however, the challenge of higher markup payments persists. Considering this, the government will continue the current ï¬\u0081scal strategy to achieve set targets, emphasizing both revenue enhancement and prudent expenditure control. 3.7 Final Remarks Despite signiï¬\u0081cant challenges, the overall economic outlook is optimistic marked by receding inï¬‚ationary pressures, positive prospects in agriculture, signs of potential recovery in the industrial sector reï¬‚ected by positive trends in high-frequency indicators, imports, and a favorable external environment. The optimistic economic outlook is also evident by the 2.13 percent growth achieved in the ï¬\u0081rst quarter of FY2024, largely contributed by agriculture and industry. Further, the twin deï¬\u0081cit is on a downward trajectory signifying better economic management to reduce the macroeconomic imbalances. This lays the foundation for progressing towards higher and sustainable economic growth. It is therefore expected that this positive momentum will further strengthen in the upcoming months. DECEMBER - 2023 9 \f27th December 2023 ECONOMIC INDICATORS Remi ances ($ bn) Exports FOB ($ bn) Imports FOB ($ bn) Current Account Deï¬\u0081cit ($ bn) Source: SBP FDI ($ mn) Total Foreign Investment ($ mn) Source: FBR & Budget Wing FBR Revenue (Rs.bn) Non-Tax Revenue (Rs.bn) Source: SBP PSDP (Rs.bn) Agriculture Credit (Provisional) PSX Index Market Capitaliza on (Rs. bn) Market Capitaliza on ($ bn) ov \* : Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX & SECP DECEMBER - 2023 10 \f"

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[1] "Rs Monthly ECONOMIC UPDATE & OUTLOOK February 2023 Government of Pakistan Finance Division Economic Adviserâ€™s Wing Contents Executive Summary 1 International Economic Performance and Outlook 1 Monthly Performance of Pakistanâ€™s Economy 4 Pakistan Economic Outlook 7 Economic Indicators 10 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Execu ve Summary Â§ The global economy is expected to slow down to the level of 2.9 percent in the year 2023, mainly due to stabilization measures, and geopolitical frictions. Accordingly, global trade growth is also expected to decline to 2.4 percent despite an easing of supply bottlenecks. Further, the reopening of China's economy has the potential to stimulate a rapid global recovery. Â§ In Pakistan, estimates of ongoing Rabi season for wheat sowing in 2022-23 has achieved 96 percent, covering 21.94 million acres. Moreover, the increased disbursement of agriculture credit is expected to further boost wheat production, leading to a target of 28.4 million tonnes, indicating a promising outlook for farmers and the agricultural sector. However, the favorable weather conditions, the availability of high-quality seeds, and su cient fertilizers would be critical in achieving targeted output. Â§ CPI inï¬‚ation reached 27.6 percent on year-on-year basis in January 2023 whereas for Jul-Jan FY 2022-23, it is recorded at 25.4 percent. Â§ Total revenues grew by 18.8 percent to reach PKR 4,699 billion during the ï¬\u0081rst half of FY2022-23 against PKR 3,956 billion in the same period of last year. The major contribution to this growth came from 26.4 percent increase in non-tax collection, while tax collection has also shown remarkable performance by posting a growth of 17 percent. Â§ Total expenditures for the ï¬\u0081rst half of the current ï¬\u0081scal year increased by 19.8 percent to PKR 6,382 billion given the increase in mark-up payment which surged by 77 percent due to rise in debt servicing. Â§ During 1st Julyâ€“ 27th January, FY 2022-23, money supply (M2) observed growth of 0.4 percent compared to growth of 0.7 percent in last year. Monetary Policy Committee, on January 23, 2023, has increased the policy rate by 100 basis points to 17 percent on account of persistent inï¬‚ationary pressures in the economy. Â§ The contraction in imports allowed the Current Account deï¬\u0081cit to decline signiï¬\u0081cantly to USD 3.8 billion for JulJan FY2022-23 as against a deï¬\u0081cit of USD 11.6 billion during same period last year. Interna onal Economic Performance and Outlook Global growth is projected to decelerate to 2.9 percent in 2023 before rising to 3.1 percent in 2024 (World Economic Outlook â€“January 2023). While the outlook for 2023 is 0.2 percentage points higher than the previous forecasts, it still falls below the historical average of 3.8 percent. This slower growth is being attributed to rising interest rates and the ongoing Russia-Ukraine conï¬‚ict, which are weighing on economic activity. However, China's recent reopening enabled a faster-than-expected recovery and is expected to positively impact global growth in the coming years. Global inï¬‚ation is anticipated to decline from 6.6 percent in 2023 to 4.3 percent in 2024, but it is still projected to remain above pre-pandemic levels. Economic activity in China slowed in the fourth quarter of 2022 due to several COVID-19 outbreaks in densely populated localities, including Beijing. The outbreaks prompted renewed lockdowns that remained in place until FEBRUARY 2023 1 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K COVID-19 restrictions which relaxed in November and December, facilitating a full reopening. Despite, real estate investment in China continued to contract, and the restructuring of developers is taking place at a slow pace, mainly due to the lingering property market crisis. Furthermore, consumer and business sentiment remained subdued in late 2022. As a result, global trade growth has also decreased, leading to a drop in international commodity prices. The Global Trade Update from UNCTAD projects that the slowdown in global trade which began in the second half of the year, will continue to worsen in 2023. This is mainly due to the persistence of geopolitical tensions and tight ï¬\u0081nancial conditions. Several factors, such as geopolitical shocks, globalization, climate action, and technology, are also expected to have a signiï¬\u0081cant impact on trade and investment in the coming year, 2024. The FAO Food Prices Index (FFPI) averaged 131.2 points in January 2023, down 1.1 points from December, marking the tenth consecutive monthly declines. The decrease in the index in January was mainly due to sharp decline in international prices of vegetable oils, dairy and sugar, while those of cereals and meat remained mostly stable. The Federal Reserve has increased interest rates by a quarter percentage point, with the federal funds rate for open market operations now in a target range of 4.5-4.75 percent. The rate hike was followed by unexpectedly strong job data for January, which suggested that the central bank may need to raise rates further to better balance strong demand. The Fed's Monetary Policy Committee believes that if there is continued Reopening of China: An Opportunity for Pakistan and the World China has ï¬\u0081nally lifted pandemic restrictions and resumed mobility. This will result in a pickup of economic activity and provide momentum to the international economy. Last year, China faced its most signiï¬\u0081cant economic setback as the COVID-19 outbreak led to several lockdowns and a decline in economic growth. However, the recent reversal of policy and reopening ignited the optimistic expectations that the economy will return to its footings this spring. It is projected that the Chinese economy will grow by 5.2 percent this year, compared to 3 percent in the previous year. Evidence suggests that if Chinese economy grows by 1 percentage point, the economic growth in other countries rise by around 0.3 percentage points. The factories in China produce a signiï¬\u0081cant portion of the world's manufacturing output, surpassing the US, Germany, and Japan combined. This highlights that implementation of appropriate policies in China would not only boost the Chinese economy but would also be beneï¬\u0081cial for other countries of the world. International ï¬\u0081nancial institutions predict that China will account for one-third of international growth during the current year. The largest beneï¬\u0081ciaries from China's rebounding will possibly be the oil exporters and its Asian neighboring countries, according to Goldman Sachs. As China's yearly food imports reached approximately USD 266 billion and are expected to increase over the years, Pakistan can beneï¬\u0081t from the signiï¬\u0081cant and enhanced consumption patterns of the food sector within the Chinese economy. Pakistan is a home to the Chinese ï¬‚agship initiative, i.e., CPEC. This initiative slowed down during previous government, and it is high time to revive the program to put Pakistan on the trajectory of sustainable development by connecting Pakistan to 150 markets worldwide through the BRI. FEBRUARY 2023 2 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K strength in labour market or higher inï¬‚ation, it may be necessary to increase rates further over time. The January 2023 \"Survey of Consumer Expectations\" from the Federal Reserve Bank of New York indicates little change in inï¬‚ation expectations for the short, medium, and long term. Similarly, expectations for labour and household ï¬\u0081nances have remained mostly stable, with the exception of a signiï¬\u0081cant drop in household income growth expectations in January but remain above their prepandemic levels. US Services Business Activity in January 2023 registered a value of 54.7 percent, indicating a positive development in the service sector business activities. The index value above 50 percent signiï¬\u0081es an expansion in the service sector. To bring inï¬‚ation back down to the central bank's target rate, the Federal Reserve is increasing interest rates. This has resulted in the US central bank's ratehiking cycle being the fastest since the 1980s. However, the US manufacturing sector experienced a contraction for the third straight month in January 2023, with an index value of 47.4 percent, which was lower than December 2022's 48.4 percent. This contraction was led by a decline in the new orders and production index, indicating a further lowering demand. It is anticipated that manufacturing activity will experience more di culty over the next few months due to tight monetary policy and previous tightening in ï¬\u0081nancial conditions (Figure 1). Fig-1: Growth in WEI 4.45 0.87 01-08-2022 08-20-2022 01-07-2023 Source: Federal Reserve Bank of New-York most growth, as both China and Japan returned to expansion after recent declines, and India continued to experience robust growth. However, the manufacturing PMI dropped to 47.4 in January 2023 from 48.4 in December 2022, contracting for a second straight month after a period of expansion lasting 30 months. In January 2023, CLIs showed slow growth in the OECD and other major economies, primarily due to factors such as high inï¬‚ation, rising interest rates, and declining share prices. The CLIs also indicate that growth is likely to lose momentum in the US, the UK, and Canada, as well as in the Euro Fig-2: Composite Leading Indicator The J. P. Morgan Global Composite Output Index showed the signs of improvement in January 2023 with an increase to 49.8 from 48.2 in December 2022. The manufacturing sector, which had been experiencing a decline, showed some improvement, while the service sector marked higher growth following a period of contraction lasting three months. Asia was the region with the Source: OECD FEBRUARY 2023 3 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K area, including Germany, France, and Italy. However, there is some stabilization in the CLI for China's industrial sector, driven by the production of motor vehicles and rising share prices. Global commodity prices showed a mixed performance in January 2023. Energy prices experienced a decline of 8.9 percent, with natural gas in Europe leading the way with a drop of 44 percent and coal declining by 16.1 percent. Nonenergy prices, on the other hand, gained 1.7 percent, with food prices increasing by 0.4 percent and fertilizer prices declined by 6.2 percent. Further, metal prices experienced an overall gain of 6.0 percent, with tin seeing the largest increase at 16.5 percent, followed by iron ore at 9.3 percent and copper at 7.9 percent. Precious metals also gained in value, increasing by 4.9 percent. Monthly Performance of Pakistan's Economy PKR740.3 billion during same period last year. During Rabi 2022-23 (December 2022), urea and DAP o -take stood at 833 thousand tonnes (39.2 percent higher than December 2021) and 158 thousand tonnes (35.2 percent higher than December 2021). 2.1-b Manufacturing Amid unfavorable circumstances such as economic shocks, the government is taking various measures to correct ï¬\u0081scal and current account imbalances and controlling inï¬‚ation. Further, the global economic outlook also implies the contraction of 3.7 percent in LSM during the ï¬\u0081rst half of FY2023 (Jul-Dec). On a YoY basis, LSM declined by 3.5 percent in December 2022, but grew by 12.4 percent over the previous month. Four sectors, including Wearing Apparel, Leather Products, Furniture, and others (Football etc.), witnessed a positive growth during the period. Fig-3: Performance of LSM 2.1 Real Sector 2.1-a Agriculture The recent estimates show that wheat sowing for the current Rabi season 2022-23 has achieved 96 percent of the target, covering an area of 21.94 million acres out of the planned 22.85 million acres. However, the productivity or yield can be attributed to the timely availability of quality seeds and fertilizers, as well as a rise in agriculture credit disbursement. These developments bode well for meeting the wheat production target of 28.4 million tonnes. Furthermore, the Kissan Package 2022 is expected to have a positive impact on the agriculture sector's productivity. During Jul-Jan FY2023, the agriculture credit disbursement increased by 28.3 percent to PKR949.9 billion from The automobile industry experienced a signiï¬\u0081cant decline in production and sales during Jul-Jan FY2023 due to import compression strategies and tight auto ï¬\u0081nancing. Car production and sales decreased by 38.6 percent and 43.1 percent, respectively, while Trucks and Buses production and sales decreased by 29.1 percent and 37.1 percent, respectively. The total cement FEBRUARY 2023 4 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K dispatches also declined by 18 percent, to 25.8 million tons during Jul-Jan FY2023, as compared to 31.4 million tons during the same period last year. However, there was a marginal growth of 1.15 percent in cement dispatches during January 2023, with 4.0 million tons dispatched as compared to 3.96 million tons in Jan 2022. Fig-4: Fiscal Indicators % of GDP 2.2 Inï¬‚ation In January 2023, CPI stands at 27.6 percent on a year-on-year basis, which is higher than 24.5 percent in the previous month and 13.0 percent in January 2022. On average, the CPI inï¬‚ation was recorded at 25.4 percent during Jul-Jan FY2023, which is higher than the 10.3 percent recorded in the same period last year. Major drivers contributing to the yearon-year increase in CPI include perishable food items (61.6 percent), transport (39.1 percent), alcoholic beverages and tobacco (36.3 percent), non-perishable food items (40.3 percent), restaurants and hotels (30.1 percent), furnishing and household equipment maintenance (29.9 percent), housing, water, electricity, gas and fuel (7.8 percent), and education (10.9 percent). The Sensitive Price Indicator (SPI) for the week ending on February 23, 2023, increased by 2.78 percent compared to the previous week. Prices of six items declined, twelve items remained stable, and thirty-three items increased. 2.3 Fiscal Performance During the ï¬\u0081rst half of FY2022-23, total revenues grew by 18.8 percent to reach PKR 4,699 billion against PKR 3,956 billion in the same period of last year. The major contribution to this growth came from 26.4 percent increase in non-tax collection, while tax collection has also shown remarkable performance by posting a growth of 17 percent during the ï¬\u0081rst half of current ï¬\u0081scal year. Total expenditures grew by 19.8 percent to PKR6,382 billion in Jul-Dec FY2023 against PKR5,328 billion in the same period last year. Current expenditures increased by 30 percent to PKR6,061 billion in Jul-Dec FY2023 against PKR 4,676 billion in comparable period of the last year. The bulk of this rise is stemmed from a sharp rise in mark-up payments which grew by 77 percent driven by higher servicing on domestic and foreign debt due to a higher level of interest rates. While PSDP (Federal and Provincial) grew by 4.5 percent during the ï¬\u0081rst half of the current ï¬\u0081scal year. Thus, the ï¬\u0081scal deï¬\u0081cit during Jul-Dec FY2023 has been contained at 2.0 percent of GDP as it was in the same period last year. While the primary balance posted a surplus of PKR 890 billion (1.1 percent of GDP) against the surplus of PKR 81 billion (0.1 percent of GDP) last year. FBR Tax Collection FBR tax collection exceeded the target by PKR 4.1 billion in January 2023. The provisional net tax collection increased by 24.8 percent in January 2023 to PKR 537.6 billion, up from PKR 430.9 billion in the same month of the previous year. During Jul-Jan FY2023, net tax collection grew by 18.4 percent to PKR3,966.4 billion against PKR3,350.8 billion in the same period last year. Domestic tax collection grew by 21.8 percent, while customs duty increased by 0.9 percent. FEBRUARY 2023 5 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Fig-5: FBR Tax Collection (Rs. bn) (Jul-Jan) Source: FBR Within domestic taxes, collection from direct tax witnessed a remarkable performance as it increased by 48.1 percent, while sales tax grew by 1.7 percent and FED by 10.8 percent. 2.4 Monetary Sector The Monetary Policy Committee (MPC), on January 23, 2023, increased the policy rate by 100 basis points to 17 percent. From July 1 to January 27 of FY2023, the money supply (M2) has only observed a growth of 0.4% (PKR 121.5 billion), which is lower than the growth of 0.7% (PKR 175.1 billion) observed in the same period last year. The Net Foreign Assets (NFA) component of M2 decreased by PKR 2,014.4 billion, compared to a decrease of PKR 545.5 billion in the previous year. On the other hand, the Net Domestic Assets (NDA) of the banking sector increased by PKR 2,135.9 billion, compared to an increase of PKR 720.6 billion last year. 2.5 External Sector The balance of payments for Jul-Jan FY2023 shows a signiï¬\u0081cant improvement compared to the same period last year, with the current account deï¬\u0081cit reducing from USD11.6 billion to USD3.8 billion. This was largely due to a contraction in imports, which decreased by 20.9 percent to USD33.4 billion. Exports also declined by 7.4 percent to USD16.4 billion during the same period. The trade deï¬\u0081cit for Jul-Jan FY2023 was USD17.0 billion, a reduction from USD24.6 billion last year, as reï¬‚ected by an improvement in the trade balance. In January 2023, the current account deï¬\u0081cit further decreased to USD242 million, compared to USD2,467 million in the same period last year, due to an improvement in the trade balance. The PBS report indicated that several export commodities performed well during the review period, including foot balls, footwear, pharmaceutical products, surgical goods and medical instruments, meat and meat preparation, readymade garments, and knitwear. These commodities showed signiï¬\u0081cant increases in value and quantity, ranging from 8.2 percent to 77 percent. In terms of imports, the main commodities were petroleum products, petroleum crude, liqueï¬\u0081ed natural gas, palm oil, plastic materials, iron and steel, electrical machinery, and medicinal products. Petroleum products were the largest imported commodity. 2.5.1 Foreign Investment Foreign Direct Investment (FDI) reached USD 683.5 million during Jul-Jan FY2023 (USD 1,224.7million last year) decreasing by 44.2 percent. FDI received from China stands at USD 200.2 million (29.3 percent), Japan USD 133.9 million (19.6 percent), Switzerland USD 106.5 million (15.6 percent), U.A.E. USD 83.2 million (12.2 percent), and Netherland USD 45.0 (6.6 percent of total FDI). The power sector attracted the highest FDI of USD 315.2 million (46.1 percent of total FDI), Financial Business USD 224.7 million (32.9 percent), and Oil and Gas Explorations USD 98.4 million (14.4 percent). Foreign Public Portfolio Investment recorded a net outï¬‚ow of USD 1,010.9 million compared an inï¬‚ow of USD 958.3 million during same period last year. Total foreign investment during Jul-Jan FY2023 recorded an outï¬‚ow of USD 341.4 million as against an inï¬‚ow of USD 1,875.4 million last year. FEBRUARY 2023 6 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K 2.5.2 Worker's Remittances During Jul-Jan FY2023, workers' remittances recorded at USD 16.0 bn (USD18.0 billion last year), decreased by 11.0 percent. MoM, remittances decreased by 9.9 percent in January 2023 (USD 1.9 billion) as compared to December 2022 (USD 2.1 billion). Share of remittances (Jul-Jan FY2023) from Saudi Arabia remained 24.3 percent (USD 3,892.1 million), U.A.E 17.9 percent (USD 2,873.7 million), U.K 14.5 percent (USD 2,314.2 million), USA 10.9 percent (USD 1,753.2 million), other GCC countries 11.7 percent (USD 1,877.9 million), EU 11.2 percent (USD 1,790.6 million), Malaysia 0.4 percent (USD 68.3 million), and other countries 9.1 percent (USD 1,436.7million). 2.5.3 Foreign Exchange Reserves As of February 24, 2023, Pakistan's total liquid foreign exchange reserves are USD 9.3 billion including USD 3.8 billion SBP's reserves. 2.6 Performance of KSE Index The KSE-100 index closed at 40,673 points as on January 31, 2023, while market capitalization settled at PKR 6,394 billion. The performance of major world indices is depicted in Figure 6. 2.7 Social Sector Â§ BISP has set up a special control room for the redressal of public complaints regarding disbursement of 'Benazir Kafaalat' payments to ensure transparency in distribution of the ï¬\u0081rst quarterly installment of PKR 7,000 among the beneï¬\u0081ciaries for the year 2023. Â§ Bureau of Emigration and Overseas Employment and Overseas Employment Corporation both have registered 59,977 emigrants during January 2023 for overseas employment in di erent countries. Â§ PPAF through its 24 Partner Organizations has disbursed 39,547interest free loans amounting Fig-6: Major World Indices Source: Investing.com, PSX to PKR 1.62 billion during the month of January 2023. Since inception of interest free loan component, a total of 2,224,976 interest free loans amounting to PKR 81.94 billion have been disbursed. Â§ On February 16, 2023, National Institute of Health (NIH) conducted 4,890 COVID-19 tests out of which 31 were positive. During last 24 hours one death occurred due to the virus and the total positivity rate was recorded at 0.63 percent. Pakistan Economic Outlook 3.1 Inï¬‚ation Inï¬‚ation is anticipated to remain high in the coming months before easing out gradually. It is expected that inï¬‚ation will remain around 28 to 30 percent in coming months. The key reasons are uncertain political and economic environment, pass through of currency depreciation, recent rise in energy prices and increase in administered prices. Although, SBP has been enacting contractionary monetary policy, but the inï¬‚ationary expectation would take some time to settle. The federal government, in liaison with provincial governments, is closely monitoring the demand supply FEBRUARY 2023 7 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K gap of essential items and taking necessary measures to stabilize their prices. It is hoped that resumption of economic stabilization program will help achieve economic stability leading to exchange rate stabilization and provide an opportunity to reap the beneï¬\u0081t of falling international commodity prices. This will also help contain cost push inï¬‚ation and provide a cushion to the government to pass through the lower commodity prices to domestic consumers. 3.2 Agriculture export areas, which are some how negative as compared to historical standards. The correlation coe cient between the weighted average CLI in these export areas and the cyclical position of domestic LSM is close to 0.5. It is therefore no surprise that LSM output remains signiï¬\u0081cantly below its stochastic trend, although recently some improvement can be observed. For January, LSM is expected to grow as compared to the previous month, partly due to seasonal factors. Measured on YoY basis, LSM output may marginally decline, mainly due to the high base e ect in the reference period. As of now, the favorable weather conditions and the uptake of inputs by the farmers are expected to play their positive role in meeting the wheat target of 28.4 million Tonnes. Further, the disbursements made under the Kissan package will have positive impact on the agriculture productivity and overall economic activity. The Monthly Economic Indicator (MEI) is based on combining monthly data of indicators that are proven to be correlated with GDP at constant prices. Figure 8 presents the MEI on monthly basis since January 2019. 3.3 Industrial Activities Fig-8: Monthly Economic Indicator (MEI) LSM's cyclical pattern is positively correlated with the cyclical position of Pakistan's main trading partners. In December 2022, LSM activity came in as expected, implying that no unexpected shocks in that month appeared. However, the international economic environment remains uncertain. This is illustrated by the CLI in Pakistan's main 3.4 Overall economic activity 17.24 -9.03 Fig-7: Relationship between CLI and LSM cycle Source: EA Wingâ€™s Calculation (January 2023: Provisional) The average MEI during the ï¬\u0081rst 7 months of the current ï¬\u0081scal year is positive, but it remained slightly in negative range in the last 4 months. Since October 2022, the MEI witnessed negative growth however there seems some improvement in the value in the following months till January. 3.5 External Source: PBS, OECD and EAW Calcula ons According to Balance of Payment (BOP) FEBRUARY 2023 8 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K data, exports of goods decreased by 11.7 percent on YoY basis in the month of January 2023 and exports of services increased by 17.3 percent which can be justiï¬\u0081ed due to economic slowdown in traditional export destinations of Pakistan. Usually, the month of January observe negative seasonal e ect that led to decline in total exports by 4.3 percent on MoM basis. Similarly, import contraction trend has continued. In January 2023, the import of goods is decreased by 36.7 percent on YoY basis and 7.4 percent on MoM basis. Further, import of services declined by 47.4 percent on YoY basis. Accordingly, imports of goods and services decreased by 38.4 percent. Shrinking gap between exports and imports enable to improve trade deï¬\u0081cit in the current ï¬\u0081scal year by 60.5 percent. Signiï¬\u0081cant improvement in trade balance has transmitted in the current account deï¬\u0081cit which stood at USD 242 million as compared USD290 million in December. Remittance inï¬‚ows also observed negative seasonal e ect in the month of January which declined to USD 1,894 million as compared USD 2,102 million in December 2022. In the current baseline scenario, an improvement and recovery has been expected in remittances due to improved situation after narrowing down di erences between the inter-bank and open markets subsequent allowing adjustments of the exchange rate. As a result, further improvement in current account is foreseen. 3.6 Fiscal Despite considerable challenges both at domestic and external fronts, the ï¬\u0081scal sector performance remained satisfactory. The government has been able to restrict the ï¬\u0081scal deï¬\u0081cit in terms of GDP at the same level as last year while primary balance remained in surplus. The improvement is largely attributed to government's prudent expenditure management strategy, which resulted in a 3.9 percent decline in federal non-mark-up expenditures on the back of decline in subsidies and grant. The current policy stance has enabled the government to increase expenditures on vulnerable segments of society through BISP and poverty alleviation fund. On the revenue side, despite slowdown in economic activity, tax and non-tax collection have improved. Particularly, FBR tax collection have maintained its growth trajectory above 18 percent during ï¬\u0081rst seven months of current ï¬\u0081scal year. Encouragingly, domestic tax collection, in particular direct taxes are growing at rapid pace indicating e ective implementation of administrative and enforcement measures. Although risks to domestic resource mobilization e orts persist due to economic activity and growth slowdown. However, continuing e orts to boost tax collection would aid in meeting the fullyear target. Similarly, recently enacted PKR 170 billion additional taxes may support further improving the tax collection. 3.7 Final Remarks The stabilization policy of the government has been successful in improving current account deï¬\u0081cit by 67 percent reduction during ï¬\u0081rst seven months of the current ï¬\u0081scal year whereas the non-markup current expenditures are also signiï¬\u0081cantly reduced to contain ï¬\u0081scal deï¬\u0081cit. During the ï¬\u0081rst half of the current ï¬\u0081scal year, interest payments on the Government's debt signiï¬\u0081cantly contribute to the total expenditures, which can limit the Government's ï¬\u0081scal space to carry out its normal operations, investments, and social and structural policies if the trend continues. A couple of weeks ago, the market has corrected to minimize the di erence between inter-bank and open market exchange rates whereas more recently, it is corrected by 5 percent appreciation of the Pakistani Rupee given its economic fundamentals. FEBRUARY 2023 9 \fECONOMIC INDICATORS 28 February, 2023 Remi ances ($ bn) Exports FOB ($ bn) Imports FOB ($ bn) Current Account Deï¬\u0081cit ($ bn) Source: SBP FDI ($ mn) Total Foreign Investment ($ mn) Source: FBR & Budget Wing FBR Revenue (Rs.bn) 2022-23 Jul-Jan 2021-22 Jul-Jan Non-Tax Revenue (Rs.bn) Source: SBP PSDP (Rs.bn) Agriculture Credit (Provisional) Jul-Jan PSX Index Market Capitaliza on (Rs. bn) 24-Feb-2023 1-Jul-2022 Market Capitaliza on ($ bn) 24-Feb-2023 1-Jul-2022 \* : Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX & SECP FEBRUARY 2023 10 \f"

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[1] "RS MONTHLY ECONOMIC UPDATE & OUTLOOK FEBRUARY 2024 GOVERNMENT OF PAKISTAN - FINANCE DIVISION - ECONOMIC ADVISERâ€™S WING finance.gov.pk \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Contents 01 Foreword 02 Executive Summary 04 International Performance and Outlook 05 Performance of Pakistan's Economy 09 Economic Outlook 12 Economic Indicators Foreword Dr. Shamshad Akhtar Minister for Finance, Revenue & Economic Affairs A s the new government takes ofï¬\u0081ce after the 8th February General Elections, expectations are that a vibrant strategy and vision would help revive the economy and build on the hard-earned gains made over the last six months. Last few months measures have restored market conï¬\u0081dence and led to a pick-up in economic activity. GDP growth accelerated to 2.1% in Q1 FY2024, after two consecutive quarters of negative growth. The growth was broadbased with the agriculture sector posting 5% growth and manufacturing activity registering 2.5% growth. In particular, the removal of the import ban and other import restrictions have eased supply constraints, leading to pick-up in economic activity. Data from Q2 FY2024 is showing stronger performance of the manufacturing sector, with large scale manufacturing posting 8.2% increase over Q1. We expect Q2 FY2024 GDP growth to rise to around 3% on stronger manufacturing output and higher production of crops including cotton, which has increased by 75% to 8.35 million bales. To tackle these challenges, the caretaker government has taken steps to reduce unproductive expenditures and boost tax and non-tax income. During Jul-Dec FY2024, the government has run a primary surplus of Rs 1.5 trillion (1.4% of GDP) against IMF SBA target of 0.5% of GDP. Difï¬\u0081cult and unpopular measures including a reduction in the subsidy bill on power and gas through timely implementation of quarterly tariffs helped improve primary account. No supplementary grants have been issued during this period and PSDP projects that fall under the provincial domain have been transferred to provincial ADPs. At the same time, we have increased the release of funds for 9.3 million most vulnerable households. On the revenue side, the FBR Tax collection grew by 30% to Rs 5.15 trillion during JulJan FY2024 despite a slowdown in imports and 0% GST on petroleum products. Overall growth in the domestic taxes has increased by 40%, with the rebound in economic activity and rise in proï¬\u0081tability of companies including Banks, Oil & Gas, and the manufacturing industry. Import taxes posted a growth of 16% due to improvements in the valuation of imports that yielded Rs 151 billion in collections as well as the anti-smuggling drive that witnessed almost 69 % growth in FY2024. The improvement in the ï¬\u0081scal position has helped the government to reduce the accumulation of public debt. Net domestic borrowing has decreased by 67% to Rs 1.9 trillion, from Rs 5.8 trillion in the preceding period. The lower domestic borrowing, lower cost of borrowing on margin (below the SBP policy rate) and extended maturity proï¬\u0081le helped lower net domestic borrowing. Most of all the domestic debt proï¬\u0081le has improved to 3.1 years in Jan 2024, from 2.7 months in Jun 2023. The government also successfully launched a 1 year Sukuk on the PSX, the ï¬\u0081rst auction was held in November 2023, raising lower-cost debt from non-bank and retail investors. Similarly, external net borrowing during fell to $ 0.3 billion, compared to $ 3bn in the preceding period. At the heart of the economic challenges facing Pakistan today is the unsustainable public debt position, with Pakistan in breach of the Fiscal Responsibility & Debt Limitation Act (FRDL) since 2013. The government's ability to service the public FEBRUARY - 2024 1 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K debt liabilities are hampered by weak tax collection, rising losses of SOEs, and highest interest rates since 1972. The improvement in the ï¬\u0081scal position and other quantitative and structural benchmarks led to the successful ï¬\u0081rst review of the IMF SBA in November 2023, and subsequent disbursement of $ 700 million in January 2024. The measures taken to conclude the IMF staff review included the annual rebasing of power tariffs, the semi-annual gas tariff adjustment, and the SOE Policy to enhance governance and improve ï¬\u0081nancial performance. A comprehensive Circular Debt Management Plan (CDMP) was enforced that focused on reforms to reduce high costs, improve DISCO performance, and increase competition and green energy. Headline Inï¬‚ation has remained persistently high, but we anticipate a signiï¬\u0081cant fall in inï¬‚ation in 2024 due to the economic measures taken by the caretaker government including improvement in the supply of imports of raw materials, higher food production, and stability in the exchange rate market. Assuming no exogenous shocks, including a rise in international oil prices, the SBP projects inï¬‚ation to fall to 5% to 7% range by FY2025. During the month of Feb 2024 the weekly SPI inï¬‚ation has declined to 30.7% compared to 44% in Jan 2024. Turning to the markets, the premium between interbank and open market was brought down to less than 0.5%, against the agreed 1.25% range. SBP FX reserves were raised to $ 8.1 billion, compared to $ 4.4bn in June 2023, while reducing the swaps from commercial banks to $ 3.5 billion, from $ 4.5 bn in June 2023. The markets have rallied due to improvements in the economic conditions and the PSX has rallied 40% from Sep with the KSE 100 index rising to 63,300 points th by 26 Feb. Foreign buyers have invested $ 51.7 million in the PSX during FY2024, after 4 years of outï¬‚ow. During the period, the Rupee has strengthened 8% to 280 levels. The risk premium (Credit Default Swaps) on the Eurobonds has come down sharply to 1,534bps in Feb 2024, compared to 4,825bps in June 2023. To sustain these gains, it is imperative that the new government completes the last review of the IMF SBA. Perhaps more important is that the new government reach an early agreement with the IMF staff on a new medium-term facility, providing an anchor to carry out the difï¬\u0081cult reforms. To achieve this the new government must take forward critical reforms on restructuring of the FBR, privatization of the loss-making SOEs including PIA, and the implementation of the SOE policy for improved governance and ï¬\u0081nancial performance. Executive Summary Economic instability is fading, with revival efforts aimed at boosting the activity across sectors. The real sector is experiencing notable growth, leading to a positive market response and signs of recovery. The PKR has stabilized and the PSX has shown sustained performance improvements, reï¬‚ecting a conducive environment for the economic activity. Though the pace of overall expansion is slow, but improvements in major economic indicators signifying an optimistic GDP outlook in FY2024. Agriculture sector is experiencing stronger growth as compared to last year. The robust performance in this sector reï¬‚ects better situation of food security and employment during the ongoing ï¬\u0081scal year. For the Rabi season 2023-24, the timely sowing of wheat aligns with the goal of reaching a production target of 32.12 million tonnes, with expectations for further increase in other crops production due to favorable climatic conditions. The farm tractor production and sales registered signiï¬\u0081cant increase of 76.7 percent and 82.5 percent during JulyJanuary FY2024, respectively, compared to the same period last year. A mixed trend witnessed in fertilizer usage, urea off-take dropped by 6.7 percent during OctoberJanuary whereas DAP off-take rose by 14.5 FEBRUARY - 2024 2 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K percent during the same period. The LSM sector showcased an increase of 3.4 percent on YoY basis in December 2023, compared to 1.1 percent decline. On MoM basis it increased by 15.7 percent in December, against an increase of 3.6 percent in November. Overall, a minor decline of 0.4 percent was recorded during Jul-Dec FY2024, compared to a contraction of 2.1 percent in the same period last year. During Jul-Dec FY2024, 12 out of 22 sectors witnessed positive growth. The positive sectors include Food, Beverages, Wearing Apparel, Leather Products, Coke & Petroleum Products, Chemicals, Pharmaceuticals, Non-Metallic Mineral Products, Rubber Products, Wood Products, Machinery and Equipment and others (including Football), while negative growth observed in Tobacco, Textile, Paper & Board, Iron & Steel Products, Fabricated Metal, Computer, Electronics & Optical Products, Automobiles, Electrical Equipment, Furniture and Other Transport Equipment. The inï¬‚ationary pressure remained sustained in January, though anticipated to fall in coming months. In January 2024, the CPI inï¬‚ation was recorded at 28.3 percent on a year-on-year basis, up from 27.6 percent in January 2023. During Jul-Jan FY2024, it has increased to 28.7 percent, compared to 25.4 percent in the corresponding period last year. The spike in CPI is mainly driven by an increase in the costs of Alcoholic Beverages & Tobacco, Housing, Water, Electricity, Gas & Fuel, Furnishing & Household Equipment Maintenance, Perishable Food Items, NonPerishable Food Items, Transport, Health, and Clothing & Footwear. The government is providing relief measures including the Ramzan Relief package, aimed at supporting poor segment of the society during the holy month of Ramzan in 2024. On the ï¬\u0081scal front, during ï¬\u0081rst half of the current ï¬\u0081scal year, a substantial rise in tax and non-tax collection contributed to improved revenue growth, leading to a surplus in the primary balance. However, the expenditure side remained under signiï¬\u0081cant pressure due to higher markup payments. Consequently, the ï¬\u0081scal deï¬\u0081cit reached 2.3 percent of GDP compared to 2.0 percent of GDP last year. While the primary surplus improved to 1.7 percent of GDP during Jul-Dec FY2024, up from the 1.1 percent of GDP in the previous year. On the external front, a sustained improvement in trade balance is continued, leading to improvement in the Current Account Balance. During Jul-Jan FY2024, the Current Account posted a deï¬\u0081cit of $1.1 billion against a deï¬\u0081cit of $ 3.8 billion last year. The YoY exports increased by 21.2 percent to $ 2.7 billion in January 2024 as compared to $ 2.2 billion in January 2023, owing to ease in imports restriction and exchange rate stability resulted in smooth supply of raw material for export-oriented industries. YoY imports increased by 16.0 percent to $4.5 billion in January 2024 as compared to $ 3.9 billion same month last year. Trade balance narrowed down by 9.1 percent to $ 1.8 billion in January 2024 as against $ 1.7 billion last year. The total foreign investment during Jul-Jan FY2024 recorded an inï¬‚ow of $ 785.9 million as against an outï¬‚ow of $ 148.8 million last year. During Jul-Jan FY2024, workers' remittances recorded at $ 15.8 billion ($ 16.3 billion last year), decreased by 3.0 percent. However, YoY remittances increased by 26.2 percent in January 2024 ($ 2.39 billion) as compared to January 2023 ($ 1.90 billion) In monetary sector, the MPC has maintained the policy rate at 22.0 percent in th its decision held on 29 January, 2024. The decision based on the expectation of decline in inï¬‚ation in upcoming months. During 1st July â€“ 2nd February, FY2024 money supply (M2) showed growth of 2.5 percent (Rs 792.3 billion) compared 1.5 percent growth (Rs 426.1 billion) in last year. The ï¬\u0081rst seven months indicates uptick in the key economic indicators. It is expected that the economic activities will gain further momentum in the last quarter of FY2024. The positive outlook is contingent on the sustained implementation of sound and prudent economic policies to achieve the set growth targets for the current ï¬\u0081scal year. FEBRUARY - 2024 3 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K International Performance and Outlook According to World Economic Outlook (WEO) January 2024, global growth estimated at 3.1 percent in 2024 before rising modestly to 3.2 percent in 2025. The forecast for 2024 is 0.2 percentage point higher, compared with October 2023 WEO, indicating upgrades for China, the United States, and large emerging market and developing economies. Nevertheless, the projection for global growth in 2024 and 2025 is below the historical (2000â€“19) annual average of 3.8 percent, reï¬‚ecting restrictive monetary policies and withdrawal of ï¬\u0081scal support, as well as low underlying productivity growth. Advanced economies are expected to observe growth decline slightly in 2024 before rising in 2025, with a recovery in the euro area from low growth in 2023 and a moderation of growth in the United States. Emerging market and developing economies are expected to experience stable growth through 2024 and 2025. Global headline inï¬‚ation is expected to fall from an estimated 6.8 percent in 2023 to 5.8 percent in 2024 and 4.4 percent in 2025. The drivers of declining inï¬‚ation differ by country but generally reï¬‚ect lower core inï¬‚ation as a result of still-tight monetary policies, a related softening in labor markets, and pass-through effects from earlier and ongoing declines in relative energy prices. World trade growth is projected at 3.3 percent in 2024 and 3.6 percent in 2025, below its historical average growth rate of 4.9 percent. Rising trade distortions and geo-economic fragmentation are expected to continue to weigh on the level of global trade. These forecasts are based on assumptions that fuel and non-fuel commodity prices will decline in 2024 and 2025, and interest rates will also be declining in major economies. Annual average oil prices are projected to fall by about 2.3 percent in 2024, whereas non-fuel commodity prices are expected to fall by 0.9 percent. The Federal Reserve held its benchmark overnight interest rate steady in the 5.255.50 percent range at the end of its January 30-31 policy meeting. However, committee has considered to reducing it once policymakers are more conï¬\u0081dent, inï¬‚ation will continue falling to the U.S. central bank's 2 percent target. Upcoming data on inï¬‚ation, jobs and consumer spending will shape the timing of that decision. CPI index rose 3.1 percent on YoY basis in January, down from 3.4 percent in the prior month, but the latest inï¬‚ation numbers was higher than expected projections. U.S. ï¬\u0081rms added 353,000 jobs in January up from 333,000 jobs in December. The unemployment rate remained steady at 3.7 percent. The US Commerce Department's Bureau of Economic Analysis (BEA) reported fourth quarter real GDP increased at an annual rate of 3.3 percent in the fourth quarter of 2023 exceeding expectations. In addition, the economy added 2.7 million jobs in 2023.Consumer conï¬\u0081dence continues to remain strong. This also evident through growth in WEI which is hovering around 2-2.5 percent in recent months (Fig-1). The J. P. Morgan Global Composite Output Index increased to 51.8 in January 2024 as against 51.0 in December 2023 and its highest reading since June 2023. Services business activity rose at the quickest pace since July 2023, as increases in the business and ï¬\u0081nancial services categories offset a minor decrease at consumer service providers. Data by nation signaled expansions of economic output in 09 out of the 14 nations for which January data were available. The BRIC nations of Brazil, Russia, India and China made up four of the top-ï¬\u0081ve performers, along with the UK in fourth position overall. The US, Japan, Italy and Spain were the other nations to signal expansions. France, Canada and Germany were the worst performers overall, while FEBRUARY - 2024 4 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Australia and Kazakhstan also observed output decline. This growth expansion is also evident through CLI position of Pakistan's main export markets. The expansion has been observed in UK and China, contrary US and Euro Area economies are below their potential (Fig-2). The FAO food prices index (FFPI) averaged 118.0 points in January 2024, down 1.2 points from its revised December level, as decline in the price indices for cereals and meat more than offset an increase in the sugar price index, while those for dairy and vegetable oils registered slight adjustments. Energy prices in January increased by 8.2 percent, led by natural gas US (25.9 percent) and oil (2.6 percent). Non-energy prices eased by 0.7 percent. Food prices declined by 1.6 percent. Beverage and raw materials gained 1.7 percent and 0.9 percent. Fertilizer prices plunged 2.9 percent. Metal price inched down 0.3 percent led by nickel (-2.2 percent) and Iron-Ore (-0.9 percent). Precious metal eased by 0.3 percent. Rs Performance of Pakistanâ€™s Economy 2.1Real Sector 2.1-a Agriculture For Rabi 2023-24, wheat crop timely sowing is well aligned with the target to achieve the production target of 32.12 million tonnes. The Rabi season crops production is expected to increase given the climatic condition in the country. Weather changes during growing seasons particularly near maturity affects wheat production. The farm inputs show positive sign. During, Jul-Jan FY2024, farm tractor production and sales recorded at 27,721 and 27,225 witnessing an increase of 76.7 percent and 82.5 percent, respectively, over same period last year. During Jul-Dec FY2024, the agriculture credit disbursement reached to Rs 1105.8 billion as compared to Rs 842.4 FEBRUARY - 2024 5 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K billion last year, an increase of 31.3 percent. Urea offtake during Rabi 2023-24 (Oct-Jan) remained 2,310 thousand tonnes (6.7 percent less than Rabi 2022-23) whereas DAP offtake was 642 thousand tonnes (14.5 percent higher than Rabi 2022-23) 2.1-b Manufacturing Large Scale Manufacturing (LSM) declined by 0.4 percent during Jul-Dec FY2024 against the contraction of 2.1 percent same period last year. In December 2023, LSM increased by 3.4 percent on YoY basis against the decline 1.1 percent in the same month last year. While on MoM basis, it increased by 15.7 percent in December against the increase of 3.6 percent in November. During Jul-Dec FY2024, 12 out of 22 sectors witnessed positive growth. The positive includes, Food, Beverages, Wearing apparel, Leather, Coke & Petroleum Products, Chemicals, Pharmaceuticals, Non-Metallic Mineral Products, Rubber Products, Wood Products, Machinery and Equipment, and others (Football). During Jul-Jan FY2024, the performance of auto-industry remains subdued due to massive increases in inputs prices, and tightening auto ï¬\u0081nance. Car production and sale decreased by 47.6 percent and 48.7 percent, while Trucks & Buses production and sale decreased by 58.3 percent and 49.4 percent. However, Tractor's production and sale increased by 76.7 percent and 82.5 percent. During the ï¬\u0081rst seven months of FY24, sales of total petroleum products dropped by 13 percent to 9.07 million tons compared to 10.48 million tons in the same period last year. While in January 2024, oil sales recorded at 1.38 mn tons, down 4.0 percent YoY. During Jul-Jan FY2024, total cement dispatches (domestic and exports) were 27.296 million tons that is 5.9 percent higher than 25.770 million tons dispatched during the corresponding period of last ï¬\u0081scal year. Domestic dispatches during this period were 23.196 million tons against 23.618 million tons during same period last year showing a reduction of 1.79 percent. Export dispatches showed healthy increase of 90.49 percent as the volumes increased to 4.1 million tons during the ï¬\u0081rst seven months of current ï¬\u0081scal year compared to 2.152 million tons exports done during same period last year. 2.2 Inï¬‚ation CPI inï¬‚ation recorded at 28.3 percent on a year-on-year basis in January 2024 as compared to 27.6 percent in January 2023. During Jul-Jan FY2024, CPI stood at 28.7 percent against 25.4 percent in the same period last year. On a Month on Month (MoM) basis, it increased to 1.8 percent in January 2024 compared to an increase of 0.8 percent in the previous month. Major drivers contributing to the year-onyear increase in CPI include Alcoholic Beverages & Tobacco (82.6 percent), Housing, Water, Electricity, gas & Fuel (38.7 percent), Furnishing & Household equipment maintenance (31.2 percent), Perishable food items (30.7 percent), Nonperishable food items (24.0 percent), Transport (26.2 percent), Health (21.5 percent) and Clothing & Footwear (21.0 percent). The approval of the Ramzan Relief package by the ECC is aimed at providing support to the poor segment of society during the holy month of Ramzan. With an allocation of Rs 7.492 billion, this package will enable the provision of subsidized items through the FEBRUARY - 2024 6 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Utility Stores Corporation (USC) to help alleviate the ï¬\u0081nancial burden on the target beneï¬\u0081ciaries. The SPI for the week ended on 22nd February 2024, recorded an increase of 0.04 percent as compared to previous week. Prices of 08 items declined, 20 items remained stable and 23 items increased. 2.3 Fiscal During ï¬\u0081rst half of FY2024, the Fiscal deï¬\u0081cit was recorded at 2.3 percent of GDP (Rs2407.8 billion) against 2.0 percent of GDP (Rs1683.5 billion) last year. Whereas a primary surplus continued to improve and reached Rs 1812.2 billion (1.7 percent of GDP) during Jul-Dec FY2024 from the surplus of Rs 889.6 billion (1.1 percent of GDP last year). FBR collected Rs 5149.6 billion in Jul-Jan FY2024 against Rs 3966.4 billion last year, representing a growth of 29.8 percent. In the month of January 2024, the net collection grew by 26.6 percent to reach Rs 680.3 billion from Rs 537.6 billion last year. During Jul-Jan FY2024, domestic tax collection increased by 32.4 percent while customs duty grew by 13.7 percent. Within the domestic tax collection, FED remained the major revenue head with 61.8 percent growth followed by direct tax at 40.2 percent and sales tax at 19.5 percent. 2.4 Monetary Sector The Monetary Policy Committee (MPC) has maintained the policy rate at 22 percent in its decision held on 29th January, 2024. The MPC has observed that the frequent and sizeable adjustments in administered energy prices have slowed down the pace of decline in inï¬‚ation anticipated earlier, besides a sustained decrease in inï¬‚ation expectations. On the other hand, the nonenergy inï¬‚ation continues to moderate, in line with expectations. st nd During 1 July â€“ 2 February, FY2024 money supply (M2) shows growth of 2.5 percent (Rs 792.3 billion) compared 1.5 percent growth (Rs 426.1 billion) in last year. Within M2, NFA increased by Rs 360.8 billion as compared decrease of Rs 2303.5 billion in last year. On the other hand, NDA of the banking sector increased by Rs 431.5 billion as compared an increase of Rs 2729.5 billion last year. 2.5 External Sector The Current Account posted a deï¬\u0081cit of $ 1.1 billion for Jul-Jan FY2024 as against a deï¬\u0081cit of $ 3.8 billion last year, largely reï¬‚ecting narrow down in trade deï¬\u0081cit. Exports (fob) increased by 9.3 percent and reached $ 18.0 billion ($ 16.4 billion last year). Imports (fob) declined by 11.1 percent reaching $ 29.8 billion ($ 33.5 billion last year). Resultantly, the trade deï¬\u0081cit recorded at $ 11.8 billion as against $ 17.0 billion last year. Exports in services decreased by 2.4 percent to $ 4,448 million as against $ 4,558 million same period last year. The imports in FEBRUARY - 2024 7 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K services increased by 28.8 percent to $ 6,168 million as compared to $ 4,790 million same period last year. The trade deï¬\u0081cit in services stood at $ 1,720 million as against $ 232 million last year. As per PBS, the export commodities that registered positive growth include Rice (67.6 percent in quantity & and 95.3 percent in value), Fruits (26.7 percent in quantity & 9.6 percent in value), Cotton Yarn (73.5 percent in quantity & 49.0 percent in value), Towel (13.0 percent in quantity & 2.3 percent in value) Rubber Tyres & Tubes (9.3 percent in quantity & 42.1 percent in value), and Plastic Materials (118.2 percent in quantity & 53.8 percent in value). Whereas, main imported commodities were Petroleum products ($ 3621.4 million), Petroleum crude ($ 2977.7 million), LNG ($ 2298.1 million), Palm Oil ($1611.4 million), Plastic materials ($ 1367.9 million), Iron & Steel ($ 1146.8 million) and Medicinal products ($ 633.7 million). 2.5.1 Foreign Investment Total foreign investment during Jul-Jan FY2024 recorded an inï¬‚ow of $ 785.9 million as against an outï¬‚ow of $ 148.8 million last year. FDI stood at $ 689.5 million ($ 876.8 million last year) decreasing by 21.4 percent. In January 2024, FDI witnessed a huge outï¬‚ow of $ 173 million owing to aggressively pulled out of investment from power projects mainly by China. FDI received from Hong Kong $ 206.9 million (30.0 percent), UK $ 141.5 million (20.5 percent), Netherland $ 53.7 million (7.8 percent), Singapore $ 49.0 million (7.1 percent share), and China $ 37.9 million (5.5 percent). Power sector attracted the highest FDI of $ 191.0 million (27.7 percent of total FDI), Oil & Gas exploration $ 134.6 million (19.5 percent), and Financial Business $ 108.2 million (15.7 percent). to January 2023 ($ 1.90 billion) whereas remittances increased marginally by 0.6 percent in January 2024 ($2.39 billion) as compared to December 2023 ($ 2.38 billion) owing of structural reforms related to exchange company and consequently convergence in exchange rate in interbank and open markets. Share of remittances from Saudi Arabia remained 24.2 percent ($ 3841.4 million), U.A.E 17.3 percent ($ 2736.1 million), U.K 14.8 percent ($ 2350.2 million), USA 11.7 percent ($ 1859.9 million), other GCC countries 11.0 percent ($ 1741.9 million), EU 12.5 percent ($ 1985.1 million), Australia 2.2 percent ($ 344.3 million), and other countries 6.2 percent ($ 973.4 million). 2.5.3 Foreign Exchange Reserves Pakistan's total liquid foreign exchange reserves increased to $ 13.0 billion on February 27, 2024, with SBP's reserves stood at $ 7.9 billion and Commercial banks' reserves remained at $ 5.1 billion. 2.6 Performance of KSE Index The performance of Pakistan Stock Exchange (PSX) remained volatile in the month of January 2024 owing to the political uncertainty and General Elections. The benchmark of PSX, KSE-100 index closed at 61,979 points as of 31st January 2024, lost 472 points compared to end December 2023. Similarly, market capitalization of PSX 2.5.2 Worker's Remittances In Jul-Jan FY2024, workers' remittances recorded at $ 15.8 billion ($ 16.3 billion last year), decreased by 3.0 percent. YoY remittances increased by 26.2 percent in January 2024 ($ 2.39 billion) as compared FEBRUARY - 2024 8 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K decreased by around Rs 11 billion and settled at Rs 9,074 billion as of end January 2024. During the month of January, the performance of major world stock market indices showing mix picture. SSE Composite of China declined by 6.3 percent followed by KSE-100 index (-0.8 percent) and Sensex 30 of India (-0.7 percent). However, S&P 500 of US and CAC 40 of France increased by 1.7 percent and 1.5 percent respectively. The performance of major world indices indexed at 100 is depicted in Figure below. 2.7 Social Sector Â§ BISP has increased the amount of Kafaalat stipend upto Rs 10,500 for 9.2 million beneï¬\u0081ciaries to provide ï¬\u0081nancial relief across the country. Â§ The quarterly Benazir Education Stipends will be issued from the month of March including Rs 2500 (Primary), Rs 3500 (Secondary) and Rs 4500 (higher secondary) for the girl students. While for the boy students, Rs 2,000 (primary), Rs 3,000 (secondary) and Rs 4,000 (higher secondary) will be issued during the same period. Â§ PPAF through its 24 Partner Organizations has disbursed 28,321 interest free loans amounting to Rs 1.25 billion during the month of January, 2024. Since inception of interest free loan component, a total of 2,624,303 interest free loans amounting to Rs 99.35 billion have been disbursed to the borrowers. Â§ Pakistan is one of the largest labour exporting countries in the region. During January, 2024 Bureau of Emigration & Overseas Employment has registered 60694 for overseas employment in different countries. Â§ Under Prime Minister Youth Business & Agriculture Loan Scheme the government has disbursed Rs 66,267 million till December, 2023 to 107,813 beneï¬\u0081ciaries for business. Economic Outlook Rs 3.1 Inï¬‚ation In February 2024, the administered prices of petrol and diesel increased in response to a notable surge in crude oil prices, highlighting the direct inï¬‚uence of global market dynamics on domestic fuel costs. Despite the upward adjustment in transportation expenses and gas prices, the inï¬‚ation outlook for the upcoming month may have a downward trend, primarily due to a decrease in the prices of perishable items on the back of better crops and ease in supplies. Additionally, the high base effect would further contribute to keep the inï¬‚ationary pressure on the lower side. Meanwhile, the Food and Agriculture Organization's food price index, which tracks the most globally traded food commodities, averaged 118.0 points in January 2024 down by 1.0 percent from December level as decreases in the price indices for cereals and meat more than offset an increase in the sugar price index, while those for dairy and vegetable oils only registered slight adjustments. Considering these factors, inï¬‚ation is projected to hover around 24.5-25.5 percent in February 2024, with expectations of a further easing to 23.5-24.5 percent in March 2024. 3.2 Agriculture The input situation is favorable. Weather is an important component in achieving the production targets of Rabi 2023-24. The PMD's weather outlook for February 2024, shows that a moderate amount of water would be available for standing crops and vegetables having a positive impact on Rabi crops. Farmers in Barani areas may plan scheduled watering. 3.3 Industrial activity The LSM cycle usually follows the cyclical movements in the main trading partners, but since it is focused on the main industrial FEBRUARY - 2024 9 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets. The LSM activity since April 2023 followed an upward trend, aligning with the growth observed in the output gap of Pakistan's main export areas. This suggests a positive momentum in industrial production. Both have now reached a level above the neutral benchmark. However, in the case of Pakistan, volatility remains high, and it is not excluded that in January 2024, the seasonally adjusted LSM output may marginally fall back below its potential. In this respect, it can be observed that in January 2024 total cement dispatches showed a signiï¬\u0081cant YoY decline, whereas the YoY growth rate of total production of all vehicles also remained subdued. The LSM activity increased by 3.4 percent YoY in December 2023 while on MoM it has witnessed a sharp rise of 15.7 percent in December 2023 over November 2023. It is therefore expected that despite challenges such as volatility and speciï¬\u0081c sectoral slowdown, the positive trend in LSM growth will continue in the remaining months of the current ï¬\u0081scal year. 3.4 Overall Economic Activity The Monthly Economic Indicator (MEI) is developed as a tool to distribute the past annual GDP numbers, reported by the PBS, on a monthly/quarterly basis, and to nowcast GDP growth for the ï¬\u0081scal year in which the National Accounts are not yet available on the same frequency. The ï¬\u0081gure presents the MEI every month since July 2019. It should be noted that some of the data underlying the January 2024 MEI are still provisional and may be revised next month. The restrictive stance of monetary policy and limited ï¬\u0081scal space are posing numerous challenges to stimulating the economy. Despite the domestic challenges, there is some optimism regarding Pakistan's export markets. The weighted average cyclical conditions in Pakistan's main export markets are improving which will be supportive in providing a boost to exportoriented industries and thus overall economic growth. Despite some important headwinds, the MEI remains in positive territory, indicating a gradual recovery in economic activities. The economy is beneï¬\u0081tting from stabilization measures leading to restoring business conï¬\u0081dence. The KSE-100 index started to rebound at the end of 2023 and has remained at a higher level since then. The rebound in stock prices is conï¬\u0081rmed by a simultaneous rebound in overall business conï¬\u0081dence. In addition, the stability in the exchange rate also ensures a conducive environment for economic growth thus reducing uncertainty. FEBRUARY - 2024 10 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K 3.5 External During January â€“ 2024, exports of goods and services increased by 15.8 percent on YoY basis, due to observed expansion in domestic economic activities and revived economic situation in Pakistan's main exports destinations. However, on MoM basis it decreased by 4.4 percent, due to negative seasonal effect in January. On the other hand, imports of goods and services increased by 21.3 and 11.0 percent on YoY and MoM basis respectively. Higher imports have been reï¬‚ected in the trade deï¬\u0081cit of goods and services, which increased by 31.1 and 48.9 percent on YoY and MoM basis, respectively. The current account balance has been partially offset by remittances â€“ posted signiï¬\u0081cant growth of 26.2 percent on YOY basis â€“ despite negative seasonal effect. Current account turns to deï¬\u0081cit of US$ 269 million in January - 2024 as compared surplus of US$ 404 million in December â€“ 2023. In the current baseline scenario, an improvement and recovery has been expected in exports, imports and remittances on a monthly basis. As a result, current account will remain in manageable limit during remaining months of FY2024. 3.6 Fiscal On the revenue side, FBR tax collection has shown a remarkable performance by posting a growth of around 30.0 percent during Jul-Jan FY2024. The actual collection exceeded the target by Rs 35 billion during the ï¬\u0081rst seven months of the current ï¬\u0081scal year. The positive growth trends in tax collection are indicative of improving economic conditions, gradual recovery in business activities, and effective enforcement measures. Consequently, the revenue landscape presents a promising outlook, characterized by substantial growth across various tax components. In contrast, higher markup payments are putting signiï¬\u0081cant pressure on expenditures. However, the government's persistent efforts to curtail non-markup expenditures through austerity measures have facilitated a continuous improvement in primary surplus. It is therefore expected that the continuity of ï¬\u0081scal consolidation efforts will support maintaining the ï¬\u0081scal deï¬\u0081cit within manageable limits. 3.7 Final Remarks The inï¬‚ation outlook for the upcoming month points towards a downward trajectory owing to better crops and a smooth supply of commodities. Similarly, favorable input situations are set to bolster Rabi crop production. On the other hand, industrial activity in December remained positive despite a speciï¬\u0081c sectoral slowdown. Notwithstanding, restrictive monetary and ï¬\u0081scal policies, the optimism is fueled by improvements in cyclical conditions in Pakistan's export markets facilitating steady economic recovery. The stabilization measures encouraging business conï¬\u0081dence coupled with exchange rate stability, contribute to a positive economic outlook for Pakistan amidst ongoing challenges. FEBRUARY - 2024 11 \f29th February 2024 ECONOMIC INDICATORS Remi ances ($ bn) Exports FOB ($ bn) Imports FOB ($ bn) Current Account Deï¬\u0081cit ($ bn) Source: SBP FDI ($ mn) Total Foreign Investment ($ mn) Source: FBR & Budget Wing FBR Revenue (Rs.bn) Non-Tax Revenue (Rs.bn) Source: SBP PSDP (Rs.bn) Agriculture Credit (Provisional) PSX Index Market Capitaliza on (Rs. bn) Market Capitaliza on ($ bn) \* : Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX & SECP FEBRUARY - 2024 12 \f"

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[1] "Rs Monthly ECONOMIC UPDATE & OUTLOOK January 2023 Government of Pakistan Finance Division Economic Adviserâ€™s Wing Contents Executive Summary 1 International Performance and Outlook 2 Monthly Performance of Pakistanâ€™s Economy 3 Economic Outlook 7 Economic Indicators 11 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Execu ve Summary T he global economy is perilously close to falling into recession. World Bank has slashed the global economic growth outlook to 1.7 percent for 2023 from its earlier projection of 3.0 percent. Very high inï¬‚ation has triggered unexpectedly rapid and synchronous monetary policy tightening around the world. Although this tightening has been necessary for price stability, it has contributed to a signiï¬\u0081cant worsening of global ï¬\u0081nancial conditions, which is exerting a substantial drag on economic activity. Major economies including the United States, Euro area, and the China are all undergoing a period of pronounced weakness. The spillovers of sluggish growth are exacerbating other headwinds faced by emerging markets and developing economies. Real Sector In the ongoing Rabi season 2022-23, wheat crop sowing is estimated at 21.48 million acres which is 94 percent of targeted area of 22.85 million acres. The timely availability of inputs and government pro-Agri initiatives are playing role in the revival of agriculture sector. The Rabi season crops production is expected to increase due to favorable weather conditions with timely rains. During Jul-Dec Fy2023, the agriculture credit disbursement increased by 31.5 percent, reached to Rs 842.4 billion from Rs 640.8 billion compared to corresponding period last year. The Consumer Price Index (CPI) recorded at 24.5 percent on YoY basis in December 2022 as compared to an increase of 23.8 percent in the previous month. Fiscal, Monetary & External The ï¬\u0081scal deï¬\u0081cit during Jul-Nov FY2023 has been contained to the same level of Flood-2022: Efforts for Climate Justice Å¸ During June-August 2022, ï¬‚ash ï¬‚ood has affected all sectors of the economy. Overall damage is estimated at PKR 3.2 trillion (US$14.9 billion), loss to the GDP at PKR 3.3 trillion (US$15.2 billion), and total needs for rehabilitation of damages at PKR 3.5 trillion (US$16.3 billion). Å¸ Successful diplomacy of the Government of Pakistan at all levels has been vital in engaging international agencies and countries to step forward to deal with the climate-induced calamity jointly. Å¸ Conference on Climate Resilient Pakistan 2023, co-hosted by Pakistan and the United Nations, was held in Geneva on January 9, 2023. Against the call for USD 8 billion, the pledges of almost USD 10 billion were announced. Islamic Development Bank alone declared to contribute an amount of USD 4.2 billion over the next three years (2023-2025). The second major announcement was made by the World Bank of USD 2 billion (not including allocation for immediate relief), out of which USD 1.3 billion will directly contribute to reconstruction. Å¸ Financial pledges by Asian Infrastructure Development Bank amounted to USD 1 billion, whereas by Saudi Arabia and Asian Development Bank, these were USD 1 billion and USD 0.5 billion, respectively. Other contributors include France, China, USA, European Union, Germany, Japan, UK, Qatar, Italy, Canada, Sweden, Norway, Denmark, Netherlands, Switzerland, and Azerbaijan. 1.4 percent of GDP as it was recorded in the comparable period last year. While the primary balance improved during JulNov FY2023 and posted a surplus of Rs 511 billion. JANUARY 2023 1 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Private sector credit has observed developments in the month of December as it increased by Rs 458 billion compared Rs 413.6 billion in Dec 2021, emanated more credit demand both from working capital and ï¬\u0081xed investment. During 1st July â€“ 30th December, FY23 money supply (M2) shows growth of 2.0 percent (Rs. 562.8 billion) compared to growth of 4.3 percent (Rs. 1047.3 billion) in last year. The current account deï¬\u0081cit shrank to $ 400 million in December 2022 as against $ 1857 million in the same period last year, largely reï¬‚ecting an improvement in the trade balance. Current Account posted a deï¬\u0081cit of $ 3.7 billion for Jul-Dec FY2023 as against a deï¬\u0081cit of $ 9.1 billion last year, mainly due to a contraction in imports. Interna onal Performance and Outlook According to Global Economic Prospects 2023, global growth in 2023 is expected to contract to 1.7 percent from the previous forecasts of 3.0 percent, reï¬‚ecting synchronous policy tightening aimed at containing very high inï¬‚ation, worsening ï¬\u0081nancial conditions, and continued disruptions from RussiaUkraine conï¬‚ict. The sharp downturn in growth is expected to widespread, with forecasts in 2023 revised down for 95 percent of advanced economies and nearly 70 percent of emerging market and developing economies. The growth for advanced economies is projected to slow from 2.5percentin 2022 to 0.5percentin 2023. In the United States, growth is forecasted to fall to 0.5 percent in 2023â€”1.9 percentage points below previous forecasts. In 2023, Euroarea growth is expected at zero percentâ€”a downward revision of 1.9 percentage points. In China, growth is projected at 4.3 percent in 2023â€”0.9 percentage point below previous forecasts. Excluding China, growth in emerging and developing economies is expected to decelerate from 3.8% in 2022 to 2.7% in 2023, reï¬‚ecting signiï¬\u0081cantly weaker external demand compounded by high inï¬‚ation, currency depreciation, tighter ï¬\u0081nancing conditions, and other domestic headwinds. The FAO food prices index (FFPI) averaged 132.4 points in December 2022, down 2.6 points from November, marking the nine consecutive monthly decrease. The downward movement in the index in December was mainly due to sharp fall in international prices of vegetable oils, cereal and meat prices, but partially offset by slightly increase in prices of sugar and dairy. According to Institute of Supply Management (ISM) report, US manufacturing activity contracted for second month in December 2022, stood at 48.4 percent, lower than 49 percent in November 2022. The ISM index dropped 10.4 points in 2022, the biggest annual retreat since the Great Recession. The contraction was led by the decline in the new orders and production gauges shrank, indicating a further lowering demand. Measures of exports and imports also contracted. This is also reï¬‚ected through WEI which is on declining trend (Fig-1). Fig-1: Growth in WEI 4.45 0.87 01-08-2022 08-20-2022 01-07-2023 Source: Federal Reserve Bank of New-York JANUARY 2023 2 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K The J. P. Morgan Global Composite Output Index increased to 48.2 in December 2022, from 48.0 in November 2022. This marked ï¬\u0081fth consecutive month of global contraction, though at a slower pace as compared to November. The deceleration in the speed of global slowdown was supported by recovery in supply conditions in December mainly in manufacturing sector. However, the outlook remains uncertain, with weak demand conditions. Global new orders dropped for ï¬\u0081fth month in December 2022, a further steeper fall since 2009. Fig-2: Composite Leading Indicator Source: OECD The CLIs continued slowing growth in December 2022 in OECD and major economies, dragged down by high inï¬‚ation, rising interest rates and falling share prices, the growth remained below trend and continued to anticipate losing momentum in the US, the UK and Canada, as well as in the Euro area as a whole, including Germany, France and Italy. The CLI for China (industrial sector) shows stabilization driven by production of motor vehicles and share prices. Global commodity prices declined in December 2022. Energy prices fell by 6.2 percent, led by crude oil (10.7 percent). Non-energy price gained 1.0 percent, Food prices dropped 1.5 percent led by grains 4.3 percent. Beverage prices eased 0.2 percent while raw materials gained 2.9 percent. Fertilizers prices declined 6.1%. Metal prices gained 6.6 percent led by iron ore (19.8%), tin (13.8%) and nickel (13.2%). Precious metals increased by 5.2 percent. Monthly Performance of Pakistan's Economy 2.1 Real Sector 2.1-a Agriculture The wheat crop sowing is being estimated at 21.48 million acres which is 94 percent of target area of 22.85 million acres. The government pro-Agri initiatives are playing role in the revival of agriculture sector productivity. The Rabi season crops production is expected to increase due to favorable weather conditions with timely rains. During Jul-Dec FY2023, the agriculture credit disbursement increased by 31.5 percent, reached to Rs 842.4 billion from Rs 640.8 billion compared to corresponding period last year. During Rabi 2022-23 (December 2022), urea and DAP off-take stood at 833 thousand tonnes (39.2 percent higher than December 2021) and 158 thousand tonnes (35.2 percent higher than December 2021). 2.1-b Manufacturing Monetary tightening, import compression strategies, and recessionary global pressure continued to suppress the performance of the manufacturing sector since the beginning of the current ï¬\u0081scal year. During Jul-Nov FY2023, the LSM witnessed a contraction of 3.6 percent against the growth of 7.2 percent same period last year. On YoY basis, LSM plunged by 5.5 percent in November 2022, while over the previous month, it grew by 3.5 percent. During the period, 5 out of 22 sectors witnessed positive growth which includes, Wearing apparel, Leather Products, Electrical Equipment, Furniture, and others while it decreased in Food, Beverages, Tobacco, Textile, Coke 3: As on 19-12-2022, sowing is still in progress. JANUARY 2023 3 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Fig-3: LSM Growth (%) July-November 5 out of 22 Sectors witnessed positive growth LSM Sector witnessed contraction of 3.6% during Jul-Nov FY 2023 9.5 LSM at -5.5% in Nov 2022 7.2 3.7 1.4 -2.6 -3.6 & Petroleum Products, Pharmaceuticals, Chemicals, Iron & Steel products, Wood Products, Paper & Paperboard, Rubber Products, Non-Metallic Mineral Products, Fabricated metal, Machinery and Equipment, Automobiles and Other Transport Equipment. The automobile sector also remained under pressure due to compressed economic environment. During Jul-Dec FY2023, Car production and sale decreased by 33.4 percent and 40.0 percent, respectively, Trucks & Buses production and sale decreased by 23.9 percent and 36.4 percent. The contraction of automobiles both on the supply and demand front also suppressed the sale of petroleum products by 19 percent in Jul-Dec FY2023 to 9.0 mn tons from 11.1 mn tons in the same period last year. YoY, oil sales decreased by 11 percent in Dec 2022 to 1.4 mn tons (1.5 mn tons in Dec 2021). Total cement dispatches declined by 20.7 percent to 21.8 mn tons during Jul-Dec FY2023, (27.5 mn tons last year). On YoY basis, it declined by 15.6 percent to 3.9 mn tons in December 2022 (4.6 mn tons in Dec 2021). increased to 0.5 percent in December 2022 as compared to an increase of 0.8 percent in the previous month and a decline of 0.02 percent in December 2021. The average CPI in the ï¬\u0081rst Six months of the current ï¬\u0081scal year is recorded at 25.0 percent compared to 9.8 percent during the same period of last year. The FAO's Food price Index, which captures the movement of most globally traded food commodities, increased by 14.3 percent from 2021 to 2022. Similarly, the YoY currency depreciation is recorded at 21.9 percent from Rs. 176.5 to Rs 226.3 in December 2022. Hence being net importer of Food commodities the spike in inï¬‚ationary pressure has been observed. th The SPI for the week ended on 26 January 2022, recorded an increase of 0.45% compared to previous week. Prices of 50% essential items either declined or remained stable which shows the effectiveness of policy measures. 2.3 Fiscal The ï¬\u0081scal deï¬\u0081cit during Jul-Nov FY2023 has been contained to the same level of 1.4 percent of GDP as it was recorded in the comparable period last year. While Fig-4: Fiscal Indicators % of GDP (Jul-Nov) 2.2 Inï¬‚ation The CPI inï¬‚ation recorded at 24.5 percent on a YoY basis in December 2022 as compared to 23.8 percent in the previous month. MoM basis, CPI the primary balance improved during JulNov FY2023 and posted a surplus of Rs 511 billion (0.6 percent of GDP) against JANUARY 2023 4 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K the deï¬\u0081cit of Rs 36 billion (-0.1 percent of GDP) last year. The net federal revenues grew by 34.7 percent to reach Rs 1996 billion during Jul-Nov FY2023 against Rs 1482 billion in the comparable period of last year. Due to a considerable collection under the SBP proï¬\u0081t and petroleum levy, non-tax revenue saw a remarkable increase of 58 percent. Similarly, tax collection grew by 16.1 percent during the period under review. Thus, both tax and non-tax revenues have contributed to achieving signiï¬\u0081cant growth in revenues. Total expenditure increased by 16.4 percent to Rs 3367 billion during Jul-Nov FY2023 against Rs 2894 billion in the same period of last year. Within the total, current expenditures grew by 22.6 percent owing to an 83.6 percent increase in markup payments. While PSDP expenditures slide down to Rs 130 billion during Jul-Nov FY2023 against Rs 252 billion in the comparable period of last year. Domestic tax collection grew by 21.3 percent. Within domestic, sales tax was reduced by 0.2 percent, and FED grew by 12.3. Whereas revenues from customs duty were reduced by 2.1 percent during the period under review. 2.4 Monetary During 1st July â€“ 30th December, FY23 money supply (M2) shows growth of 2.0 percent (Rs 562.8 billion) compared to growth of 4.3 percent (Rs. 1047.3 billion) in last year. Within M2, NFA decreased by Rs 1153.5 billion as compared decrease of Rs 227.5 billion in last year. Whereas, NDA of the banking sector increased by Rs 1716.3 billion as compared an increase of Rs 1274.9 billion last year. Fig-6: Monetary Aggregates (Rs billion) FBR Tax Collection The provisional net tax collection increased by 17.4 percent to Rs 3428.8 billion during Jul-Dec FY2023 against Rs 2919.9 billion in the same period last year. The increase in growth is largely attributed to a 49 percent growth in direct taxes. Fig-5: FBR Tax Collection (Rs. bn) (Jul-Dec) Source: FBR Source: SBP During Jul-Dec FY2023, loans to private sector businesses witnessed expansion of Rs 574.5 billion as compared to expansion of Rs 860.2 billion during same period last year. Private sector credit has observed some developments in the month of December as it increased by Rs 458 billion compared Rs 413.6 billion in Dec 2021, emanated more credit demand both from working capital and ï¬\u0081xed investment. Within manufacturing sector, rice processing and manufacturing of cotton sector credit has increased, indication of revival of economic activities, which augurs well LSM recovery in coming months. JANUARY 2023 5 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K 2.4 External Sector The Current Account posted a deï¬\u0081cit of $ 3.7 billion for Jul-Dec FY2023 as against a deï¬\u0081cit of $ 9.1 billion last year, mainly due to contraction in imports. However, the current account deï¬\u0081cit shrank to $ 400 million in December 2022 as against $ 1857 million in same period last year, largely reï¬‚ecting an improvement in trade balance. Exports on fob declined by 6.8 percent during Jul-Dec FY2023 and reached $ 14.2 billion ($ 15.2 billion last year). Imports on fob declined by 18.2 percent during Jul-Dec FY2023 and reached $ 29.5 billion ($ 36.1 billion last year). Resultantly the trade deï¬\u0081cit (JulDec FY2023) reached $ 15.3 billion as against $ 20.8 billion last year. As per PBS, the major export commodities which have shown tremendous performance during the review period include: Foot Balls ( 53.6 percent in value & 53.7 percent in quantity), Foot wear (26.1 percent in value & 49.3 percent in quantity), Pharmaceutical products (26.9 percent in value & 88.2 percent in quantity), Surgical goods & Medical Instruments (8.5 percent in Value), Carpet, Rugs & Mats (1.93 percent in value & 8.3 percent in quantity) and Readymade garments ( 0.06 percent in value & 81.8 percent in quantity). The main commodities imported were Petroleum products ($4202.2 million), Medicinal products ($ 735.9 million), Petroleum crude ($ 2776.2 million), Liqueï¬\u0081ed Natural gas ($ 1949.7 billion), Palm Oil ($ 2082.2 million), Plastic materials ($ 1283.2 million) and Iron & Steel ($ 1025.1 million). 2.5.1 Foreign Investment FDI reached $ 460.9 million during JulDec FY2023 ($ 1114.7 million last year) decreasing by 58.7 percent. FDI received from China $ 131.8 million (28.6 percent), Switzerland $ 89.8 million (19.5 percent), U.A.E $ 80.8 million (17.5 percent of total FDI), and Japan $ 74.3 million (16.1 percent).The power sector attracted the highest FDI of $ 237.1 million (51.4 percent of total FDI), Financial Business $ 176.0 million (38.2 percent), and Oil & Gas Explorations $ 89.2 million (19.3 percent). Foreign Private Portfolio Investment has registered a net outï¬‚ow of $ 12.9 million during Jul-Dec FY2023. Foreign Public Portfolio Investment recorded a net outï¬‚ow of $ 1019.7 million, on account of Sukuk repayment in December 2022. The total foreign portfolio investment recorded an outï¬‚ow of $ 1032.6 million during Jul-Dec FY2023 as against an outï¬‚ow of 405.5 million last. Total foreign investment during Jul-Dec FY2023 recorded an outï¬‚ow of $571.7 million as against an inï¬‚ow of $ 709.3 million last year. 2.5.2 Worker's Remittances In Jul-Dec FY2023, workers' remittances recorded at $ 14.1 billion ($ 15.8 billion last year), decreased by 11.1 percent. MoM basis, remittances decreased by 3.2 percent in December 2022 ($ 2.0 billion) as compared to November ($ 2.1 billion). Share of remittances (Jul-Dec FY2023) from Saudi Arabia remained 24.7 percent ($ 3470.4 million), U.A.E 18.5 percent ($ 2601.9 million), U.K 14.1 percent ($ 1977.2 million), USA 10.8 percent ($ 1526.2 million), other GCC countries 11.6 percent ($1632.2 million), EU 11.0 percent ($ 1544.3 million), Malaysia 0.4 percent ($ 62.3 million), and Other Countries 8.9 percent. 2.5.3 Foreign Exchange Reserves Pakistan's total liquid foreign exchange reserves increased to $ 9.45 billion on January 24, 2022, with the SBP's reserves now standing at $ 3.678 billion. Commercial banks' reserves remained at $ 5.77 billion. 2.5 Performance of KSE Index The KSE-100 index closed at 40,420 points as of 30th December 2022 while market capitalization settled at Rs 6,501 billion. The performance of major world indices is depicted in Fig-7: JANUARY 2023 6 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Fig-7: Major World Indices been disbursed to the borrowers. Â§ Bureau of Emigration and Overseas Employment has registered 829,549 emigrants and 66,782 emigrants during December, 2022 for overseas employment in different countries. Source: Investing.com, PSX 2.6 Social Sector Â§ The Ministry of Poverty Alleviation and Social Safety (PASS) has decided to launch â€œBISP Dynamic Surveyâ€\u009d to ascertain the magnitude of destruction in ï¬‚ood-hit areas whereas the government has disbursed Rs 70 billion among 2.8 million families who were affected by last year's ï¬‚ash ï¬‚oods. Â§ BISP has released Rs 55 billion for FY2023 for disbursement among women registered under the Benazir Kafalat Programme; around 7.7 million families would receive ï¬\u0081nancial assistance of Rs 7000. Â§ An amount of Rs13 billion has also been released under the Waseela-iTaleem Programme for scholarships to the children of BISP beneï¬\u0081ciaries. Â§ The scope of Benazir Nashonuma Programme has been extended up to 118 districts across the country and 169 facilitation centres were made operational, so far. Â§ PPAF through its 24 Partner Organizations has disbursed 43,239 interest free loans amounting to Rs 1.77 billion during the month of December, 2022. Since inception of interest free loan component, a total of 2,185,429 interest free loans amounting to Rs 80.31 billion have Â§ On 15 January 2023, the government launched its ï¬\u0081rst nationwide Polio campaign of the year to immunize children under the age of ï¬\u0081ve against the crippling disease. National eradication program ofï¬\u0081cials said that more than 360,000 health workers would deliver polio drops to at least 44.2 million children across 156 districts during the ï¬\u0081ve-day campaign. They noted that children would also be administered an additional vitamin A supplement to boost their immunity against infectious diseases. Economic Outlook 3.1 Inï¬‚ation Inï¬‚ationary pressure is expected to calm down gradually due to ï¬‚ood-led damages which have disrupted the supply of essential items. Rising prices of onions and wheat both are the key factors responsible for affecting the general price level. International commodity prices are showing a downward trend on a YoY basis and its impact will ultimately be transmitted into domestic prices with some lags after adjusting the currency devaluation. While the government kept the administered prices at their current level to stabilize the overall prices but post ï¬‚oods persistent shortfall of essential crops is preventing inï¬‚ation to settle down. SBP is also enacting a contractionary monetary policy to contain inï¬‚ationary pressure. However, a larger portion of volatility in the current price level is explained by supply-side factors. Further, the recent political and economic uncertainties both are causing JANUARY 2023 7 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K inï¬‚ationary expectations upward. The CPI inï¬‚ation on YoY basis for January 2023, is forecasted in the range of 24-26 percent. potential level. The cyclical component of Pakistan's LSM output is obtained by extracting the stochastic trend from the seasonally adjusted LSM series. 3.2 Agriculture The cyclical position of Pakistan's main trading partners remained in the negative territory since April 2022. In November, LSM activity came in as expected, implying no unexpected shocks appeared in that month. Although some recovery in the LSM cyclical position occurred in November, the LSM output remains substantially below its potential, thereby following the cyclical downturn in the economies of Pakistan's main export markets. For December, a rebound of LSM output in comparison to November may be expected, mainly on the grounds of a positive seasonal effect. On the other hand, in December, the YoY growth of LSM may turn out to be slightly negative due to current economic conditions and also due to a high base effect. According to PMD's Weather Outlook for January 2023, overall, a tendency for normal to below normal precipitation is likely over the country during January. Due to the dry condition, the Rabi crops especially â€œwheatâ€\u009d would need to be irrigated for healthier growth at the initial stages. Moreover, frost is also expected to occur at a few places in upper Punjab, KP, and Kashmir, etc., especially during the 1st fortnight of January. Accordingly, precautionary measures would be required to protect vegetables and orchards. The government focuses on subsidized provision of inputs particularly quality seeds and fertilizers along-with other ï¬\u0081nancial incentives will support the agriculture sector. 3.3 Industrial Activities Industrial activity, measured by the LSM index is the sector that is most exposed to the developments in international markets as illustrated in Fig-8. It compares the cyclical component of LSM with the weighted average CLI in Pakistan's main export markets. The CLI reï¬‚ects the deviation of GDP from its Fig-8: Relationship between CLI and LSM cycle 3.4 Overall Economic Activity The Monthly Economic Indicator (MEI) is based on combining monthly data of indicators that are proven to be correlated with GDP at constant prices. Fig-9 presents the MEI on monthly basis since July 2019. It should be noted that some of the data underlying the December MEI is still provisional and may be revised next month. In Pakistan, economic activity is following Fig-9: Monthly Economic Indicator (MEI) 16.93 -8.93 Dec-22 Source: EA Wingâ€™s Calculation Source: PBS, OECD and EAW Calcula ons JANUARY 2023 8 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K a lower growth path since the start of the current ï¬\u0081scal year. This is also reï¬‚ected by the negative growth of several highfrequency variables such as cement dispatches, oil sales, industrial production, etc. Furthermore, the slowdown in global growth especially in main export markets along with the tight monetary policy stance by central banks (17 percent policy rate in January 2023) and low export growth also affected economic growth in Pakistan negatively. The average MEI growth during the ï¬\u0081rst half of the current FY points to slightly positive, but the indicator is deteriorating somewhat during the second quarter of the current FY. 3.5 External According to BOP data, exports of goods decreased by 21.6 percent on YoY basis in the month of December 2022, and exports of services declined by 3.2 percent. As a result, exports of goods and services declined by 18.1 percent in Dec. Usually, the month of December has observed a strong positive seasonal effect which has played some role and total exports increased by 2.3 percent on MoM basis. On the other hand, imports of goods decreased by 34.4 percent on YoY basis and 2.7 percent on MoM basis in Dec 2022. Similarly, the import of services declined by 44.5 percent on YoY basis. Accordingly, imports of goods and services decreased by 35.9 percent. As the imports fell more than the decline in exports, the trade balance of goods and services improved by 52.3 percent. Exports are constrained by domestic production issues related to the slowdown of demand in the main export markets and high domestic production costs. Imports are currently constrained by sluggish domestic demand and administrative measures to protect the ofï¬\u0081cial foreign reserves level. Since no immediate reversal of these developments is envisaged, the trade balance may further stabilize or further improve somewhat in the upcoming months. The current account balance slightly deteriorated in the month of December. This was mainly due to an increase in primary income payments and a decrease in remittances. It is expected that in January these payments would return to normal levels. Together with the expected improvement in the trade balance due to prudent government measures, the current account deï¬\u0081cit may decline in January and stabilize during second half of FY2023. 3.6 Fiscal Geopolitical tension, tightening ï¬\u0081nancial conditions, and rising inï¬‚ation have all had a considerable negative inï¬‚uence on growth expectations, creating severe challenges for the global economic environment and Pakistan is no exception. The government of Pakistan has adopted tight ï¬\u0081scal and monetary policies to combat the economic problems brought on by both internal and external forces. Currently, the government is facing the difï¬\u0081cult task of supporting vulnerable segments of society and meeting other public spending needs, in particular, rising interest servicing. However, due to prudent spending management and effective domestic resource mobilization, the ï¬\u0081scal deï¬\u0081cit was not only conï¬\u0081ned to the same level of 1.4 percent of GDP as last year but the primary balance surplus was also maintained during the ï¬\u0081rst ï¬\u0081ve months. Nonetheless, rising interest payments due to increase in domestic and foreign interest rates, as well as ï¬‚ood-related spending, can put extensive pressure on overall spending. Furthermore, despite massive import compression. FBR tax collection has increased by more than 17 percent, yet it has registered a shortfall of Rs 217 billion in the ï¬\u0081rst half of the current ï¬\u0081scal year. In light of current global and domestic economic conditions, FBR facing a difï¬\u0081cult task in meeting the full-year target. JANUARY 2023 9 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K In the absence of adequate ï¬\u0081scal space to mitigate the impact of various shocks on the economy, the government's options would be to reallocate expenditures toward critical areas while improving spending efï¬\u0081ciency; and raising revenue by broadening the tax base, making the tax system more progressive, and reducing tax avoidance and evasion. 3.7 Final Remarks Pakistan is currently confronted with the challenges like high inï¬‚ation, low growth, and low levels of ofï¬\u0081cial foreign exchange reserves. Further MoM increases in consumer prices may be countered by a further mean reverting international commodity prices and some exchange rate stability due to decreased pace of depreciation. The overall money supply growth remains compatible with a return to low and stable inï¬‚ation. But the outlook of M2 is broadly dependent on ï¬\u0081scal accounts which are under immense pressure on account of heavy interest payments and rehabilitation spending. Nonetheless, the ï¬\u0081rst ï¬\u0081ve months of CFY have ended with some developments; containing ï¬\u0081scal deï¬\u0081cit and surplus in primary balance due to effective ï¬\u0081scal management. Fiscal consolidation is key to saving ofï¬\u0081cial reserves and exchange rate stability. This may temporarily be costly in terms of growth prospects in the short term, but long-run prosperity and growth can only be achieved by augmenting the country's long-term equilibrium growth path by expanding production capacities and productivity. This is a shared responsibility of both the private and public sectors. JANUARY 2023 10 \fECONOMIC INDICATORS 31 January, 2023 Remi ances ($ bn) Exports FOB ($ bn) Imports FOB ($ bn) CAD ($ bn) FDI ($ mn) Total F. Investment ($ mn) FBR Revenue (Rs.bn) Non-Tax Revenue (Rs.bn) PSDP (Rs.bn) Agri.Credit (Jul-Nov) PSX Index Market Capitaliza on ($ bn) Source: SBP Source: FBR & Budget Wing Source: SBP \* : Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX & SECP 1-Jul 2022 27-Jan 2023 JANUARY 2023 1-Jul 2022 27-Jan 2023 11 \f"

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[1] "RS MONTHLY ECONOMIC UPDATE & OUTLOOK JANUARY 2024 GOVERNMENT OF PAKISTAN - FINANCE DIVISION - ECONOMIC ADVISERâ€™S WING finance.gov.pk \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Contents 01 Executive Summary 02 International Performance and Outlook 04 Performance of Pakistan's Economy 07 Economic Outlook 11 Economic Indicators Executive Summary I n first half of FY2024, macroeconomic conditions have gradually improved, leading to a revival in overall economic activity compared to the challenging FY2023. This persistent uptick in economic indicators has resulted in improved GDP growth of 2.13% in the first quarter of FY2024, with expectations for continued growth in the second quarter. Business confidence and the investment climate are gradually improving, as reflected in the exceptional performance of the Pakistan Stock Exchange (PSX) and a steep surge in FDI. The continual rise in these indicators is a testament to the strengthening health of the economy and suggests a positive economic outlook for the latter half of FY2024. The real sector's indicators are largely showing positive trends. In agriculture sector, Wheat cultivation have exceeded the target by 1.8 percent in the Rabi season of 2023-24, aiming for a production of 32.12 million tonnes. This increase is attributed to favorable climatic conditions and effective government interventions including improved seed availability, agricultural credit, machinery, and fertilizers. During JulDec FY2024, significant growth was observed in farm tractor production and sales, with increases of 67.5 percent and 103.3 percent respectively. Agricultural credit disbursement also increased by 28.5 percent, reaching Rs 853.0 billion. However, there was a mixed trend in fertilizer usage, with Urea offtake decreasing by 8 percent and DAP offtake increasing by 23.7 percent compared to the previous Rabi season. The LSM sector is also on a recovery path. In November 2023, LSM increased by 1.6 percent on a YoY basis and 3.6 percent on a MoM basis. However, it declined by 0.8 percent during July-November FY2024, compared to a contraction of 2.3 percent in the same period last year. At the sub-sector level, 12 out of 22 sectors experienced positive growth, including Food, Beverages, Wearing Apparel, Leather, Coke & Petroleum Products, Chemicals, Pharmaceuticals, Non-Metallic Mineral Products, Rubber Products, Wood Products, Machinery and Equipment, and Others (Football). In contrast, negative growth was observed in Tobacco, Textiles, Paper & Board, Iron & Steel Products, Fabricated Metal, Computers, Electronics & Optical Products, Automobiles, Electrical Equipment, Furniture, and Other Transport Equipment. During Jul-Dec FY 2024, CPI stood at 28.8 percent against 25.0 percent in the same period last year. On MoM basis, it increased to 0.8 percent in December 2023 compared to an increase of 2.7 percent in the previous month. The major drivers include Food and non-alcoholic beverages, Housing, water, electricity, gas & fuel, Transport and Furnishing & household equipment maintenance. On the fiscal front, despite encouraging revenue performance, the expenditure side is under pressure attributed to higher mark up payments. However, government measures to control non-mark up spending helped in improving the primary surplus during the first six months of FY2024. The overall fiscal deficit has been widened by 2.3 percent of GDP, while the primary surplus improved by 1.7 percent of GDP during Jul-Dec FY2024. A surge of 46 percent was observed in revenue collection, fueled by a 109 percent increase in non-tax collection while a 30 percent rise in tax JANUARY - 2024 1 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K revenues. Although the high markup payments challenge continued, austerity measures are being implemented to ensure sustainable fiscal accounts by the end of FY2024. On the external front, during Jul-Dec FY2024, the current account deficit stood at $831 million, a marked improvement from the $3.6 billion deficit of the previous year, largely due to a better trade balance. In December 2023, the current account recorded a surplus of $397 billion, and for the second quarter of FY2024, it showed a surplus of $198 million. YoY, exports rose by 21.3 percent, attributed to the easing of import restrictions which facilitated a steady supply of raw materials for export-oriented industries. YoY imports were reduced by 3.6 percent to $4.09 billion in December 2023, down from $4.24 billion in the same month the previous year. The trade deficit narrowed by 3.6 percent to $1.3 billion in December 2023, compared to $1.9 billion in the same period last year FDI reached $ 862.6 million during Jul-Dec FY2024 ($ 640.0 million last year) increased by 34.8 percent on account of Chinese investment. A positive trend was also observed in remittance which increased by 13.4 percent in December 2023 ($ 2.4 billion) as compared to December 2022 ($ 2.1 billion). MoM remittances increased by 5.4 percent owing to structural reforms related to exchange companies and consequent convergence of exchange rate in interbank and open markets. This positive outlook is contingent on the sustained implementation of sound and prudent economic policies, and stability both on domestic and external fronts. International Performance and Outlook Global growth is expected to slow further in 2024, amid the lagged and ongoing effects of tight monetary policies, restrictive financial conditions, and weak global trade and investment. Downside risks to the outlook include an escalation of the recent conflict in the Middle East and associated commodity market disruptions, financial stress amid elevated debt and high borrowing costs, persistent inflation, weaker-than-expected activity in China, trade fragmentation, and climate-related disasters. According to World Bank's Global Economic Prospects (GEP)- January 2024, global growth is expected to slow from 2.6 percent in 2023 to 2.4 percent in 2024 - before ticking up to 2.7 percent in 2025. The forecasts in GEP imply that most economies - advanced as well as developing - are set to grow slower in 2024 and 2025 than they did in the decade before COVID-19. The market sentiments and business confidence remained stable. The performance of Pakistan Stock Exchange (PSX) remained positive in December 2023. The benchmark KSE-100 index gained 1,924 points closed at 62,451 points as of 29th December 2023. While market capitalization of PSX increased by Rs 334 billion and settled at Rs 9,063 billion as of end December 2023. While the forecasts in this report are gloomy, its policy analysis provides hope. Amid a barrage of shocks during the past four years, the global economy has proved to be surprisingly resilient. Major economies are emerging mostly unscathed after the fastest rise in interest rates in 40 years without the standard marks of steep unemployment rates or financial crashes. Global inflation is being tamed without tipping the world into a recession. The first half of the current fiscal year concluded with stabilizing overall economic indicators. Looking ahead, it is anticipated that economic activities will gain further momentum in the second half of FY2024. In December 2023, US inflation outstripped forecasts (3.2 percent), hitting 3.4 percent on an annual basis (3.1 percent in November 2023 and 6.5 percent in December 2022), dimming market JANUARY - 2024 2 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K expectations that interest rates would fall as soon as March. The core rate also came in higher than expectations, in a clear vindication of the Federal Reserve's caution over cutting rates from their 23 year high. Core inflation recorded at 3.9 percent in Dec 2023 down from 5.7 percent in Dec 2022. The Bureau of Labor Statistics (BLS) reported that the U.S. economy added 216,000 jobs in December - unemployment held at 3.7%, signaling a strong labor market. However, the core personal consumption expenditure (PCE) index, Fed's preferred inflation gauge - rose just 0.1 percent in November to 3.2 percent against expectations of 3.3 percent. On a six-month basis, core PCE was up 1.9 percent, below the Fed's 12-month target. It is expected that December PCE number will be released before the upcoming Fed's Monetary Policy Decision scheduled by the end of this month. The recently published GEP revised US growth forecast upward by 1.4 percentage points from its earlier forecast in June, to 2.5 percent for 2023. This recovery also reflected through growth in WEI (Fig-1). manufacturing output contracted for a seventh straight month. This moderate growth trend is also evident through CLI position of Pakistan's main export markets. The expansion has been observed in UK and China whereas US and Euro Area economies are below their potential (Fig-2). The global economic expansion accelerated in December. The J.P.Morgan Global PMI Composite Output Index - produced by S&P Global - rose to 51.0 in December, up from 50.5 in November. The headline PMI remains well below the survey's long-run average of 53.2. Growth in activity remained exclusive to the service sector, as The FAO Food Price Index (FFPI) stood at 118.5 points in December 2023, down 1.8 points (1.5 percent) from its November level, as decreases in the price indices for sugar, vegetable oils and meat more than offset increases in dairy products and cereals. The index stood 10.1 percent below on YoY basis in Dec-23 and 13.7 percent lower in the year 2023. Global commodity prices plummeted in December 2023. Energy prices dropped 6.3 JANUARY - 2024 3 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K percent, led by European natural gas (-20.6 percent). Non-energy prices eased by 1.6 percent. Food prices declined by 3.0 percent. Beverages increased by 5.3 percent while raw material inched up by 1.1 percent. Fertilizer prices plunged 24.0 percent. Metal price gained 1.2 percent led by Iron Ore (4.6 percent) and Copper (2.6 percent).The precious metal rose by 2.1 percent. Rs Performance of Pakistanâ€™s Economy 2.1 Real Sector 2.1-a Agriculture For Rabi 2023-24, wheat crop has been cultivated on an estimated area of 9.160 million hectares which has surpassed the sowing target of 8.998 million hectares by 1.8 percent to achieve the production target of 32.12 million tonnes. The Rabi season crops production is expected to increase given the climatic condition in the country. The farm inputs utilization paced well due to government interventions to boost agriculture productivity regarding availability of improved seeds, agricultural credit, farm machinery and fertilizers. During Jul-Dec FY2024, farm tractor production and sales increased by 67.5 percent to 23,610 and 103.3 percent to 23,411, respectively, over the same period last year. During Jul-Dec FY2024, the agriculture credit disbursement reached to Rs 1105.8 billion as compared to Rs 842.4 billion last year, an increase of 31.3 percent. Urea offtake during Rabi 2023-24 (Oct-Dec) was recorded at 1,698 thousand tonnes (8.0 per cent less than Rabi 2022-23) whereas DAP offtake stood at 576 thousand tonnes (23.7 per cent higher than Rabi 2022-23). period last year. In November 2023, LSM increased by 1.6 percent on YoY basis against the declined of 4.9 percent in the same month last year. While on a MoM basis, it increased by 3.6 percent in November against the decrease of 2.2 percent in October. During Jul-Nov FY2024, 12 out of 22 sectors witnessed positive growth. These includes, Food, Beverages, Wearing apparel, Leather, Coke & Petroleum Products, Chemicals, Pharmaceuticals, Non-Metallic Mineral Products, Rubber Products, Wood Products, Machinery and Equipment, and others (Football). In Jul-Dec FY2024, the performance of auto-industry remained subdued due to massive increase in inputs prices, and tightened auto finance. Car production and sale decreased by 56.9 percent and 55.5 percent, respectively, while Trucks & Buses production and sale decreased by 56.9 percent and 49.6 percent. However, Tractor's production and sale increased by 67.5 percent and 103.3 percent. 2.1-b Manufacturing The sale of petroleum products slumped by 15.0 percent during Jul-Dec FY2024 to 7.68 mn tons against 9.03 mn tons in the same period last year. In December 2023, oil sales recorded at 1.24 mn tons, down 7.0 percent YoY. Large Scale Manufacturing (LSM) declined by 0.8 percent during Jul-Nov FY2024 against the contraction of 2.3 percent same Cement dispatches, in December 2023, witnessed a robust increase of 4.63 percent. Total cement dispatches in JANUARY - 2024 4 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K December 2023 were 4.06 million tonnes compared to 3.881 million tonnes in the same month last year. During Jul-Dec FY 2024, total cement sales (domestic and exports) were 23.876 million tonnes, 9.7 percent higher than 21.764 million tonnes dispatched during the corresponding period last year. Domestic dispatches during this period were 20.223 million tonnes, showing a modest increase of 0.97 percent. However, Export dispatches surged significantly by 110.66 percent, totaling 3.653 million tonnes. 2.2 Inï¬‚ation CPI inflation recorded at 29.7 percent on a YoY basis in December 2023 as compared to 24.5 percent in December 2022. During Jul-Dec FY 2024, CPI stood at 28.8 percent against 25.0 percent in the same period last year. On a MoM basis, it increased to 0.8 percent compared to an increase of 2.7 percent in the previous month. Major contributors to the YoY increase in CPI include Alcoholic Beverages & Tobacco (82.8 percent), Furnishing & Household equipment maintenance (32.5 percent), Housing, Water, Electricity, gas & Fuel (37.7 percent), non-perishable food items (28.7 percent), Transport (28.6 percent), Health (23.4 percent), Clothing & Footwear (20.7 percent) and Perishable food items (20.7 percent). The SPI for the week ended on 25th January 2024, recorded a decrease of 0.14 percent as compared to the previous week. Prices of 13 items declined, 23 items remained stable and 15 items increased. 2.3 Fiscal The consolidated fiscal deficit has been recorded at 2.3 percent of GDP (Rs.2407.8 billion) in Jul-Dec FY2024 against 2.0 percent of GDP (Rs.1683.5 billion) last year. While a primary surplus witnessed a continuous improvement due to contained growth in non-mark-up spending relative to markup payments. Primary surplus improved to Rs.1812.2 billion (1.7 percent of GDP) during Jul-Dec FY2024 from the surplus of Rs.889.6 billion (1.1 percent of GDP last year. Total revenues during Jul-Dec FY2024 grew by 46 percent to reach Rs.6854.0 billion from Rs.4698.9 billion last year. This notable performance is driven by a substantial increase in non-tax collections by 109 percent, reaching Rs.2019.7 billion, and a 30 percent growth in FBR tax collections, amounting to Rs.4469.2 billion during JulDec FY2024. The sharp rise in non-tax collection is largely attributed to higher receipts from mark up (PSEs & others), SBP profit, and petroleum levy. FBR tax collection increased by 30 percent to Rs 4469.2 billion during Jul-Dec FY2024 against Rs 3428.8 billion last year. Notably, FBR exceeded the assigned target by Rs.44 billion during this period. Within total FBR tax collection, direct taxes grew by 41 percent JANUARY - 2024 5 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K while indirect tax collection increased by 22 percent. Total expenditures grew by 45 percent to Rs.9261.8 billion during Jul-Dec FY2024 against Rs.6382.4 billion last year. Within total, current spending increased by 41 percent mainly due to a 64 percent rise in markup payments during the first six months of the current fiscal year. 2.4 Monetary Sector st value) Rubber Tyres & Tubes (6.1% in quantity & 33.9% in value), and Plastic Materials (122.2% in quantity & 46.6% in value). Whereas, main imported commodities were Petroleum products ($ 3193.8 million), Petroleum crude ($ 2611.2 million), LNG ($ 1852.9 million), Palm Oil ($1388.1 million), Plastic materials ($ 1163.2 million), Iron & Steel ($ 990.6 million) and Medicinal products ($ 534.1 million). 2.5.1 Foreign Investment th During 1 July â€“ 29 December, FY24 money supply (M2) showed a growth of 4.4 percent (Rs 1386.6 billion) compared to 0.9 percent growth (Rs 246.8 billion) in last year. Within M2, NFA increased by Rs 569.0 billion as compared decrease of Rs 1155.4 billion in last year. Whereas, NDA of the banking sector increased by Rs 817.6 billion as compared to an increase of Rs 1402.2 billion last year. Private Sector has borrowed Rs 373.5 billion as compared to borrowing of Rs 581.2 billion last year. 2.5 External Sector The Current Account posted a deficit of $ 831million for Jul-Dec FY2024 as against deficit of $ 3.6 billion last year, largely reflecting an improvement in trade balance. Exports (fob) increased by 7.5 percent and reached $ 15.3 billion ($ 14.2 billion last year), whereas imports (fob) declined by 14.7 percent reaching $ 25.2 billion ($ 29.6 billion last year). Resultantly, the trade deficit was recorded at $ 9.9 billion as against $ 15.4 billion last year. During the period under review, exports in services decreased by 2.7 percent to $ 3,766 million as against $ 3,870 million same period last year. The imports in services increased by 25.5 percent to $ 5,196 million as compared to $ 4,140 million same period last year. The trade deficit in services stood at $ 1,430 million as against $270 million last year. As per PBS, the export commodities that registered positive growth include Rice (48.4% in quantity & and 76.5 % in value), Fruits (37.6% in quantity & 9.3% in value), Cotton Yarn (81.6% in quantity & 54.2% in value), Towel (13.4% in quantity & 1.7% in Total foreign investment during Jul-Dec FY2024 recorded an inflow of $ 933.7 million against an outflow of $ 393.3 million last year. FDI stood at $ 862.6 million ($ 640.0 million last year) increasing by 34.8 percent. FDI received from China $ 292.8 million (33.9 % share), Hong Kong $ 191.0 million (22.1 %), UK $ 121.6 million (14.1%), Netherlands $ 69.4 million (8.0%), and Switzerland $ 25.3 million (2.9%). Power sector attracted the highest FDI of $ 433.5 million (50.3% of total FDI), Oil & Gas exploration $ 129.8 million (15.0%), and Financial Business $ 91.1 million (10.6%). Foreign Private Portfolio Investment has registered a net inflow of $ 70.8 million during the period under review. Foreign Public Portfolio Investment recorded a net inflow of $ 0.2 million. The total FPI recorded an inflow of $ 71.0 million as against an outflow of $ 1033.3 million last year. 2.5.2 Worker's Remittances In Jul-Dec FY2024, workers' remittances recorded at $ 13.4 billion ($ 14.4 billion last year), decreased by 6.8 percent. YoY remittances increased by 13.4 percent in December 2023 ($ 2.4 billion) as compared to December 2022 ($ 2.1 billion) whereas MoM remittances increased by 5.4 percent in December 2023 ($2.4 billion) as compared to November 2023 ($ 2.3 billion) owing to structural reforms related to exchange companies and consequent convergence of exchange rates in interbank and open markets. Share of remittances (Jul-Dec FY2024) from Saudi Arabia remained 24.2 percent ($ 3254.1 million), U.A.E 17.3 percent ($ 2328.5 million), U.K JANUARY - 2024 6 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K 14.8 percent ($ 1988.1 million), USA 11.7 percent ($ 1576.5 million), other GCC countries 11.1 percent ($ 1489.1 million), EU 12.6 percent ($ 1695.0 million), Australia 2.2 percent ($ 289.8 million), and other countries 6.1 percent ($ 813.7 million). 2.5.3 Foreign Exchange Reserves 2.7 Social Sector Â§ BISP has disbursed a quarterly tranche (Octâ€“Dec,2023) of Rs 8500 per household under Kafaalat cash assistance to around nine million registered beneficiary families. Â§ PPAF through its 24 Partner Organizations has disbursed 33,136 interest free loans amounting to Rs 1.48 billion during December, 2023. Since the inception of interest free loan component, a total of 2,595,982 interest free loans amounting to Rs 98.10 billion have been disbursed to the borrowers. Â§ Pakistan is one of the largest labour exporting countries in the region.During 2023(CY) Bureau of Emigration & Overseas Employment has registered 859,846 workers including 57,360 workers in December 2023 for overseas employment in different countries. Â§ Under Prime Minister Youth Business & Agriculture Loan Scheme the government has disbursed Rs 57,669 million till November 2023 to 90,625 beneficiaries for business. Pakistan's total liquid foreign exchange reserves increased to $ 13.2 billion on January 29, 2024, with SBP's reserves stood at $ 8.2 billion and Commercial banks' reserves remained at $ 5.0 billion. 2.6 Performance of KSE Index The performance of Pakistan Stock Exchange (PSX) remained positive in December 2023. The benchmark KSE-100 index closed at 62,451 points as of 29th December 2023 and gained 1,924 points over the month. Similarly, the market capitalization of PSX increased by Rs 334 billion (3.8 percent) and settled at Rs 9,063 billion by end December 2023. During December, the performance of major world stock market indices showed a mixed picture. The Sensex 30 of India increased by 7.8 percent followed by S&P 500 of US (4.4 percent), KSE-100 and CAC 40 of France (3.2 percent). Contrary, SSE Composite of China declined by 1.8 percent. The performance of major world indices indexed at 100 is depicted in the figure below: Rs Economic Outlook 3.1 Inï¬‚ation The elevated prices of perishables and vegetables, coupled with increased utility costs (electricity and gas), have contributed to the inflationary pressure. The surge in onion export orders following the Indian ban has strained local supply and increased domestic prices. Specific commodities, such as tomatoes, witnessed price hikes due to supply disruptions caused by severe weather, intensifying the demand-supply gap. Similarly, chicken prices rose due to reduced supply, particularly from controlled sheds experiencing higher input costs. However, the government has taken JANUARY - 2024 7 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K measures to reduce onion export by increasing the minimum export price and also lifted the ban on soyabean import which would ease the supply situation of perishables and chicken. In January FY2024, there is a slight moderation in the inflation outlook compared to the preceding month. Though, yet, challenges persist in the form of supply chain disruptions and increased utility prices, the decline in fuel cost offers a promising counterbalance, potentially mitigating the overall impact on consumers and production sectors. The Food and Agriculture Organization's food price index, which tracks the most globally traded food commodities, averaged 118.5 points in December, 2023 down by 1.5 percent from November level as decreases in the price indices for sugar, vegetable oils and meat more than offset increases in dairy products and cereals. Keeping in view the above coupled with the high base effect, inflation is anticipated to remain around 27.5-28.5 percent in January 2024 and further ease out to 26.5-27.5 percent in February 2024. 3.2 Agriculture The performance of agriculture sector is depicting an uptick compared to last year as crops have performed well. Wheat being the major crop of Rabi 2023-24 is expected to perform well as cultivation surpassed the target. On the downside unprecedented weather shocks may affect productivity as January 2024 is the coldest and important month for the early growth of Rabi crops in most of the agricultural plains of the country. Farmers may take precautionary measures to protect their crops, vegetables, orchids and livestock from the harmful impacts of expected extremely cold weather conditions. 3.3 Industrial activity The LSM cycle usually follows the cyclical movements in main trading partners, but since it is focused on major industrial sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets. The economic conditions in Pakistan's major export destinations have shown signs of improvement, as evidenced by the aggregate CLI in those markets. It has improved and reached its potential level signaling a favourable external environment that supports the industrial performance of Pakistan. At the domestic level, despite persistent challenges, the industrial sector is showing signs of recovery and government measures to stimulate growth, particularly in SMEs, are providing impetus. This is evidenced by the MoM 3.63 percent growth in the LSM during November 2023, and YoY increase of 1.59 percent. Similarly, the revival of industrial sector activities is visible in the cyclical LSM pattern for the month of November which has reached the potential level. Now the main challenge is not only to improve the cyclical situation but also to increase potential output through stimulating investments that lead to capacity extension in the economy and the industrial sector. To address this challenge, the government is implementing effective measures across all sectors to create a conducive economic environment which in turn is expected to attract investments, fostering sustainable economic growth in these sectors. JANUARY - 2024 8 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K 3.4 Overall Economic Activity The Monthly Economic Indicator (MEI) is developed as a tool to distribute the past annual GDP numbers, reported by the PBS, on a monthly as well as quarterly basis, and to nowcast GDP growth for the FY in which the National Accounts are not yet available on the same frequency. The figure presents the MEI every month since July 2019. It should be noted that some of the data underlying the December 2023 MEI are still provisional and may be revised next month. The government's effective measures helped stabilize the macroeconomic situation, leading to a gradual improvement in economic activities. It is apparent from better growth prospects in the real sector visible in MoM increase in LSM growth, an improvement in high-frequency indicators (cement dispatches, farm tractors, fertilizers), and an increase in credit disbursements to the agriculture sector. Going forward, it is expected that economic activities will further strengthen during the second half of the current fiscal year. 3.5 External December 2023, BoP data shows momentum of external sector stability as evident through current account which turns to a surplus of $ 397 million, the surplus value observed after June 2023. This development is mainly due to the contained trade deficit - which decreased by 25.5 and 23.5 percent on MoM and YoY basis, respectively on the exports front, it increased significantly by 14.1 percent on YoY basis and 5.1 percent on MoM basis. The upward trend has been observed on account of revived domestic economic activities and better export demand in Pakistan's main export markets. On the other hand, imports have been contained by 6.1 and 0.1 percent, on MoM and YoY basis, respectively. Another contributing factor in current account surplus is workers remittances â€“ posted expansion of 5.4 and 13.4 percent on MoM and YoY basis, respectively. The revival in domestic economic activities along with stable exchange rate are contributing to external sector stability. It is expected that continuation of these developments and policies to increase exports and remittances will further translate into improved trade balance and current account during the second half of FY2024. 3.6 Fiscal During the first six months of the current fiscal year, the consolidation measures helped in improving the revenues relative to expenditure. There is a consistent upswing in revenue collection from both tax and nontax collection. Particularly, tax revenue performance shows the efficacy of both tax policy and administrative measures. With the current pace of tax collection, FBR is poised to achieve the set target of tax collection by the end of the current fiscal year. The significant challenge is higher markup payments due to the high policy rate leading to a sharp rise in current expenditures. To address this challenge, the government is putting all its efforts into controlling non-markup spending through austerity measures which is evidenced by the rise in primary surplus during Jul-Dec FY2024. However, due to mounting markup payments in response to high policy rates, the expenditure is expected to remain under pressure during the current fiscal year. 3.7 Final Remarks The first half of FY2024 has ended with economic stabilization. The government's effective measures and prudent policies helped stabilize the macroeconomic JANUARY - 2024 9 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K situation, leading to a gradual improvement in economic activities. It is apparent from better growth prospects in the real sector visible in MoM increase in LSM growth, an improvement in high-frequency indicators and better crop prospects. Despite the challenges, external stability has been observed as evident from a surplus in the current account in December. On the fiscal side, the revenue performance is encouraging, however, there is significant pressure on expenditures attributed to higher markup payments. Despite this, the government is taking measures to manage non-markup spending, which is evidenced by continuous improvement in primary surplus. Pakistan has recently received a tranche equivalent to US$ 705.6 million, following the successful completion of the first review by the Executive Board of IMF under Stand by Arrangements (SBA) â€“ which is providing market confidence and exchange rate stability. For the outlook, it is expected that economic activities will further strengthen during second half of FY2024 - contingent on the continuation of sound and prudent economic policies which will gear toward achieving the set growth target for the current fiscal year. JANUARY - 2024 10 \f31st January 2024 ECONOMIC INDICATORS Remi ances ($ bn) Exports FOB ($ bn) Imports FOB ($ bn) Current Account Deï¬\u0081cit ($ bn) Source: SBP FDI ($ mn) Total Foreign Investment ($ mn) Source: FBR & Budget Wing FBR Revenue (Rs.bn) Non-Tax Revenue (Rs.bn) Source: SBP PSDP (Rs.bn) Agriculture Credit (Provisional) PSX Index Market Capitaliza on (Rs. bn) Market Capitaliza on ($ bn) \* : Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX & SECP JANUARY - 2024 11 \f"

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Inflation has fallen in some economies due to lower energy prices, but food and services prices continue to rise, contributing to persistent high inflation. Monetary tightening measures are still in place. Consumer Price Index (CPI) inflation has declined to 29.4 percent in the month of June 2023 from 38.0 percent recorded in May 2023. The food inflation (urban) has declined from 48.1 percent to 40.8 percent. Sensitive price indicator (SPI) also declined by 0.07 percent on week ended 20th July, 2023. The fiscal front has seen an important improvement, with the primary deficit reducing significantly from Rs. 945.3 billion last year to Rs. 112.0 billion during Jul-May FY2023. Furthermore, the fiscal deficit is also expected to decline from the previous year 7.9% of GDP, largely due to a 12% reduction in non-markup spending. In order to contain persistently rising inflationary pressures and to maintain external sector stability, SBP had to increase the policy rate by 100 basis points to 22 percent in its last monetary policy committee meeting. The current account deficit has also declined by 85.4 percent as compared to the last year. The current account has posted a deficit of $2.6 billion for FY2023, a reduction from the previous year's deficit of $17.5 billion. The current account has improved, resulting in a surplus of $334 million in June 2023. Interna onal Performance and Outlook OECD economic outlook estimated global growth to be 2.7% in 2023, with a modest pick-up to 2.9% in 2024 â€“ both well below the average growth rate in the decade preceding the COVID-19 pandemic. Global GDP growth slowed substantially throughout 2022, but several of the factors weighing negatively are now unwinding. Falling energy prices and headline inflation, easing supply bottlenecks and the reopening of China's economy coupled with strong employment, all contribute to a projected recovery. Significant uncertainty about economic prospects remains, and the major risks to the projections are on the downside. One key concern is that inflation could continue to be more persistent than expected. Emerging-market economies face challenges from tight global financial conditions: higher debt servicing costs, capital outflows, and reduced credit availability from foreign lenders. Moreover, rising geopolitical tensions and concerns about supply chain security have prompted several countries to implement trade and investment restrictions. Increasingly restrictive trade policies risk curtailing the gains from global trade and harming the development prospects of low-income countries. Asian Development Outlook for July-2023 projects Developing Asia's outlook optimistic, as the China reopening and domestic consumption and investment continue to underpin growth in the region. The regional growth forecast is maintained at 4.8% for 2023 and marginally revised downward to 4.7% for 2024. It is projected J U LY 2 0 2 3 1 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K that headline inflation is returning to prepandemic averages, as supply-side pressures from energy and food prices has been decreased. However, downside risk also prevails as higher-for-longer interest rates in the US and other advanced economies could dent growth prospects. US economic activity increased slightly in recent weeks, with slow growth seen continuing in coming months, according to Federal Reserve Report â€œBeige Bookâ€\u009d. Moreover, the report largely dovetailed with other recent data suggesting upward pressure on prices was softening. Price expectations were generally stable or lower over the next several months. Employment was also reported to have continued increasing \"modestly\". US consumer prices rose modestly in June by 0.2 percent on MoM basis and by 3.0 percent on YoY basis, registered smallest annual increase since August 2021. In the 12 months through June, the core CPI rose 4.8%. That was the smallest YoY gain since October 2021 and followed a 5.3% increase in May. Nevertheless, inflation remains well above the Fed's 2% target, with the labor market still tight. Though employment gains were the smallest in two and half years in June, the unemployment rate fell close to historically low levels and wage growth was strong, implies Federal Reserve will resume to raise interest rates this month. The slow growth economic situation is also reflected through growth in WEI which is moving around 1% during second quarter of 2023 compared 3% during same period last year (Fig-1). The J. P. Morgan Global Composite Output Index decreased to 52.7 in June 2023, from 54.4 in May 2023. The global economic upturn lost momentum at the end of the second quarter, as a downturn in manufacturing output was accompanied by slower growth at service providers. The expansion continued to be driven by the service sector as the business, consumer and financial services remained sluggish. The major growth was registered in India, Russia, US and UK all registered growth above the global average. Fig-1: Growth in WEI (%) 3.5 3.0 3.29 2.5 1.37 2.0 1.5 1.0 0.5 0.0 07/02/2022 12/31/2022 07/01/2023 Source: Federal Reserve Bank of New York Fig-2 (a): Composite Leading Indicator 102.0 UK US Sep-22 Dec-22 China 101.0 100.0 99.0 98.0 97.0 96.0 95.0 94.0 93.0 92.0 Jun-22 Mar-23 Jun-23 Source: OECD Fig-2 (b): Composite Leading Indicator France 100.0 Itlay Germany 99.5 99.0 98.5 98.0 97.5 97.0 96.5 96.0 95.5 Jun-22 Sep-22 Dec-22 Mar-23 Jun-23 Source: OECD J U LY 2 0 2 3 2 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K The economic situation of Pakistan's major trading partners also showed through CLI, of which China, UK and US showing increasing growth momentum in the month of June as compared to May, however the euro area as a whole witnessed growth below its potential level (Fig-2, page # 2). The FAO food prices index (FFPI) averaged 122.3 points in June 2023, declined by 1.7 points from May. The decline in June was driven by a significant decline in the price indices for vegetable oils, cereals and dairy, while the meat price index remained unchanged. Global commodity prices fell in June 2023. Energy prices declined by 1.8 percent, led by coal 13.1 percent and oil 1.2 percent. Non-energy price fell by 1.9 percent. Food prices down by 3.5 percent. Fertilizer prices dropped 9.3 percent. Metal price declined 0.4 percent led by zinc 4.0 percent and aluminum 3.7 percent which were offset by gains in iron ore 7.9 percent. Precious metal eased by 2.7 percent. Monthly Performance of Pakistan's Economy 2.1Real Sector 2.1-a Agriculture According to the initial estimates, the cotton area sown in Punjab was recorded at 1.947 million ha which comprises 96.43 percent of the target (2.019 million ha). Whereas cotton cultivation area in Sindh stood at 0.625 million ha, 92.98 percent of the target (0.672 ha). The total sown area stood at 2.676 million ha showing 96.7 percent of target (2.767 million ha). Further, improved quality of cotton seed has been used both in Punjab and Sindh which will auger well to achieve current year's target of 12.77 million bales. During Jul-May FY2023, the agriculture credit disbursement increased by 28.4 percent to Rs 1,565.2 billion as compared to Rs 1,219.3 billion last year. During May 2023, urea offtake was 459 thousand tonnes, which increased by 10 percent while DAP offtake was 66 thousand tonnes, which decreased by 30.1 per cent over May 2022. 2.1-b Manufacturing Large Scale Manufacturing remained on a negative trajectory with the observed decline of 9.87 percent during Jul-May Fy2023 due to supply chain disruptions, inflationary pressures and resultant hikes in input prices, and continued contractionary policy stance at the domestic level to correct the macroeconomic imbalances. On a YoY basis, LSM nosedived by 14.37 percent in May 2023 and on MoM basis, it grew by 5.88 percent. During the period, 4 sectors witnessed positive growth which includes Wearing apparel, Leather Products, Furniture, and others (Football). The automobile sector continues to face challenges due to an unfriendly economic environment as the total production witnessed a decline of 37.4 percent in FY2023 and total sales dipped by 37.8 percent. The poor performance in the Cars, Tractors and Trucks & Buses remain the major contributors to the overall decline of this sector as Car production and sale decreased by 55.0 percent and 58.7 percent, Tractors production and sale decreased by 46.1 percent and 47.5 percent, and Trucks & Buses production and sale decreased by 40.3 percent and 41.0 percent, respectively. Fig-3: Fiscal Indicators % of GDP (Jul-May) Fiscal Deï¬\u0081cit 6.0 5.5 Primary Deï¬\u0081cit 5.2 4.0 2.0 0.0 1.4 0.1 FY2023 FY2022 J U LY 2 0 2 3 3 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K 2.2 Inflation CPI inflation recorded at 29.4 percent on a year-on-year basis in June 2023 as compared to 21.3 percent in June 2022 whereas it increased to 38 percent in the previous month and average CPI inflation for July-June FY2023 stood at 29.2 percent compared to 12.2 percent during the same period of last year. On a Month on Month (MoM) basis, it decreased to 0.3 percent in June 2023 compared to an increase of 1.6 percent in the previous month. The non perishable items and perishable items declined by 0.9 percent and 1.6 percent respectively on MoM basis. Similarly, the declined observed in Housing, water, electricity, gas & fuels 0.2 percent and Transport 2.2 percent. However, the increase observed in Furnishing & household equipment maintenance 1.6 percent, Restaurant & hotels 1.4 percent, Clothing & footwear 1.1 percent and Education 0.4 percent. The SPI for the week ended on 20thJuly 2023, recorded a decrease of 0.07 percent as compared to previous week. Prices of 09 items declined, 12 items remained stable and 30 items increased. 2.3 Fiscal During Jul-May FY2023, the fiscal deficit recorded at 5.5 percent (Rs 4,652.2 billion) against 5.2 percent (Rs 3,468.5 billion) in FY2023 1,011 2,532 321 935 370 2,285 2,592 In FY2023, total cement dispatches declined by 15.7 percent to 44.579 mn tons. In June 2023, demand for cement dispatches declined by 22.8 percent to 4.063 mn tons (5.264 mn tons in June 2022). Local cement sales by the industry came in at 3.487 mn tons in June 2023, a substantial decline of 30.0percent from the last year. Whereas exports surged by 102.6 percent from 284,471 tons to 576,309 tons during the same period. Fig-4: FBR Tax Collection (Rs. bn) (Jul-Jun) 3,272 The sale of petroleum products was down by 26 percent in FY2023 to 16.6 mn tons from 22.6 mn tons in the same period last year. Oil sales clocked in at 1.3 mn tons in June 2023, a 31.0 percent decline on YoY basis. FY2022 Source: FBR the comparable period of last year. Net federal revenues grew by 24.4 percent to Rs.4,166.6 billion in Jul-May FY2023 against Rs 3,349.5 billion last year. The major contribution in revenues came from a 31 percent increase in non-tax collection on account of higher collection from petroleum levy during the period under review. Besides, other components like markup (PSEs & others, dividends, passport fees, royalties on oil/gas, and windfall levy against crude oil also contributed to increasing the non-tax collection. In absolute terms, non-tax revenues increased to Rs 1,476.1 billion during Jul-May FY2023 from Rs 1,124.1 billion last year. Net provisional Tax collection, on the other hand, grew by 16.6 percent to stand at Rs 7,169.1 billion during Jul-Jun FY2023 against Rs 6,148.5 billion last year. Notable, domestic tax collection surpassed the target by Rs 102 billion to reach Rs 6,234.3 billion. It recorded an increase of 21.3 percent during FY2023 owing to higher collection from direct tax (43.2 percent), whereas customs duty reduced by 7.5 percent due to a significant contraction in imports. On the expenditure side, total spending grew by 20 percent to reach Rs 8,849.6 billion during Jul-May FY2023 against Rs 7,361.5 billion last year. Within total, current expenditure grew by 22 percent to Rs 8,337.8 billion during Jul-May FY2023 against Rs 6,843.8 billion last year. The J U LY 2 0 2 3 4 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K entire increase in current spending stemmed from an 80 percent rise in markup payments owing to a higher policy rate. In contrast, non-markup spending was reduced by 12 percent largely due to a 31 percent decline in subsidies and a 32 percent decrease in grants. However, a notable increase has been witnessed in grants for BISP and poverty alleviation funds indicating the government's commitment to pro-poor spending while creating fiscal space by reducing nonproductive spending. With a decline in non-mark-up spending, the primary deficit has been narrowed down to Rs.112.0 billion during Jul-May FY2023 from Rs.945.3 billion recorded last year. 2.4 Monetary Monetary Policy Committee (MPC) has increased the policy rate by 100 bps to 22 percent, effective 27th June, 2023. The committee considered this action as necessary to keep real interest rate firmly in the positive territory on a forward-looking basis. This would help further anchor inflation expectations, which are already moderating over the last few months, and support bringing down inflation towards the medium-term target of 5 â€“ 7 percent by the end of FY25. During 1st July â€“ 02nd June, FY23 money supply (M2) shows growth of 8.9 percent (Rs 2467.5 billion) compared growth of 7.8 percent (Rs 1901.7 billion) in last year. Within M2, NFA decreased by Rs 2137.8 billion as compared decrease of Rs 1725.7 billion in last year. On the other hand, NDA of the banking sector increased by Rs 4605.3 billion as compared an increase of Rs 3627.4 billion last year. Private Sector has borrowed Rs 25.4 billion as compared borrowing of Rs 1424.7 billion in last year. 2.5 External Sector The Current Account posted a deficit of $ 2.6 billion for FY2023 as against a deficit of $ 17.5 billion last year, mainly due to contraction in imports. However, the current account posted a surplus of $ 334 million in June 2023 as against a deficit of $ 2321 million in same month last year, largely reflecting an improvement in trade balance. Exports on fob declined by 14.1 percent during FY2023 and reached $ 27.9 billion ($ 32.5 billion last year). Imports on fob declined by 27.3 percent during FY2023 and reached $ 52.0 billion ($ 71.5 billion last year). Resultantly the trade deficit (FY2023) reached to $ 24.1 billion as against $ 39.1 billion last year. Exports in Services during FY2023 increased by 2.7 percent to $ 7.3 billion as against $ 7.1 billion. The imports in services decreased by 38.0 percent to $ 8.0 billion as compared to $ 12.9 billion same period last year. The trade deficit in services contained by 87.7 percent to $0.7 billion as against $ 5.8 billion same period last year. As per PBS, during FY 2023, exports stood at $ 27.7 billion ($ 31.8 billion last year), declined by 12.7 percent. The major export commodities which have shown positive growth during the review period include Raw Cotton (322.8 percent in quantity & 104.8 percent in value), Fish & Fish Preparation (28.9 percent in quantity & 15.2 percent in value), Foot Balls (28.8 percent in quantity & 24.3 percent in value), Foot wear (35.5 percent in quantity & 13.7 percent in value), Surgical goods & Medical Instruments (5.9 percent in value) and pharmaceutical products (85.6 percent in quantity & 22.0 percent in value). The total imports in FY2023 decreased to $ 55.3 billion ($ 80.1 billion last year), thus declined by 31.0 percent. Main commodities imported were Petroleum products ($7.6 billion), Petroleum crude ($ 4.9 billion), Liquefied Natural gas ($ 3.7 billion), Palm Oil ($ 3.6 billion), Plastic materials ($ 2.3 billion), Iron & Steel ($ 1.9 billion) and Medicinal products ($ 1.3 billion). 2.5.1 Foreign Investment FDI reached $ 1455.8 million during FY2023 ($ 1935.9 million last year) decreased by 24.8 percent. FDI received from China $ 432.2 million (29.7 percent), Japan $ 183.0 million (12.6 percent), U.A.E $ 180.1 million (12.4 percent) and Switzerland $ 134.0 million (9.2 percent of total FDI). Power sector attracted highest J U LY 2 0 2 3 5 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K FDI of $ 622.6 million (42.8 percent of total FDI), Financial Business $ 275.1 million (18.9 percent), and Oil & Gas Explorations $ 135.1 million (9.3 percent). Fig-5: Trend of Major World Standardized Indices Foreign Private Portfolio Investment has registered a net outflow of $ 18.2 million during FY2023. Foreign Public Portfolio Investment recorded a net outflow of $ 1008.0 million, on account of Sukuk repayment in December 2022. The total foreign portfolio investment recorded an outflow of $ 1026.2 million during FY2023 as against an outflow of 87.7 million last. Total foreign investment during FY2023 recorded an inflow of $ 429.7 million as against $ 1857.8 million last year. 106.00 2.5.2 Worker's Remittances In FY2023, workers' remittances recorded at $ 27.0 billion ($ 31.3 billion last year), decreased by 13.6 %. MoM, remittances increased by 3.9% in June 2023 ($ 2.2 billion) as compared to May 2023 ($2.1 billion). Share of remittances (FY2023) from Saudi Arabia remained 23.9 percent ($6445.4 million), U.A.E 17.2 percent ($4648.6 million), U.K 15.0 percent ($4056.4 million), USA 11.4 percent ($3090.2 million), other GCC countries 11.8 percent ($3191.4 million), EU 11.5 percent ($3120.6 million), Australia 2.2 percent ($ 593.0 million), Canada 2.0 percent ( $ 550.5 million), Malaysia 0.4 percent ($ 104.8) and other countries 4.5 percent ($1223.4 million). 2.5.3 Foreign Exchange Reserves Pakistan's total liquid foreign exchange reserves increased to $ 14.1 billion on July 12, 2023, as with the SBP's reserves raise significantly to $ 8.8 billion on account of $ 3.0 billion disbursement from friendly countries ($ 2 billion from Saudi Arabia and $1 billion from UAE) and $ 1.2 billion from IMF under Stand-By Arrangement. Whereas Commercial banks' reserves remained at $ 5.3 billion. 2.6 Performance of KSE Index The performance of the stock market remained at par with the near past average. The KSE-100 index closed at 41,453 points 110.00 108.00 KSE-100 CAC 40 Sensex 30 S&P 500 SSE Composite 104.00 102.00 100.00 98.00 96.00 94.00 92.00 90.00 04-May-23 31-May-23 27-Jun-23 Source: PSX, Investing.com Note: All indices are standardized to 100 on the initial day of the sample taken in this ï¬\u0081gure. as of end June 2023; this was a slight increase of 122 points as compared to the last month. The index was more than 400 points above its 06 months' average i.e., 40,994. As of end June 2023, the market capitalization of PSX settled at Rs 6,369 billion. However, on positive note the KSE100 index crossed 46,000 mark and closed at 46,417 points as on 25th July 2023, highest in 15 months. During May-June 2023, the major world stock indices remained volatile. The KSE-100 index decreased by 1.5 percent (Fig-5), SSE Composite of China and CAC40 of France also declined by 4.8 and 1.7 percent respectively. Increase has been observed in Sensex 30 of India (2.7%) and S&P of US (7.8%). 2.7 Social Sector Â§ BISP has released 4th quarterly tranche of FY2023 of Rs 81 billion under Benazir Kafaalat programme to its partner banks (Bank Alfalah and HBL) through their retail distribution network for disbursement amongst 9.0 million registered beneficiary families @ Rs 9,000 per household. Â§ Rs 16 billion is also released under Benazir Taleemi Wazaif stipend's installment of January to March for disbursement amongst 6.7 million J U LY 2 0 2 3 6 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Fig-6: Relationship between CLI and LSM cycle 140 104 130 102 120 100 110 98 100 96 90 94 80 92 70 LSM Cycle (Le Scale) 60 90 CLI (Right Scale) 88 40 86 Jun-23 50 Jan-23 Inflation in July 2023 is expected to ease out compared to in the month of June 2023. The recent decrease in administered prices of petrol and diesel will be transmitted into lower domestic prices of essential items by impacting the transportation cost. Moreover, the declining international commodity prices The LSM cycle usually follows the cyclical movements in the main trading partners, but since it is focussed on the main industrial sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets. The upward movement of Jul-22 3.1 Inflation 3.3 Industrial activity Jan-22 Economic Outlook The input situation is expected to remain favourable during the period except for weather conditions. Farmers are advised to manage their activities keeping in view the weather forecast. The government is supporting agriculture sector by continuing pro-farmer incentives. Jul-21 During Jan-Jun 2023 Bureau of Emigration and Overseas Employment has registered 393,455 workers and 78,863 workers during June, 2023 for overseas employment in different countries under Prime Minister Youth Business & Agriculture Loan Scheme, the government has disbursed Rs. 11,582 million till April, 2023 to 23,275 beneficiaries for business and for the first time for Agriculture purpose. 3.2 Agriculture Jan-21 Â§ PPAF through its 24 Partner Organizations has disbursed 33,150 interest free loans amounting to Rs 1.45 billion during the month of June, 2023. Since inception of interest free loan component, a total of 2,402,497 interest free loans amounting to Rs 89.51 billion have been disbursed to the borrowers. The timely measures taken by the government to boost the agriculture sector (Kissan Package) would result into better crop outlook and smoothen the domestic supplies, moreover, the expected political stability and stable exchange rate would help to achieve price stability. The inflation for the month of July 2023 is expected to remain in the range of 25-27 percent. Jul-20 Â§ Under the scheme, at primary level, Rs 2,000 is paid to a girl student while Rs 1,500 is given to a boy student. At the secondary level, a girl student and a boy student are paid Rs 3,000 and Rs 2,500, respectively. Similarly, at higher secondary level, the stipend is Rs 4,000 and Rs 3,500 for the female and male students, respectively. Jan-20 Â§ are expected to offset the inflation spikes that emerged due to domestic supply shocks. The benchmark index of international food commodity prices declined again in June, 2023 led by price decreases for major cereals and most types of vegetable oils. Jul-19 school-going students having at least 70% school attendance. Source: PBS, OECD and EAW Calcula ons J U LY 2 0 2 3 7 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K the CLI in the main export markets is indicating the strength of the signal that economies are going towards the revival phase although still below the potential except China who successfully entered into the phase of expansion. Following the CLI, the cyclical pattern of LSM seems to follow the cyclical pattern in the main export markets in the month of May. It is expected to further improve on a MoM basis, however, on a YoY basis it is expected to remain significantly negative on June 2023 due to the high base effect. 3.4 Overall Economic Activity The Monthly Economic Indicator (MEI) is developed as a tool to distribute the past annual GDP numbers, as reported by the PBS, on a monthly/quarterly basis, and to nowcast on that same frequency GDP growth for the FY in which the National Accounts are not yet available. Fig-7 presents the MEI on a monthly basis since January 2019. It should be noted that some of the data underlying the June MEI are still provisional and may be revised next month. The MEI calculated for July-22 to June-23 is well aligned to the newly published national accounts for FY2023. It indicates that since April, MEI, following upward trend, is showing the signs of improvement and is expected to be positive in the coming months. Fig-7: Monthly Economic Indicator (MEI) 19.2 20.0 15.0 10.0 5.0 0.0 -5.0 - Jun-23 Mar-23 Jul-22 Nov-22 Mar-22 Jul-21 Nov-21 Jul-20 Nov-20 Nov-19 Mar-20 Jul-19 -15.0 Mar-21 -9.2 -10.0 Source: EA Wingâ€™s Calculation 3.5 External Amid the domestic and global scenarios, exports of goods and services as per BOP data in the month of June are on decreasing trend, which declined by 16.0% and 29% on MoM and YoY basis, respectively. Similarly, declining global commodity prices and contained domestic economic activities reflected in import numbers, decreased by 17.7% and 54.9% on MoM and YoY basis, respectively. This is also reflected in contained trade deficit for goods and services. Despite the decline in workers' remittances, significant decline in trade deficit reflected in surplus of current account for last two quarters of FY2023. For FY2024, it is expected that both exports and imports will gradually increase in coming months. Taking other factors into account, the current account deficit will remain in sustainable limit in FY2024. 3.6 Fiscal Despite a substantial decline in imports, LSM, and the overall slowdown in economic activity, the government's effective resource mobilization strategy remained effective in maintaining FBR tax collection growth at 16.6 percent, while non-tax grew by 31 percent. Similarly, on the expenditure side, though mounting interest expenditure remained a significant burden on fiscal accounts, curtailing non-interest spending triggered a primary deficit to narrow down. For FY2024, the government is taking various measures for domestic resource mobilization. The government has unveiled a comprehensive strategy for every sector of the economy in an effort to revive economic growth and move towards a higher inclusive and sustainable growth trajectory. Further different administrative and policy measures have been introduced to increase the tax collection. Additionally, SBP's withdrawal of restrictions on imports will create demand for imports. All these measures will be supportive in improving the revenues. On the expenditure side, various austerity measures are in place that will be helpful in reducing non-productive expenditures. J U LY 2 0 2 3 8 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K 3.7 Final Remarks FY2023, a challenging year has ended. The government succeeded in ensuring the sustainability of the external and fiscal sectors through various tough decisions and stabilization measures. In FY2024, the government is gearing towards achieving higher growth of 3.5% through various measures like the Kissan package, industrial support, export promotion, encouragement of the IT sector, and resource mobilization, etc. To achieve higher and sustainable economic growth, it will require prudent and effective economic decisions, political and economic certainty, and continuation of friendly economic policies along with enough foreign exchange financing. The recent IMF approval of the Stand- By Arrangement and other bilateral and multilateral inflows will pave the way to further improve the macroeconomic environment and the confidence of economic agents. J U LY 2 0 2 3 9 \fECONOMIC INDICATORS 26 July, 2023 Remi ances ($ bn) Exports FOB ($ bn) Imports FOB ($ bn) Current Account Deï¬\u0081cit ($ bn) Source: SBP FDI ($ mn) Total Foreign Investment ($ mn) Source: FBR & Budget Wing FBR Revenue (Rs.bn) Jun Jun Non-Tax Revenue (Rs.bn) Source: SBP PSDP (Rs.bn) Agriculture Credit (Provisional) PSX Index 25-Jul-2023 25-Jul-2022 Market Capitaliza on (Rs. bn) 25-Jul-2023 25-Jul-2022 Market Capitaliza on ($ bn) 25-Jul-2023 25-Jul-2022 \* : Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX & SECP J U LY 2 0 2 3 10 \f"

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Despite many challenges faced by Pakistan's economy on external and domestic fronts, the real sector showed resilience as the agriculture sector experienced positive growth while the percentage decline in Large Scale Manufacturing was contained to single digit during the first ten months of the current fiscal year. Moreover, targets for Kharif crops seem to be easily achieved on account of favourable weather and supportive government policies. Inflation rate remained high in the first eleven months of this fiscal year owing to currency depreciation, global price hike and supply side effects of high cost of borrowing. However, it is projected to ease in the month of June. Fiscal consolidation efforts of the government remained fruitful as primary balance witnessed a surplus, while the overall fiscal deficit as percentage of GDP decreased in the first ten months of outgoing fiscal year as compared to same period last year. Further, SBP has unchanged policy rate in its meeting held on June 12, 2023. Policies to contain external sector remained effective as current account deficit significantly reduced in the first eleven months of this fiscal year as compared to same period last year. Moreover, the current account posted a surplus since March 2023. Such performance has been realized despite reduction in remittances. The stock market performed better as compared to the last six months' average performance. Moreover, the stock market performed quite well compared to other global and regional markets. Interna onal Performance and Outlook According to World Bank's â€œGlobal Economic Prospects-June 2023,â€\u009d global growth is projected to slow significantly from 3.1 percent in 2022 to 2.1 percent in 2023, before a tepid recovery to 2.4 percent in 2024. The deceleration has been observed amid persistent inflationary pressures and tight monetary policy, expected to weigh substantially on economic activity. Recent banking sector stress in advanced economies is likely to dampen business activities through more restrictive credit conditions. The possibility of more widespread banking turmoil and tighter monetary policy could result in even weaker global growth. Rising borrowing costs in advanced economies could lead to financial dislocations in the more vulnerable emerging market and developing economies (EMDEs). In advanced economies, growth is slowed to 0.7 percent in 2023 from 2.6 percent in 2022. The US economy is expected to grow by 1.1 percent in 2023 before declining to 0.8 percent in 2024 on account of elevated interest rate and tight credit conditions. In the Euro area, growth is estimated to decline to 0.4 percent in 2023 from 3.5 percent in 2022, owing to the lag effect of tight monetary policy and higher energy prices. The role of trade as an engine of productivity and economic growth is now under threat as policy interventions have adversely affected trade relations in recent years. The rising number of restrictions on international trade suggests that long-term growth could also be weakened by growing geopolitical and economic fragmentation. Geopolitical tensions have led to the JUNE 2023 1 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K imposition of a wide range of restrictions on trade in goods. The growth of global trade in goods and services was almost twice of output growth during 1970-2008 but remained half during 2011-19. Goods trade accounted for 75 percent of global trade in goods and services during 2010-19, with a higher share in EMDEs compared with that in advanced economies. There is a need to be very cautious as having a world trading system divided into two or more blocs could be very costly for the entire global economy. Global inflation is projected to gradually edge down as growth decelerates, labour demand in many economies softens, and commodity prices remain stable. The slow pace of improvement means that core inflation is expected to remain above central bank targets in many countries throughout 2024. Federal Reserve Bank of New York's Survey of Consumer Expectations May2023 shows that inflation expectations decreased to 4.1 percent, the lowest since May 2021. Labour market expectations and perceived job loss risk is improving. Households' perceptions & expectations for credit conditions and their financial situations deteriorated slightly. According to Federal Reserve Bank, Beige Book â€œUS economic activity stalled in recent months, with job growth and inflation both slowing, and near-term business prospects looking slightly worse than previouslyâ€\u009d. Most economists expect a recession in the second half of 2023, citing the 500 basis points worth of interest rate increases by the Federal Reserve Bank since March 2022, when the U.S. central bank embarked on its fastest monetary policy tightening campaign since the 1980s to quell inflation. US economic situation is also reflected through the cyclical trend in WEI, which is hovering around 1 percent in the month of April and May (Fig-1). The J. P. Morgan Global Composite Output Index increased to 54.4 in May 2023, from 54.2 in April 2023, mainly contributed by the service sector as the manufacturing sector remained sluggish. The major growth was registered in India, China, Japan, and the Fig-1: Growth in WEI (%) 3.78 0.96 Source: Federal Reserve Bank of New York Fig-2 (a): Composite Leading Indicator Source: OECD Fig-2 (b): Composite Leading Indicator Italy Source: OECD US, however, the recovery is weakened in the Euro area and UK. The economic JUNE 2023 2 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K situation of Pakistan's major trading partners also showed through CLI, of which China is continuously showing expansion and reached around its potential in May 2023 (Fig-2 page: 2). The FAO Food Price Index (FFPI) averaged 124.3 points in May 2023, declining by 3.4 points from April. The decline in May was driven by a significant decline in the price indices of vegetable oils, cereals, and dairy, which is partly offset by an increase in the sugar and meat indices. Global commodity prices fell in May 2023. Energy prices declined by 11.3 percent, led by natural gas in Europe at 25.2 percent and coal at 17.4 percent. Non-energy prices fell by 3.6 percent. Food prices are down by 3.1 percent. Fertilizer prices dropped 2.2 percent. Metal price declined 6.4 percent led by zinc 10.5 percent and iron ore 10.4 percent. Precious metal eased by 0.5 percent. Performance of Pakistan's Economy 2.1 Real Sector 2.1-a Agriculture In the Annual Plan, agriculture sector is targeted to grow at 3.5 percent in FY2024. This target is planned to be achieved through 3.0 percent growth in important crops, 3.5 percent growth in other crops, 7.2 percent growth in cotton ginning, 3.6 percent growth in livestock and 3.0 percent growth both in fishery and forestry. These targets indicate a recovery plan for agriculture after a poor performance in the outgoing fiscal year owing mainly to disastrous floods. The targets are mainly envisaged upon the availability of water; use of certified seeds, fertilizers, pesticides; mechanization; and easy access to agriculture credit. Kharif 2023 crop targets seem to be achievable due to favourable weather conditions along with smooth and sufficient availability of water and other inputs. During Jul-May FY2023, the agriculture credit disbursement increased by 28.4 percent to Rs 1,565.3 billion compared to Rs 1,219.3 billion last year. This was achieved despite the overall contraction in private-sector credit. Moreover, during May 2023, urea offtake was 459 thousand tonnes, which increased by 10 percent while DAP offtake was 66 thousand tonnes, which decreased by 30.1 percent over May 2022. 2.1-b Manufacturing Large Scale Manufacturing (LSM) declined by a single digit (9.39 percent) during JulApr FY2023 despite supply chain disruptions, inflationary pressures, resultant hike in input prices, and continued contractionary stance of fiscal and monetary policies to correct the macroeconomic imbalances. In April 2023, LSM witnessed a 21.07 percent decline on a YoY basis, while 9.78 percent on MoM basis. During Jul-Apr FY2023 four sectors Wearing Apparel, Leather Products, Furniture, and Other Manufacturing (Football) witnessed positive growth. The automobile sector continues to face challenges due to an unfriendly economic environment as the total production declined by 36.3 percent during Jul-May FY2023 and total sales dipped by 36.8 percent. The poor performance in the Cars and Tractors remained the major contributors to the overall decline of this sector as Car production and sale plunged by 52.6 percent and 56.1 percent, respectively while Tractors production and sale decreased by 43.4 percent and 45.6 percent, respectively. However, Jeeps & Pickups performed relatively better among others as the decline in its production is below the average level of around 27 percent. The sale of petroleum products dropped by 26 percent in Jul-May FY2023 to 15.3 million tons from 20.6 million tons in the same period last year. YoY, oil sales plunges 40 percent in May 2023 and clocked in at 1.3 million tons. Moreover, during Jul-May FY2023, total cement dispatches declined by 14.9 percent to 40.5 JUNE 2023 3 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K million tons as compared to 47.6 million tons in the same period last year. However, in May 2023, demand for cement dispatches increased by 19.4 percent to 4.0 million tons as compared to 3.3 million tons in May 2022. Local cement sales by the industry stood at 3.4 million tons in May 2023, 9.01 percent up from sales of 3.2 million tons in May 2022. Whereas exports witnessed a healthy increase of 210.1 percent from 171,915 tons to 533,155 tons during the same period. Fig-3: FBR Tax Collection (Rs. bn) (Jul-May) 2.2 Inflation CPI inflation reached 38.0 percent on YoY basis in May 2023 as compared to a YoY increase of 36.4 percent in the previous month. On the other hand, MoM inflation rate increased to 1.6 percent in May 2023 as compared to 2.4 percent in April 2023. Overall, CPI inflation remained elevated during Jul-May FY2023; 29.2 percent as against 11.3 percent in the same period last year. The main contributing factor was food inflation, which remained too high owing mainly to the disruption of supply chains and currency depreciation leading to high prices of imported food items. Moreover, the supply-side effects of high cost of borrowing and a significant jump in electricity and gas prices also contributed to a higher inflation rate. The SPI for the week ended on 22nd June 2023, recorded an increase of 0.33 percent on a weekly basis. Prices of 12 items declined, 19 items showed no change, while 20 items witnessed an increase in prices. 2.3 Fiscal Performance The government took various austerity and revenue mobilization measures to contain the fiscal deficit. Consequently, the overall fiscal deficit has been reduced to 4.6 percent of GDP (Rs 3,929.3 billion) during Jul-Apr FY2023 from 4.9 percent of GDP (Rs. 3,275.2 billion) recorded in the same period last year. The main contributing factor to the fiscal deficit was interest payments as the primary balance posted a surplus of Rs. 99.1 billion in Jul-Apr FY2023 against the deficit of Rs. 890.2 billion in the Source: FBR last year. Net federal revenues increased by 19.7 percent to Rs. 3,715.3 billion in the first ten months of FY2023, up from Rs. 3,104.4 billion during the same period last year. This significant growth in revenue has been driven by both tax and non-tax revenues. Non-tax collection grew by 23.8 percent to reach Rs. 1,323.1 billion in Jul-Apr FY2023 from Rs. 1,068.5 billion in the same period last year. The significant rise in the non-tax collection has been realized mainly due to higher receipts from petroleum levy, windfall levy against crude oil, passport fee, and markup payments received from PSEs & others. On the other hand, tax collection increased by 16.1 percent (Rs. 6,210 billion in Jul-May FY2023 as compared to Rs. 5,348 billion in the same period last year). Growth in tax revenue has been mainly driven by the domestic sector; Rs. 5,382 billion domestic tax collection during Jul-May FY2023, which is 21 percent higher than Rs. 4,464 billion collected in the same period of last year. This growth has been contributed mainly by direct taxes, which grew by 44.8 percent, while FED increased by just 13 percent and sales tax collection increased by a meager 1.8 percent. On the other hand, collection from customs duty was reduced by 6.1 percent mainly due to import contraction driven by the government's tight restrictions. The significant increase in direct tax has been realized on the back of high inflation JUNE 2023 4 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K and various administrative and enforcement measures to make the tax structure progressive and equitable. Further, the imposition of super tax on high-earning persons/entities has also helped in raising revenue. Total expenditures grew by 15.1 percent to Rs. 7,891.9 billion during Jul-Apr FY2023 against Rs. 6,856.5 billion in the same period last year. Current expenditure increased by 17.8 percent during Jul-Apr FY2023, primarily due to a 68.9 percent increase in markup payments. Non-markup current expenditures on the other hand reduced by 12.8 percent. The decline has been observed due to considerable reductions in subsidies and grants. 2.4 Monetary Sector In the Monetary Policy Committee's meeting held on June 12, 2023, the policy rate was decided to remain at 21 percent. The decision was based on higher inflation outturns for April and May which were broadly as anticipated coupled with the expectation that domestic demand will remain subdued amid a tight monetary stance, domestic uncertainty, and continuing stress on external accounts. During 1st July â€“ 26th May, FY2023 money supply (M2) observed growth of 7.01 percent (Rs. 1,934.6 billion) as compared to 7.0 percent (Rs. 1,674.2 billion) in the same period last year. Growth in money supply was mainly contributed by domestic borrowing as NDA of the banking sector increased by Rs. 3,989.6 billion, which offset the contraction in NFA by Rs. 2,055.0 billion; during the same period last year, NDA increased by Rs. 3,230 billion, while NFA decreased by Rs. 1,555.8 billion. The private sector has borrowed Rs. 14.3 billion during the period under review as compared to borrowing of Rs. 1,422.1 billion in the last year. 2.5 External Sector The government's restrictive measures resulted in a significant decline in the current account deficit; $ 2.9 billion for JulMay FY2023 as against a deficit of $ 15.2 billion for the same period last year. This has been mainly achieved through a contraction in imports. The beneficial effects of restrictive measures have been more prominent in May 2023 as the current account posted a surplus of $ 255 million as compared to a deficit of $ 1,506 million in the same month last year. Though exports declined in the first eleven months of FY2023 yet the decline in imports more than offset it. During Jul-May FY2023 exports on fob declined by 12.2 percent and reached $ 25.8 billion ($ 29.4 billion last year), while imports declined by 23.9 percent reaching $ 49.0 billion ($ 64.3 billion last year). Resultantly, the trade deficit contracted to $ 23.2 billion (Jul-May FY2023) as against $ 35.0 billion in the same period last year. Exports in services during Jul-May FY2023 increased by 3.4 percent to $ 6.7 billion as against $ 6.4 billion. The imports in services decreased by 37.5 percent to $ 7.3 billion as compared to $ 11.6 billion in the same period last year. The trade deficit in services contained 88.3 percent to $0.6 billion as against $ 5.2 billion in the same period last year. Commodities that contributed significantly to exports include Raw Cotton, Fish & Fish Preparation, Footballs, Footwear, Surgical goods & Medical Instruments, and Pharmaceutical products. On the other hand, major contributors to imports include Petroleum products, Petroleum crude, Liquefied Natural Gas, Palm Oil, Plastic materials, Iron & Steel, and Medicinal products. 2.5.1 Foreign Investment Foreign investment, though less than last year's inflow, remained positive even in this challenging year. Total foreign investment recorded a net inflow of $ 294.1 million during Jul-May FY2023 as compared to $ 1,655.2 million in the same period last year. Out of these, net FDI inflows were recorded at $ 1,319.7 million during Jul-May FY2023, 20.7 percent less than the net FDI inflow of $ 1,664.8 million in the same period last year. China remained the main source of FDI inflows by investing $ 374.3 million (28.4 percent), flowed by Japan ($ 168.4 JUNE 2023 5 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K million; 12.8 percent), Switzerland ($ 140.2 million; 10.6 percent), and U.A.E ($ 129.6 million; 9.8 percent). As for as the sectoral distribution of FDI is concerned, Power sector attracted the highest FDI of $ 548.7 million (41.6 percent of total FDI), followed by Financial Business ($ 279.6 million; 21.2 percent), and Oil & Gas Explorations ($ 139.9 million; 10.6 percent). On the other hand, foreign portfolio investment recorded a net outflow of $ 1,025.6 million during Jul-May FY2023 as compared to a net outflow of only $ 9.6 million in the same period last year. This was mainly driven by Foreign Public Portfolio Investment, which recorded a net outflow of $ 1,010.6 million, on account of Sukuk repayment in December 2022. This was a tough decision and contributed to the net outflow of portfolio investment, yet it improved the credibility of Pakistan and reduced the risk of default. Foreign Private Portfolio Investment also registered a net outflow of $ 15.0 million during Jul-May FY2023. $ 4.1 billion. Commercial banks' reserves remained at $ 5.2 billion. 2.5 Performance of the KSE Index The performance of the stock market remained at par with the near past average. The KSE-100 index closed at 41,331 points as of 31st May 2023; this was a decline of 250 points as compared to last month, but the index was significantly above its 06 months' average i.e., 40,911. The market capitalization of PSX settled at Rs 6,277 billion as of 31st May 2023. Moreover, the stock market performed quite well compared to other global and regional markets. During April-May 2023, the KSE100 index increased by 3.6 percent (Fig-4), second1 only to Sensex 30 of India, which increased by 5.9 percent, while better than other market indices like the S&P 500 of US which increased by 1.3 percent. During the same period, CAC 40 of France declined by 3.4 percent, while SSE Composite of China was down by 2.8 percent. Fig-4: Trend of Major World Standardized Indices 2.5.2 Workers' Remittances Workers' remittances witnessed a decline as compared to last year mainly due to the global economic slowdown. During Jul-May FY2023, workers' remittances were recorded at $ 24.8 billion (12.8 percent down from $ 28.5 billion recorded in the same period last year). On MoM basis, remittances decreased by 4.5 percent in May 2023 ($ 2.1 billion) as compared to April 2023 ($ 2.2 billion). Saudi Arabia remained the main source of remittances contributing 23.8 percent ($ 5,924.8 million), followed by U.A.E (17.4 percent; $ 4,321.3 million), U.K (14.9 percent; $ 3,711.2 million), USA (11.4 percent; $ 2,824.7 million), other GCC countries (11.7 percent; $ 2,918.2 million), EU (11.4 percent; $ 2,839.5 million), Malaysia (0.4 percent; $ 97.8 million), and other countries (8.8 percent; $ 2,194.3 million). Source: PSX, Investing.com Note: All indices are standardized to 100 on the initial day of the sample taken in this ï¬\u0081gure. 2.6 Social Sector Â§ BISP and KfW, a German Development Bank have signed a MoU worth 27 million to support the rehabilitation and cash assistance of flood victims in Pakistan. Â§ For FY2024, the budgetary allocation 2.5.3 Foreign Exchange Reserves Pakistan's total liquid foreign exchange reserves stood at $ 9.3 billion on June 23, 2023, with the SBP's reserves now stood at 1 In the group of markets taken for comparison in this section JUNE 2023 6 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K of the BISP programme has been increased to Rs 450 billion. Some of the important schemes under this programme are as follows: Å¸ Under BISP, 9.30 million families will be provided with a cash transfer facility @ Rs 8,750 per quarter for FY2024; for this, Rs 346 billion have been allocated. The government will also adjust cash transfers according to inflation. Å¸ The scope of the Benazir Education Scholarship Programme will be increased from 6.0 million children to about 8.30 million (out of which, 52 percent will be girls). More than Rs 55 billion have been earmarked for this purpose. Å¸ 92,000 students will be given Benazir undergraduate scholarships for which Rs 6 billion have been allocated. Å¸ The Benazir Development Programme will continue in all districts and the number of children benefiting from the programme will be increased to 1.50 million. An amount of Rs 32 billion has been allocated. Â§ Â§ Â§ Â§ Pakistan is determined to achieve the SDGs. For this purpose, an amount of Rs 90 billion has been allocated for FY2024. PPAF through its 24 Partner Organizations has disbursed 33,626 interest-free loans amounting to Rs 1.43 billion in May 2023. Since the inception of the interest-free loan component, a total of 2,369,289 interest-free loans amounting to Rs. 88.1 billion have been disbursed to the borrowers. For FY2024, Rs. 4.0 billion have also been allocated to Pakistan Baitul-Mal for the treatment and assistance of deserving people. During Jan-May 2023 Bureau of Emigration and Overseas Employment registered 314,592 workers out of which 69,752 workers were registered during May 2023, for overseas employment in different countries. Â§ The government has allocated Rs. 5.0 billion for Skill Development, Small Business Loans and training projects to promote women's empowerment in the country. Â§ Under the Prime Minister Youth Skills Programme Rs. 5 billion have been allocated to give specialized training to the youth. BOX-I: RELIEF MEASURES TAKEN IN BUDGET FY2024 Â§ Targeted subsidy on wheat flour, ghee, pulses, and rice through USC Â§ Increase in salaries of civil servants in the form of Ad-hoc Relief Allowance Â§ Increase in pension and increase in minimum pension to Rs. 12,000 Â§ Minimum wage increased from Rs. 25,000 to Rs. 32,000 Â§ Loan write-off scheme for widows Â§ Health Insurance cards for working journalists and artists. Â§ National Program for Prevention of Diabetes, Hepatitis-C Control Program, National Multi-Sectoral Nutrition Program, Establishment of Governance Innovation Lab, Women on Wheels, Flood Protection Sector Program (FPSP-III) Economic Outlook 3.1 Inflation The inflation rate for the month of June 2023 has been projected to remain in the range of 31-33 percent. Due to somewhat favourable conditions discussed below, the inflation rate in June 2023 is expected to ease out as compared to 38 percent in May 2023. JUNE 2023 7 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K The global supply chain has shown a little bit improvement during the last couple of months. The international commodity price outlook is promising and is expected to offset the negative impact of local currency depreciation in Pakistan. Moreover, the FFPI, which tracks international prices of the most globally traded food commodities, stood at 124.3 points in May 2023, showing a decrease of 21.4 percent as compared to May 2022 while the same has declined MoM by 2.7 percent. Four of the FAO's five food sub-indices - cereals, meat, dairy, and vegetable oils - recorded a decline of 25.2 percent, 4.1 percent, 17.7 percent, and 48.2 percent, respectively, which would be instrumental to lower domestic prices. To reduce the inflationary pressure, the government has made no change in the administered prices of Petrol and Diesel after slashing them down in the previous two fortnightly episodes, which would keep the inflation forecast on the lower side. In the MPC's meeting held on June 12, 2023, the policy rate was decided to remain unchanged with the view that inflation already reached its peak in May 2023, inflationary expectations being in check, and barring any unforeseen developments, inflation is expected to start falling from June onwards. One more reason behind this is the higher base effect as the YoY inflation rate stood at 21.3 percent in June 2022, while MoM increase in prices was 6.3 percent. In addition to this, political stability, an expected stable exchange rate and a better crop outlook due to timely measures like Kissan Package would help to curb the inflation rate. 3.2 Agriculture The input situation for Kharif 2023 is satisfactory contingent upon favourable weather conditions. Moreover, it is expected that the sector will outperform on account of recent incentives proposed for the agriculture sector in Budget FY2024. 3.3 Industrial Activities The LSM cycle usually follows the cyclical movements in the main trading partners, but since it is focused on the main industrial sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets. Nevertheless, recently, the cyclical LSM pattern seems to temporarily diverge from the cyclical pattern in the main export markets. This reflects significant differences in economic dynamics in Pakistan, mainly due to the necessary domestic policy focus on external equilibrium. External equilibrium is not a major constraint in Pakistan's main export markets such as the Euro area, the US, the UK, and China. But in Pakistan, it is a necessary step for convergence to an equilibrium growth path, which temporarily comes at a cost in terms of economic growth. Fig-5: Relationship between CLI and LSM cycle Source: PBS, OECD and EAW Calcula ons 3.4. Overall Economic Activity The Monthly Economic Indicator (MEI) is developed as a tool to distribute the past annual GDP numbers, as reported by the PBS, on a monthly/quarterly basis, and to nowcast on that same frequency GDP growth for the FY in which the National Accounts are not yet available. Fig-6 presents the MEI on a monthly basis since July 2019. It should be noted that some of the data underlying the May MEI are still provisional and may be revised next month. The MEI calculated for the first 11 months of the current FY, have been aligned to the newly published national accounts for JUNE 2023 8 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K FY2023. It seems to be the case that since March 2023, the economy was contracting. Accelerating inflation, increasing interest rates, fiscal consolidation, growing political instability and degrading confidence of economic agents have significantly contributed to this depressed level of economic activity. However, this contraction seems to be easing in May 2023; continuity of this trend would help achieve the GDP growth target set for FY2024. Fig-6: Monthly Economic Indicator (MEI) 19.2 -9.2 Source: EA Wingâ€™s Calculation 3.5 External Sector BoP data in the month of May shows that exports of goods and services increased by 6.3 and 22.7 percent on YoY and MoM basis, respectively. Whereas imports of goods and services decreased by 29.7 percent on YoY basis but increased by 7.3 percent on MoM basis. An increase in exports has a somewhat strong impact as compared to imports, which narrowed down the trade deficit in goods and services by 16.3 percent on MoM basis and 59.9 percent on YoY basis in May 2023. Improved behavior in exports and moderate imports implies further improvement in the balance of trade in goods and services in the month of June. Remittances decreased by 4.3 percent on MoM basis and 10.4 percent on YoY basis. On the other hand, some improvement has been observed in the primary income account in the month of May. All these factors have been translated into a current account surplus of $ 255 million. For the outlook, it is expected that remittances will improve on account of Eid factor along with other primary and secondary income factors; therefore, the current account will follow its trend in the month of June 2023. 3.6 Fiscal During the first ten months of the current fiscal year, net federal revenue growth exceeded expenditure growth, thus limiting the fiscal deficit to 4.6 percent of GDP against 4.9 percent of GDP in the same period last year. Although rising markup payments put a major strain on total expenditure, non-markup spending has fallen considerably as a result of the government's effective spending control. Thus, the primary balance remained in surplus during Jul-Apr FY2023. Effective expenditure management has created substantial space for social sector spending as the expenditure under BISP has been increased by 66 percent. The government is striving hard to curtail non-essential spending through austerity measures. On the revenue side, despite the slowdown in economic activity and an import contraction policy, tax collection grew by 16.1 percent during Jul-May FY2023 on the back of various administrative and policy measures. The government is highly committed to continuing the fiscal consolidation through effective expenditure management and domestic resource mobilization despite unprecedented challenges both at the domestic and external fronts. These measures will pay off in better fiscal outcomes towards the end of FY2023. 3.7 Final Remarks The outgoing fiscal year has faced unprecedented challenges. Despite this, the first eleven months of CFY have observed improvement on external and fiscal fronts. Further, the economy has shown signs of resilience, stabilization, and some recovery in response to decisive and timely economic policies. For the next FY, the government has announced budget 2023-24 with a focus on business and consumer-friendly economic policies, aiming at economic recovery, price stabilization, fiscal and external sector sustainability. However, the economy is facing some downside risks, which require the continuation of prudent fiscal and external sector policies for an inclusive growth path in the coming years. JUNE 2023 9 \fECONOMIC INDICATORS 27 June, 2023 Remi ances ($ bn) Exports FOB ($ bn) Imports FOB ($ bn) Current Account Deï¬\u0081cit ($ bn) Source: SBP FDI ($ mn) Total Foreign Investment ($ mn) Source: FBR & Budget Wing FBR Revenue (Rs.bn) Non-Tax Revenue (Rs.bn) Jul-Apr Jul-Apr Source: SBP PSDP (Rs.bn) Jul-Apr Jul-Apr Agriculture Credit (Provisional) PSX Index 23-Jun-2023 1-Jul-2022 Market Capitaliza on (Rs. bn) 23-Jun-2023 1-Jul-2022 Market Capitaliza on ($ bn) 23-Jun-2023 1-Jul-2022 \* : Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX & SECP JUNE 2023 10 \f"

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[1] "Rs Monthly ECONOMIC UPDATE & OUTLOOK March 2023 Government of Pakistan Finance Division Economic Adviserâ€™s Wing Contents Executive Summary 1 International Performance and Outlook 1 Monthly Performance of Pakistanâ€™s Economy 3 Economic Outlook 8 Economic Indicators 11 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Execu ve Summary A lthough the world stands on the edge of slow growth along with high inï¬‚ation but energy and food prices are substantially lower than what they were at their peaks. Data released by the Food and Agriculture Organization of the United Nations revealed eleven straight monthly price decline which pushed food prices down by 19 percent from a peak last March. However, new export restrictions from some countries could soar prices again. Furthermore, oil prices are ï¬‚uctuating somehow after Brent oil prices dipped below 72 dollar per barrel amid ongoing quivers in ï¬\u0081nancial markets. For Rabi season 2022-23, the harvest of wheat crop has been started in Sindh while it is going to be harvested in Punjab by the end of March. Government has increased the wheat support price from Rs 2,200 to Rs 3,900 per 40 kg for Rabi 2022-23 to incentivize the farmers. LSM performance remained under pressure and witnessed a contraction of 4.4 percent during Jul-Jan FY2023 owing to increasingly synchronized policy stance to correct the imbalances, supply chain disruptions and recessionary global pressure. CPI inï¬‚ation during Jul-Feb FY 2022-23 recorded at 26.2 percent compared to 10.5 percent during the same period last year. The ï¬\u0081scal deï¬\u0081cit during ï¬\u0081rst seven month of current ï¬\u0081scal year has been contained to 2.3 percent of GDP against 2.8 percent of GDP last year. The primary balance has posted a surplus of Rs. 945 billion during Jul-Jan FY2023 against the deï¬\u0081cit of Rs 210 billion last year. Total expenditures grew by 10 percent, largely driven by expenditures on markup payments which grew 73 percent due to higher servicing on domestic and foreign debts. The net provisional tax collection grew by 18.2 percent to Rs 4,493.3 billion during Jul-Feb FY2023 against Rs 3,802.1 billion in the comparable period of last year. The ï¬\u0081scal consolidation e orts have been reï¬‚ected in attaining surplus in primary balance and containing ï¬\u0081scal deï¬\u0081cit despite exponential increase in borrowing cost. st rd Further, during 1 July â€“ 03 March, FY23 money supply (M2) showed meager growth of 1.9 percent. The current account deï¬\u0081cit shrank to USD 74 million in February 2023 as against USD 230 million in the previous month. The Current Account posted a deï¬\u0081cit of USD 3.9 billion for Jul-Jan FY2023 as against a deï¬\u0081cit of USD 12.1 billion last year decline by 68 percent which signiï¬\u0081cantly reduced the external ï¬\u0081nancing requirement. Interna onal Performance and Outlook Global growth prospects at the end of ï¬\u0081rst quarter of 2023 have improved since December, 2022. This improvement is due to China's reopening, a material easing of the European natural gas crisis and resilience in US consumer demand. Since start of the Russia-Ukraine conï¬‚ict, this is the ï¬\u0081rst upward world growth forecast. Fitch forecast world growth at 2.0% in 2023, revised up from 1.4% in the December 2022. This was mainly due to China's 2023 growth forecast to 5.2% from 4.1%, eurozone growth to 0.8% from 0.2% and US growth to 1.0% from 0.2%. However, lowered global growth in 2024 would reï¬‚ect the lagged impact of rapid Fed and ECB interest rate hikes. The European gas crisis has eased sharply in recent months with gas supply holding up, inventories improving relative to seasonal norms and wholesale prices are falling signiï¬\u0081cantly. This is helping Eurozone growth prospects and easing MARCH 2023 1 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K headline inï¬‚ation pressures. Fig-1: Growth in WEI Chinese authorities this month announced a growth target of around 5%. China's retail sales growth for the ï¬\u0081rst two months reported of the year matched expectations, while real estate investment fell further. Industrial production for the January-February period rose by 2.4%, less than the 2.6% forecasts. Exports, a major driver of China's economy, have slowed sharply. Demand from major trading partners such as the U.S. has fallen as those economies face surging inï¬‚ation and slower growth. US Department of Commerce reported the estimate for 2022's fourth quarter real GDP annual growth rate as 2.7 percent, which is somewhat weaker than the third quarter's 3.2 percent. The economic activity hit hard by high interest rates and weak housing activity. Some comfort observed in inï¬‚ation pressure. The fourth quarter GDP price index increased at an annual rate of 3.2 percent compared the third quarter's 4.8 percent and the second quarter's 7.3 percent. Surprisingly, given the Fed's interest rate run-up, 517,000 workers were added to US payrolls in January; the average for 2022 was 401,000. The US economy proved resilient to start the new year, marked by steady consumer spending and stabilizing manufacturing activity. However, the outlook going forward is less optimistic, amid heightened uncertainty, surveys did not expect economic conditions to improve much in the months ahead, Fed Beige Book reports anecdotal information collected by the Fed's 12 regional banks during February. US economic situation is observing low optimism which is also reï¬‚ected through continuous declining trend in WEI during February (Fig-1). The J.P.Morgan Global Composite Output Index increased to 52.1 in February2023, from 49.7 in January 2023, on account of increase in global output and new orders after seven 4.61 0.76 Source: Federal Reserve Bank of New-York months in February, 2023. The upturn in output was led by the services sector reinforced by the ï¬\u0081rst expansion of manufacturing production since last July. The major growth was registered in Asia as China and Japan both returned to expansions for the second successive month. The reviving performance of the global economy also breathed life into the trends in business conï¬\u0081dence and job creation. Positive sentiment rose to its highest level in a year, improving at both manufacturers and service providers. The February PMIs provide a convincing signal that the global expansion is gathering steam early in the year. The global composite output PMI rose by 2.4 points to an eight-month high of 52.1 in February, consistent with global GDP growing at its potential pace. With reduced recession risks, improving supply chains, and the reopening of the Chinese economy is likely to boost demand in the immediate future, further gains in output are expected in the coming months. The composite leading indicator (CLI) is designed to provide early signals of turning points in business cycles showing ï¬‚uctuation of the economic activity around its long-term potential level. 1 The CLI s continued slowing growth in 1: OECD has discontinued data for euro area (EA), and revised to individual countries. Germany, France & Italy data has been incorporated instead of EA, to analyze the cyclical behavior of Pakistan's main trading partners. MARCH 2023 2 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Fig-2: Composite Leading Indicator (a) international prices of vegetable oils, dairy, cereals and meat, o setting a steep rise in the sugar price index. Global commodity prices declined in February 2023. Energy prices fell by 7.3 percent, led by coal (34.8 percent) and natural gas in US (27.2 percent). Food and Beverages prices increased by 1.0 and 5.2 percent, respectively. Raw Material eased by 0.9 percent, Fertilizer price prices fell by 5.6 percent, Metals and minerals dropped by 1.7 percent while precious metals fell 3.1 percent. Source: OECD Fig-3: Composite Leading Indicator (b) Monthly Performance of Pakistan's Economy 2.1 Real Sector 2.1-a Agriculture Source: OECD February 2023 in OECD and major economies, dragged down by high inï¬‚ation, rising interest rates and failing share prices, remain below trend and continue to anticipate growth losing momentum in the US, the UK and Canada, as well as in the Euro area as a whole, including Germany, France and Italy. The CLI for China (industrial sector) shows stabilization driven by production of motor vehicles and share prices. The FAO food prices index (FFPI) averaged 129.8 points in February 2023, marginally down 0.6 points from January, marking the eleventh consecutive monthly declines. The decrease in the index in February was mainly due to sharp decline in For Rabi season 2022-23, the harvest of wheat crop has been started in Sindh while it is going to be harvested in Punjab by the end of March. The kisan package is expected to bode up the crop productivity in the aftermath of ï¬‚ood damages. However, the climatic changes will play a critical role in achieving the target. More importantly, government has increased the wheat support price from Rs 2,200 to Rs 3,900 per 40 kg to incentivize the farmers. During Jul-Feb FY2023, the agriculture credit disbursement increased by 28.5 percent to Rs 1073.5 billion from Rs 835.3 billion during same period last year. During Rabi 2022-23 (February 2023), urea and DAP o -take stood at 503 thousand tonnes (4.6 percent lesser than February 2022) and 98 thousand tonnes (76.3 percent higher than February 2022). 2.1-b Manufacturing LSM performance remained under pressure and witnessed a contraction of 4.4 percent during Jul-Jan FY2023 owing to increasingly synchronized policy MARCH 2023 3 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Fig-4: Performance of LSM stance to correct the imbalances, supply chain disruptions and recessionary global pressure. On a YoY basis, LSM declined by 7.9 percent in January 2023, while it grew by 1.5 percent over the previous month. During the period, 4 sectors witnessed positive growth which includes, Wearing apparel, Leather Products, Furniture, and others. The performance of auto-industry also remains subdued due to massive increases in inputs prices, tightening auto ï¬\u0081nance, and import restrictions. During Jul-Feb FY2023, car production and sale decreased by 43.14 percent and 47.5 percent, respectively, Trucks & Buses production and sale decreased by 31.2 percent and 29.9 percent. Total cement dispatches declined by 16.7 percent during Jul-Feb FY2023 to 29.81 mn tons (35.76 mn tons last year). In February 2023, cement dispatches decreased by 7.1 percent to 4.04 mn tons (4.35 mn tons in Feb 2022). The sale of petroleum products declined by 19 percent in Jul-Feb FY2023 to 11.7 mn tons from 14.5 mn tons in the same period last year. YoY, oil sales decreased by 21 percent in Feb 2023 to 1.2 mn tons (1.5 mn tons in Feb 2022). 2.2 Inï¬‚ation CPI inï¬‚ation in February, 2023 recorded at 31.5 percent (YoY) compared to 27.6 percent in the previous month. On month on month basis, it has increased to 4.3 percent in February as compared to an increase of 2.9 percent in the previous month. In February, the major increase witnessed in the Transport 50.5 percent, Alcoholic beverages and tobacco 49.2 percent, Recreation and culture 48.1 percent, Perishable food items 47.6 percent, Non-perishable food items 44.7 percent, Restaurants and hotels 34.5 percent, Furnishing and household equipment maintenance 34.0 percent, Miscellaneous goods and services 33.3 percent, Health 18.8 percent, Clothing and footwear 17.0 percent, Housing and utilities 13.6 percent, Education 10.8 percent and Communication 3.7 percent. The average CPI in the ï¬\u0081rst eight months of the current ï¬\u0081scal year remained 26.2 percent compared to 10.5 percent during the same period of last year. The SPI for the week ended on 22nd March 2023, recorded an increase of 1.80 percent as compared to previous week. Prices of 12 items declined, 13 items remained stable and 26 items increased. RAMZAN PACKAGE Government is cognizant of the current inï¬‚ationary spiral in the country and taking every possible measure to provide relief to the common masses. amounting Rs. 5.0 billion has recently been announced for Utility Store Corporations (USCs) where the essential items shall be provided on subsidised rates. The Ramzan Relief Packages is being launched by USC every year since 1991. Under this package, USC also reduces the prices of essential food and non-food items of di erent brands from 5% to MARCH 2023 4 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K 10% by obtaining special discount from the vendors/suppliers and cutting down USC's own proï¬\u0081t margin so as to provide relief to consumers. Following 19 items are being provided under this Package: Atta, Sugar, Ghee, Dal Chana, Dar Masoor, White Gram, Rice Basmati, Rice Sella, Broken Rice, Cooking Oil, Dal Moong, Dal Mash, Baisen, Khajoor, Beverages, Squashes, Black Tea, Milk, Spices The Ramzan Relief Package is based on Hybrid Subsidy Model (Targeted Rs.1,153 million + General Rs.3,844 million). Under this package USC will provide 10 additional items beyond Prime Minister Relief package. PM has announced a Ramzan package providing to the inï¬‚ation-hit people. The package is ï¬\u0081rst of its kind aimed at facilitating the poor population. Government of Punjab has allocated Rs. 64 billion whereby 15.8 million household falling in the poverty would be provided 3 free ï¬‚our bags of 10 kg each. Govt of KP has announced Rs. 19.7 billion to provide 3 wheat ï¬‚our bags of 10 kg amongst its 5.8 million households registered with BISP and govt of Balochistan will distribute 0.5 million ï¬‚our bags of 20 kg. However, govt of Sindh has announced Rs. 15.6 billion to provide Rs. 2000 to purchase wheat ï¬‚our by its 7.8 million families registered with BISP. billion (-0.3 percent of GDP) last year. The improvement in ï¬\u0081scal indicators have been realized on account of signiï¬\u0081cant rise in net federal revenues that outpaced the growth in total expenditure. During Jul-Jan FY2023, net federal revenues increased by 30 percent to reach Rs 2798 billion against Rs 2152 billion in the same period of last year. On the other hand, total expenditures grew by only 10 percent to Rs 5058 billion during Jul-Jan FY2023 as compared to Rs 4592 billion last year. Expenditures on markup payments grew by 73 percent due to higher servicing on domestic and foreign debt as a result of higher interest rates. On the other hand, non-markup expenditures reduced by 26 percent owing to signiï¬\u0081cant decline in subsidies and grants. FBR Tax Collection The net provisional tax collection grew by 18.2 percent to Rs 4493.3 billion during Jul-Feb FY2023 against Rs 3802.1 billion in the comparable period of last year. FBR collected Rs 527.2 billion in February 2023, up from Rs 451.3 billion in February previous year, representing a 16.8 percent increase. Fig-5: FBR Tax Collection (Rs. bn) (Jul-Feb) 2.3 Fiscal The ï¬\u0081scal deï¬\u0081cit during ï¬\u0081rst seven month of current ï¬\u0081scal year has been contained to 2.3 percent of GDP (Rs.1974 billion) against 2.8 percent of GDP (Rs 1898 billion) last year. While the primary balance has posted a surplus of Rs 945 billion (1.1 percent of GDP) during JulJan FY2023 against the deï¬\u0081cit of Rs 210 Source: FBR During Jul-Feb FY2023, domestic tax collection grew by 22 percent while customs duty increased by 0.8 percent. This performance reï¬‚ects governments' MARCH 2023 5 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K e orts to lessen their reliance on import duties and taxes. Direct tax collection has witnessed a substantial increase with growth of 48 percent while the indirect tax collection grew by 2.1 percent during Jul-Feb FY2023.The government's strategy of making taxation progressive and equitable by shifting the tax burden to society's wealthiest and a uent groups has resulted in a robust pace of development in direct tax collection. 2.4 Monetary Monetary Policy Committee (MPC) increased the policy rate by 300 basis points to 20 percent in last Monetary Policy decision held on 02nd March, 2023. The decision is based on higher inï¬‚ation outcome due to external and ï¬\u0081scal adjustments. During 1st July â€“ 03rd March, FY2023 money supply (M2) shows growth of 1.9 percent (Rs. 530.1 billion) compared to growth of 1.2 percent (Rs. 293.6 billion) in last year. Within M2, NFA decreased by Rs 2083.2 billion as compared to decrease of Rs 370.7 billion in last year while NDA of the banking sector increased by Rs. 2613.2 billion as compared to an increase of Rs. 664.3 billion last year. 2.5 External Sector The Current Account posted a deï¬\u0081cit of $ 3.9 billion for Jul-Feb FY2023 as against a deï¬\u0081cit of $ 12.1 billion last year, mainly due to contraction in imports. However, the current account deï¬\u0081cit shrank to $ 74 million in February 2023 as against $ 230 million in January, largely reï¬‚ecting an improvement in trade balance. Exports (FOB) declined by 9.7 percent during Jul-Feb FY2023 and reached $ 18.6 billion ($ 20.6 billion last year). Imports (FOB) declined by 21.0 percent during Jul-Feb FY2023 and reached $ 37.4 billion ($ 47.3 billion last year). Resultantly the trade deï¬\u0081cit (Jul-Feb FY2023) reached to $ 18.7 billion as against $ 26.7 billion last year. Exports in Services during Jul-Feb FY2023 increased by 6.5 percent to $4.7 billion as against $ 4.4 billion. The imports in services decreased by 33.0 percent to $ 5.1 billion as compared to $ 7.6 billion same period last year. The Trade deï¬\u0081cit in services contained by 89.2 percent to $0.3 billion as against $ 3.1 billion same period last year. As per PBS, during Jul-Feb FY 2023, exports stood at $ 18.7 billion ($ 20.6 billion last year), declined by 9.2 percent. The major export commodities which have shown tremendous performance during the review period include Raw Cotton (268.3 percent in quantity & 86.8 percent in value), Fish & Fish Preparation (26.1 percent in quantity & 12.1 percent in Value), Foot Balls (37.7 percent in quantity & 35.7 percent in value), Foot wear (37.8 percent in quantity & 20.0 percent in Value), Surgical goods & Medical Instruments (8.2 percent in Value) and pharmaceutical products (109.1 percent in quantity & 30.4 percent in value). The total imports in Jul-Feb FY2023 decreased to $ 40.1 billion ($ 52.4 billion last year), thus declined by 23.5 percent. Main commodities imported were Petroleum products ($5352.5 million), Medicinal products ($ 944.3 million), Petroleum crude ($ 3483.6 million), Liqueï¬\u0081ed Natural gas ($ 2550.8 billion), Palm Oil ($ 2681.1 million), Plastic materials ($ 1620.7 million) and Iron & Steel ($ 1373.5 million). 2.5.1 Foreign Investment FDI reached $ 784.4 million during JulFeb FY2023 ($ 1315.5 million last year) decreased by 40.4 percent. FDI received from China $ 222.8 million (25.5 percent), Japan $ 133.9 million (17.1 percent), Switzerland $ 123.0 million (13.6 percent of total FDI), and U.A.E $ 88.7 million (10.6 percent). Power sector attracted highest FDI of $ 346.7 million (40.2 percent of total FDI), Financial Business $ 251.7 million (28.6 percent), and Oil & Gas Explorations $ 106.0 million (12.5 percent). MARCH 2023 6 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Foreign Private Portfolio Investment has registered a net outï¬‚ow of $ 8.4 million during Jul-Feb FY2023. Foreign Public Portfolio Investment recorded a net outï¬‚ow of $ 1010.9 million, on account of Sukuk repayment in December 2022. The total foreign portfolio investment recorded an outï¬‚ow of $ 1019.3 million during Jul-Feb FY2023 as against inï¬‚ow of 590.3 million last year. Total foreign investment during Jul-Feb FY2023 recorded an outï¬‚ow of $234.9 million as against an inï¬‚ow of $ 1905.8 million last year. Fig-6: Major World Indices 2.5.2 Worker's Remittances In Jul-Feb FY2023, workers' remittances recorded at $ 18.0 billion ($ 20.2 billion last year), decreased by 10.8 percent. MoM basis, remittances increased by 4.9 percent in February 2023 ($ 1.98 billion) as compared to January 2023 ($ 1.89 billion). Share of remittances (Jul-Feb FY2023) from Saudi Arabia remained 25.5 percent ($4346.6 million), U.A.E 18.7 percent ($ 3197.6 million), U.K 13.8 percent ($ 2631.2 million), USA 9.5 percent ($ 1972.6 million), other GCC countries 11.5 percent ($2119.5 million), EU 11.0 percent ($ 2035.9 million), Malaysia 0.4 percent ($ 74.8 million), and Other Countries 8.9 percent ($1616.1 million). 2.5.3 Foreign Exchange Reserves Pakistan's total liquid foreign exchange reserves increased to $ 9.671 billion on March 29, 2023, with the SBP's reserves now stood at $ 4.076 billion. Commercial banks' reserves remained at $ 5.595 billion. 2.6 Performance of KSE Index The KSE-100 index closed at 40,510 points as on 28th Feb 2023, while market capitalization settled at Rs 6,273 billion. The performance of major world indices is depicted in Fig-6: 2.7 Social Sector Â§ The government has allocated an amount of PKR 78 billion for the next installment of the Benazir Kafalat Source: PSX, Investing.com program while the annual budget for the Kafalat program is Rs 252 billion. Â§ BISP registers over 0.4 million households in the recently launched dynamic National Socio-Economic Registry (NSER) survey through its registration centers at Tehsil level from ï¬‚ood a ected districts. Â§ The dynamic NSER survey will enhance the country's capacity to cope with disasters, pandemics and economic instability by adopting a more e ective data collection mechanism for the poor households which shall be validated through NADRA. Â§ PPAF through its 24 Partner Organizations has disbursed 39,035 interest free loans amounting to Rs 1.61 billion during the month of February, 2023. Since inception of interest free loan component, a total of 2,264,011 interest free loans amounting to Rs 83.55 billion have been disbursed to the borrowers. Â§ Bureau of Emigration & Overseas Employment has registered 67219 emigrants during February, 2023 for overseas employment in di erent countries. Â§ According to the NIH data, the death toll in the country remained the same at 30,645 whereas the number of total MARCH 2023 7 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Economic Outlook 3.1 Inï¬‚ation Inï¬‚ation is expected to stay at elevated level owing to market frictions caused by relative demand and supply gap of essential items, exchange rate depreciation and recent upward adjustment of administered prices of petrol and Diesel. Due to the lagged e ect of ï¬‚oods, the production losses especially of major agriculture crops has not yet been fully recovered. Consequently, the shortage of essential items has emerged and persisted. Inï¬‚ation may further jack up as a result of second round e ect. Another potential reason of rising price level is the political and economic uncertainty. The economic distress resulting from delay of stabilization program has exacerbated the economic uncertainty due to which inï¬‚ationary expectations have remained strong. Despite SBP's contractionary monetary policy the inï¬‚ationary expectations are not settling down. Moreover, the bulk buying during the month of Ramadan may cause demand supply gap and result into prices of essential items to escalate. However, the government is well cognizant of this and have already taken on board all provincial governments to ensure smooth supply of essential items. Inï¬‚ation in March may remain in upper bound as observed in the month of February. Recent monetary policy restrictions and e orts towards ï¬\u0081scal consolidation along with the administrative, policy and relief measures are expected to ease out the inï¬‚ationary pressure by the end of the current ï¬\u0081scal year. 3.2 Agriculture Wheat production largely depends on the prevailing climatic conditions. As witnessed last year, delay in rains and early heat waves are expected to adversely impact the wheat production. According to Pakistan Met O ce the country might witness di erent spells of heatwaves within upcoming months of April and May, 2023. 3.3 Industrial Activities LSM's cyclical pattern is well positively correlated with the cyclical position of Pakistan's main trading partners. In January, LSM activity came in marginally below expectations. Although the CLI in Pakistan's main export areas remains below its neutral level, some stabilization in its current cyclical condition seems to appear in recent months. This may bode well for domestic industrial production. But current monetary restriction and ï¬\u0081scal consolidation, both required to bring external and internal balance may cause further short run pain to the domestic economy, which also translates into domestic industrial production below its neutral capacity level. YoY growth of LSM is expected to remain negative in February while MoM LSM is expected to remain positive. Fig-7: Relationship between CLI and LSM cycle Jan-23 infections now shot up to 1,578,155 after adding the fresh 109 cases on March 19, 2023. Source: PBS, OECD and EAW Calcula ons Overall economic activity The Monthly Economic Indicator (MEI) is MARCH 2023 8 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K developed as a tool to distribute the past annual GDP numbers, as reported by the PBS, on a monthly/quarterly basis and to nowcast on that same frequency GDP growth for the FY in which the National Accounts are not yet available. Fig-8 presents the MEI on monthly basis since January 2019. It should be noted that some of the data underlying the February MEI are still provisional and may be revised next month. The average MEI during the ï¬\u0081rst 8 months of the current FY is indicating a further slowdown in domestic economic activities. This seems to be driven by lack of industrial dynamism, accelerating inï¬‚ation, which erodes purchasing power of consumers and investors and is also illustrated by negative growth in exports and imports. Fig-8: Monthly Economic Indicator (MEI) 17.25 contain and decreased by 24.2 percent on YoY basis. Remittances increased by 5.0 percent on MoM basis to $2.0 billion in February 2023 as compared $1.9 billion in January 2023, due to improved situation after narrowing down di erences between the inter-bank and open markets, subsequent allowing adjustments of the exchange rate. Other factor which contributes mainly in current account improvement for the month of February, is balance on primary income which contained by $200 million. Accordingly, current account deï¬\u0081cit contained to $74 million as compared $ 230 million in January 2023. For the month of March, it is expected that exports and imports will remain at current level due to slow growth in the major trading partners and contained domestic economic activities. However, remittances will probably further improve due to positive seasonal and Ramzan factor. Taking these factors into account, as well as other components, the current account deï¬\u0081cit likely to remain on lower side. 3.6 Fiscal -9.03 Source: EA Wingâ€™s Calculation 3.5 External According to BOP data, the trade deï¬\u0081cit in goods and services declined signiï¬\u0081cantly by 30.8 percent on YoY basis; from $2.6 bn in Feb 2022 to $1.8 bn in Feb 2023. However, on MoM basis, it increased marginally to $1.8 bn compared $1.7 bn in Jan. Exports of goods and services decreased marginally on MoM basis to $2.77 bn as compared $ 2.8 bn in Jan. on YoY basis, it declined by 19.2 percent. Imports of goods and services has continued to Presently, the government is pursuing ï¬\u0081scal consolidation in order to reduce the overall ï¬\u0081scal deï¬\u0081cit through a combination of expenditure management and revenue increase. These measures are paying o in the form of improved ï¬\u0081scal accounts. The ï¬\u0081scal deï¬\u0081cit has been reduced to 2.3 percent of GDP during Jul-Jan FY2023, down from 2.8 percent of GDP in the same period previous year, while the primary balance is in surplus due to signiï¬\u0081cant decline in non-markup expenditures. On revenue side, FBR tax collection currently growing at 18 percent despite unprecedented challenges due to slowdown in economic activity and import compression. However, the current performance indicates the resolve of the government to optimize the revenue collection and to achieve the full year target. MARCH 2023 9 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K The ï¬\u0081scal consolidation is at the top of government's stabilization agenda in order to tackle sizeable ï¬\u0081scal deï¬\u0081cit. With prudent expenditure management and e ective resource mobilization strategy, it is expected that FY2023 will observe a substantial reduction in overall ï¬\u0081scal deï¬\u0081cit as a percent of GDP. 3.7 Final Remarks Despite challenges and uncertainties, economy is showing continuous signs of resilience as depicted through contained ï¬\u0081scal and current account deï¬\u0081cit during the current FY. Furthermore, Pakistan is currently confronted with a shortage in external liquidity. Through demand management policies, government is trying to limit the current account deï¬\u0081cit, which will not transfer further pressure on dwindling reserves. Moreover, the Government is ï¬\u0081rmly inclined to successfully complete the IMF's EFF program, which includes necessary policy measures and will bring additional relief to the ï¬\u0081nancial account of the balance of payments. The policy measures are intended to bring expenditures more in line with the income generated within the country. At ï¬\u0081scal front, Government is pursuing ï¬\u0081scal consolidation in order to reduce the overall ï¬\u0081scal deï¬\u0081cit through expenditure management, austerity measures, and revenue mobilization. MARCH 2023 10 \fECONOMIC INDICATORS 31 March, 2023 Remi ances ($ bn) Exports FOB ($ bn) Imports FOB ($ bn) Current Account Deï¬\u0081cit ($ bn) Source: SBP FDI ($ mn) Total Foreign Investment ($ mn) Source: FBR & Budget Wing FBR Revenue (Rs.bn) Non-Tax Revenue (Rs.bn) Source: SBP PSDP (Rs.bn) Agriculture Credit (Provisional) Jul-Feb (Jul-Feb) (Jul-Feb) PSX Index 29-Mar-2023 1-Jul-2022 Market Capitaliza on (Rs. bn) 29-Mar-2023 1-Jul-2022 Market Capitaliza on ($ bn) 29-Mar-2023 1-Jul-2022 \* : Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX & SECP MARCH 2023 11 \f"

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[1] "RS MONTHLY ECONOMIC UPDATE & OUTLOOK NOVEMBER 2023 GOVERNMENT OF PAKISTAN - FINANCE DIVISION - ECONOMIC ADVISERâ€™S WING \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Contents 01 Executive Summary 02 International Performance and Outlook 04 Performance of Pakistan's Economy 07 Economic Outlook 11 Economic Indicators Executive Summary P akistan's economy is on a gradual but promising path to recovery. The stride of economic revival initiatives is driving a surge in economic activity. Positive economic signals and recovery indicators have triggered the market sentiment, propelling the KSE-100 index of PSX by 33% in November, surpassing the 58199-point mark for the first time in history. The sustained monetary policy stance and successful IMF staff review in Novemberdrove the market confidence. Owing to reforms in exchange companies and a reduction in -illicit transactions, the exchange rate remains stable thus exerting a positive impact on overall economic activity. The Large-Scale Manufacturing (LSM) sector demonstrated a positive trend for the second consecutive month while posting a growth of 1.0 percent in September 2023. After several months of decline, the industry has been on the path of recovery since August 2023. The stability in the exchange rate, ease in supply disruptions due to the removal of import restrictions, and improved dollar liquidity contributed to this economic upswing. In the agriculture sector, the input situation shows positive signs. The farm tractor production and sales witnessed growth of 55.1 percent (17,098) and 86.8 percent (17,296), respectively during Jul-Oct FY2024 over the corresponding period last year. During October 2023 the 6.8 percent growth in urea and 122 percent in DAP offtake compared to October 2022, indicating a positive growth in Rabi crops. On the fiscal front, healthy growth in revenues outpaced the growth in expenditure during the first quarter of FY2024. Both tax and non-tax collection attributed to a significant rise in total revenues, however, a substantial increase in non-tax collection on the back of higher receipts from petroleum levy remained the major source of the increase. Thus, with healthy growth in revenues relative to expenditures, the fiscal deficit reduced to 0.9 percent of GDP in Jul-Sep FY2024 from 1.0 percent of GDP last year. Primary balances continued to be in surplus and improved to Rs.416.8 billion (0.4 percent of GDP) in Q1 FY2024 from Rs.134.7 billion (0.2 percent of GDP) last year. The headline inflation sustained at 26.9 percent on YoY basis in October 2023 as compared to 26.6 percent in October 2022. The major drivers include Food and nonalcoholic beverages, Housing, water, electricity, gas & fuel, Transport, and Furnishing & household equipment maintenance. However. keeping in view the crop cycle of perishables, the supply pressures are expected to be relieved from the end of November and onwards. Moreover, the reduction of fuel prices by the government would help further easing out inflationary pressures. On the external front, in Jul-Oct FY2024, the Current Account marked a deficit of $ 1.05 billion as against a deficit of $ 3.1 billion last year, largely reflecting an improvement in the trade balance. YoY Exports increased by 21.1 percent to $ 2.8 billion in October 2023 as compared to $ 2.3 billion in September 2023, owing to ease in import restrictions resulted in a smooth supply of raw material for exportoriented industries. FDI reached $ 524.7 NOVEMBER - 2023 1 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K million during Jul-Oct FY2024 ($ 489.9 million last year) increased by 7.1 percent mainly on account of Chinese investment. MoM, remittances increased by 11.5 percent in October 2023 ($ 2.5 billion) as compared to September 2023 ($ 2.2 billion), and YoY it grew by 9.1 percent because of structural reforms related to FX market and convergence of exchange rate in interbank and open markets. The government expects remittances to recover in Oct 2023, as spreads between the interbank and open market have reduced below 1 percent. However, global inflation has impacted the disposable incomes of overseas workers, resulting slowdown across the board, particularly Bangladesh, India, and the Philippines. The monetary policy rate was maintained at 22 percent, owing to the significant performance of high-frequency indicators and improved inflation outlook. Overall, positive economic signals and recovery indicators steering the improvement in the GDP outlook for the fiscal year. International Performance and Outlook Global GDP has been observed at an annualized pace of 3.2 percent in the first half of 2023 compared to the second half of 2022, somewhat stronger than expected. Growth was comparatively robust in the US and Japan, but weak in most of Europe, particularly Germany. Growth in China has however lost momentum, with the initial impetus from reopening fading and structural problems in the property sector continuing to weigh on domestic demand. Contrary to global output, trade volumes have risen more slowly than expected in the first half of this year, with trade intensity declining. Services trade has held up better, helped by tourism continuing to rebound strongly from the steep drop during pandemic. High-frequency activity indicators across the largest economies present a mixed picture, but on balance signal a loss of momentum in the second half of 2023. Labor markets generally remain tight, with unemployment rates at or near multi-year low level. During the second half of 2023, declines in headline inflation are now helping to improve household real disposable incomes, but real wage losses over the past two years and tighter financial conditions continue to restrain consumer spending in most advanced economies, with the US a notable exception. Industrial production has continued to stagnate in many economies, despite some signs of an upturn in techrelated activity. The impact of tighter monetary policy is becoming increasingly visible, business and consumer confidence have turned down, and the rebound in China has faded. However, in the near term, government's fiscal expansion should help the country achieve its 5.0 percent growth target for 2023. Global GDP growth is projected to remain sub-par in 2023 and 2024, at 3.0 percent and 2.7 percent respectively, held back by the macroeconomic policy tightening needed to rein in inflation. US economic indicators are showing challenges and uncertainties, as manufacturing activity is contracting, interest costs are rising rapidly and job creation is slowing. The employment report for October shows 150,000 jobs were created, but 101,000 were removed from prior months. The growth in the labour force pushed the unemployment rate up to 3.9 percent. The level is still low, but higher readings could indicate the onset of a recession. The Federal Open Market Committee (FOMC) held the Fed's benchmark overnight interest rate in the current 5.25%5.50% range during a decision held on November 01, 2023. The Chair emphasized that â€œdeliberations were focused solely on whether more rate hikes are ahead, but markets interpreted the NOVEMBER - 2023 2 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K message as saying the hiking cycle is complete. So long as inflation does not reignite and expect no further rate increases, but no cuts until the second half of 2024â€\u009d. The situation is also reflected by growth in WEI which is moving around 2.0 percent in recent months-hovering around its target of 2.2 percent (Fig-1). The J. P. Morgan Global Composite Output Index decreased to 50.0 in October 2023, the lowest reading since January. Manufacturing output decreased for the fifth successive month in October, as ongoing downturns at intermediate and investment goods more than offset further growth in the consumer goods category. The rate of expansion in the service sector also slowed for the fifth month in October. Fig-1: Growth in WEI (%) 2.11 2.07 Source: Federal Reserve Bank of New York Fig-2 (a): Composite Leading Indicator Europe remains on the precipice of recession as the manufacturing-driven economies led by Germany struggle with waning domestic goods demand, higher energy prices, and weaker growth among some of their key Asian trading partners. Continued services expansion has helped to avoid recession but that growth is expected to slow over the coming quarters. The monthly cyclical position of Pakistan's main export markets is also reflected through CLI, of which US and Euro Area economies are below their potential level in the month of October-2023 (Fig-2). The FAO food prices index (FFPI) averaged 120.6 points in October 2023, down by 0.7 points from September. The decline in October was driven by a significant decrease in the price indices for sugar, cereals, vegetable oils, and meat, while the index for dairy products rebounded. Source: OECD Fig-2 (b): Composite Leading Indicator Global commodity prices plummeted in October 2023. Energy prices eased by 1.8 percent, led by coal (12.5 percent) and oil (3.4 percent). Non-energy prices declined by 1.6 percent. Food prices decreased by 1.7 percent. Beverage and raw materials eased by 0.8 percent and 1.1 percent, respectively. Fertilizer prices soared 2.7 percent. Metal price declined by 2.7 percent and precious metal dropped by 0.5 percent. Source: OECD NOVEMBER - 2023 3 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Rs Performance of Pakistanâ€™s Economy Fig-3: LSM Growth Rates (%) Jul-Sep 2.1 Real Sector 2.1-a Agriculture For the current Rabi season 2023-24, wheat crop sowing is in progress to achieve the area target of 8.998 million hectares for 32.12 million tonnes of production. The input situation shows positive signs. The farm tractor production and sales witnessed growth of 55.1 percent (17,098) and 86.8 percent (17,296), respectively during JulOct FY2024 over the corresponding period last year. During Jul-Oct FY2024, the agriculture credit disbursement reached to at Rs 681.6 billion as compared to Rs 507.8 billion last year, an increase of 34.2 percent. During Rabi 2023-24 (October 2023), urea and DAP offtake stood at 459 thousand tonnes (6.8 percent higher than October 2022) and 159 thousand tonnes (122 percent higher than October 2022), respectively. DAP offtake seems extraordinarily high due to record low offtake in October 2022 because of the occurrence of floods. 2.1-b Manufacturing Large Scale Manufacturing (LSM) grew by 0.7 percent during Jul-Sep FY 2024 against the contraction of 1.8 percent same period last year. In September2023, LSM increased by 1.0 percent on YoY basis against the contraction of 2.9 percent in the same month last year. While on a MoM basis, it declined by 3.6 percent in September against the increase of 8.5 percent in August. During Jul-Sep FY2024, 11 out of 22 sectors witnessed positive growth. The main contributors towards the positive growth include Food, Beverages, Coke & Petroleum Products, Wearing apparel, Leather, Chemicals, Pharmaceuticals, NonMetallic Mineral Products, Fabricated Source: PBS Metals, Machinery and Equipment, and others (Football). In Jul-Oct FY2024, the performance of autoindustry remains subdued due to massive increases in inputs prices, and tightening auto finance. Car production and sale decreased by 52.8 percent and 47.4 percent, while Trucks & Buses production and sale decreased by 54 percent and 45 percent. However, Tractor's production and sale increased by 55.1 percent and 86.8 percent. The sale of petroleum products slumped by 18 percent to 5.0 mn tons against 6.2 mn tons in the same period last year. While in Oct 2023, oil sales recorded at 1.3 mn tons, down 24 percent YoY. During Jul-Oct FY2024, total cement dispatches (domestic and exports) were 15.892 million tons (14.6 percent more) against 13.874 million tons during the corresponding period last year. Cement dispatches during October 2023 were registered at 4.007 million tons against 4.253 million tons dispatched during the same month of the last financial year, showing a decline of 5.8 percent. Exports dispatches however increased by massive 97.3 percent as the volumes increased from 362,350 tons in October 2022 to 715,028 tons in October 2023. Local cement dispatches by the industry during the month of October 2023 were 3.292 million tons compared to 3.890 million tons in October 2022, showing a decline of 15.4 percent. NOVEMBER - 2023 4 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K CPI inflation recorded at 26.9 percent on a YoY basis in October 2023 as compared to 26.6 percent in October 2022 whereas it increased to 31.4 percent in the previous month. During Jul-Oct FY 2024, CPI stood at 28.5 percent against 25.5 percent in the same period last year. On a Month on Month (MoM) basis, it increased to 1.1 percent in October 2023 compared to an increase of 2.0 percent in the previous month. Major drivers contributing to the YoY increase in CPI include Alcoholic Beverages & Tobacco (84.6 percent), Furnishing & Household equipment maintenance (37.1 percent), non-perishable food items (33.0 percent), Transport (31.3 percent), Housing, Water, Electricity, gas & Fuel (20.5 percent), Health (25.2 percent), Clothing & Footwear (20.6 percent) and Perishable food items (1.9 percent). The SPI for the week ended on 16th November, 2023, recorded an increase of 9.95 percent as compared to previous week. The major increase witnessed in the prices of Gas charges. Prices of 13 items declined, 13 items remained stable and 25 items increased. 2.3 Fiscal The first quarter of the current fiscal year has witnessed an improvement in fiscal deficit primarily driven by a substantial increase in total revenues in comparison to expenditures. During Jul-Sep FY2024, the fiscal deficit stood at 0.9 percent of GDP (Rs.962.8 billion) against 1.0 percent of GDP (Rs.819.3 billion) last year. The primary balance posted a surplus of Rs.416.8 billion (0.4 percent of GDP) against a surplus of Rs.134.7 billion (0.2 percent of GDP) during the period under review. Total revenues registered a notable growth of 33.2 percent, reaching Rs. 2685.8 billion from Rs. 2017.0 billion last year. Non-tax collection witnessed an impressive growth of 99.6 percent to Rs. 468.8 billion against Rs. 234.9 billion in the corresponding period last year. The substantial increase in non- Fig-4 : FBR Tax Collection (Rs Billion) Jul-Oct FY2024 Source: FBR 2.2 Inflation tax collection can be attributed to higher receipts from petroleum levy, passport fees, royalties on oil/gas, and mark-up (PSEs & others), etc. Tax collection on the other hand increased by 24.4 percent to Rs. 2216.9 billion against Rs. 1782.1 billion last year. According to the latest available data, Jul-Oct FY2024, FBR tax collection grew by 27.9 percent and stood at Rs. 2748.4 billion against Rs.2149.0 billion last year. Encouragingly, the tax collection has surpassed the target by Rs.66 billion. Domestic tax collection grew by 30.2 percent to stand at Rs.2404.7 billion in JulOct FY2024 against Rs.1847.5 billion last year. Within total tax collection, direct taxes grew by 38.4 percent while indirect taxes increased by 20.5 percent on the back of a sharp rise in revenues from FED. Total expenditure stood at Rs.3648.6 billion during the first quarter of FY2024 against Rs.2836.3 billion in the same period of last year, thus growing by 28.6 percent. Current expenditures grew by 25.0 percent to reach Rs.3172.6 billion against Rs.2538.1 billion last year. Within total current, mark-up payments experienced a substantial surge of 44.6 percent, primarily attributable to a higher policy rate. Meanwhile, the growth in non-mark-up spending remained restricted to 13.2 percent. The expenditures under the running of civil government and pensions remained the major contributor in stimulating the growth of non-mark-up spending, while expenditures on subsidies and grants to others witnessed a substantial NOVEMBER - 2023 5 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K decline during the first quarter of the current fiscal year. 2.4 Monetary Sector In monetary policy decision held on 30th October 2023, MPC has maintained the policy rate at 22 percent. The decision was based on observed significant improvement in high-frequency indicators including crop performance, revival in the LSM sector and aligned indicators, fiscal consolidation, and external sector stability. The MPS highlights that inflation will 'decline significantly in October, owing to downward adjustments in fuel prices, easing prices of some major food commodities, and a favorable base effect'. Accordingly, in October, CPI inflation clocked in at 26.9 percent on a YoY basis as compared to 31.4 percent in Sep-2023. The MPC reaffirmed its earlier assessment that inflation will decline substantially from the second half of FY2024, barring any major adverse developments. st 2,416 million as against $ 2,338 million same period last year. The imports in services increased by 19.6 percent to $ 3,263 million as compared to $ 2,729 million same period last year. The trade deficit in services stood at $ 847 million as against $391 million last year. As per PBS, the export commodities that registered positive growth include Rice (7.4% in quantity & and 30.1% in value), Fruits (43.2% in quantity & 13.5% in value), Cotton Yarn (64.2% in quantity & 42.8% in value), Raw Cotton (48.8% in quantity & 137.1% in value), Towel (20.9% in quantity & 6.7% in value) and Plastic Materials (122.9% in quantity & 28.6% in value). Whereas, main imported commodities were Petroleum products ($ 2161.8 million), Petroleum crude ($ 1486.9 million), LNG ($ 1176.7 million), Palm Oil ($964.3 million), Plastic materials ($ 805.1 million), Iron & Steel ($ 640.3 million) and Medicinal products ($ 342.7 million). th During 1 July â€“ 27 October, FY2024 money supply (M2) shows negative growth of 1.27 percent (Rs. -399.1 billion) compared negative growth of 0.3 growth (Rs. -73.6 billion) in last year. Within M2, Net Foreign Assets (NFA) increased by Rs 232.6 billion as compared decrease of Rs 355.0 billion in last year. On the other hand, Net Domestic Assets (NDA) of the banking sector decreased by Rs. 631.7 billion as compared an increase of Rs. 281.4 billion last year. Private Sector has retired Rs. 153.5 billion as compared borrowing of Rs. 28.5 billion in last year. 2.5 External Sector The Current Account posted a deficit of $ 1.05 billion for Jul-Oct FY2024 as against a deficit of $ 3.1 billion last year, largely reflecting an improvement in the trade balance. Exports (fob) increased by 1.1 percent and reached $ 9.8 billion ($ 9.7 billion last year). Imports (fob) declined by 20.1 percent reaching $ 16.8 billion ($ 21.0 billion last year). Resultantly, the trade deficit was recorded at $ 7.0 billion as against $ 11.3 billion last year. During the period under review, exports in services increased by 3.3 percent to $ 2.5.1 Foreign Investment Total foreign investment during Jul-Oct FY2024 recorded an inflow of $ 538.8 million as against $ 457.3 million last year. FDI stood at $ 524.7 million ($ 489.9 million last year) increasing by 7.1 percent. FDI received from China $ 158.0 million (30.1% share), Hong Kong $ 106.5 million (20.3%), UK $ 64.2 million (12.2%), Netherland $ 55.8 million (10.6%), and Switzerland $ 33.2 million (6.3%). Power sector attracted the highest FDI of $ 247.8 million (47.2% of total FDI) followed by Oil & Gas exploration $ 67.8 million (12.9%), and Financial Business $ 52.7 million (10.0%). Foreign Private Portfolio Investment has registered a net inflow of $ 10.9 million. Foreign Public Portfolio Investment recorded a net inflow of $ 3.2 million. The total FPI recorded an inflow of $ 14.1 million as against an outflow of $ 32.6 million last year. 2.5.2 Worker's Remittances In Jul-Oct FY2024, workers' remittances decreased by 13.3 percent to $ 8.8 billion ($ 10.1 billion last year). MoM, remittances increased by 11.5 percent in October 2023 NOVEMBER - 2023 6 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K ($ 2.5 billion) as compared to September 2023 ($ 2.2 billion),and YoY it grew by 9.1 percent because of structural reforms related to exchange company and consequently convergence in exchange rate in interbank and open markets. Furthermore, the recently signed MoU between the Arab Monetary Fund and the SBP would increase cross-border remittances by reducing costs and processing times. Major sources of remittances are Saudi Arabia ($ 2132.9 million, 24.2% share), U.A.E ($ 1497.6 million, 17.0%), U.K ($ 1277.8 million, 14.5%), USA ($ 1051.0 million, 11.9%), other GCC countries ($ 990.6 million, 11.2%), EU ($ 1141.4 million, 12.9%), Australia ($ 175.4 million, 2.0%), and other countries ($ 527.8 million, 6.0%). st Rs 7,552 billion as of 31 October 2023. During the period under review (Sep-Oct, 2023), the KSE-100 index posted a significant growth of 14.7 percent, while S&P 500 of US declined by 7.1 percent, CAC 40 of France by 5.6 percent, SSE Composite of China by 3.7 percent and Sensex 30 of India by 2.3 percent. The performance of major world indices indexed at 100 is depicted in Figure. 2.7 Social Sector Â§ Pakistan Poverty Alleviation Fund (PPAF) through its 26 Partner Organizations has disbursed 30,805 interest free loans amounting to Rs 1,362 million during October 2023.Since inception of the program till date, a total of 2,532,414 interest free loans amounting to PKR 95,275 million have been disbursed to the borrowers. 2.5.3 Foreign Exchange Reserves Pakistan's total liquid foreign exchange reserves increased to $ 12.4 billion on November 23, 2023, with SBP's reserves stood at $ 7.3 billion and Commercial banks' reserves remained at $ 5.1 billion. Â§ Pakistan is one of the largest labor exporting countries in the region. During October 2023 Bureau of Emigration & Overseas Employment has registered 90063 workers for overseas employment in different countries. 2.6 Performance of KSE Index The performance of the Pakistan Stock Exchange (PSX) remained unprecedented in October 2023. The benchmark of PSX, the KSE-100 index gained 5,724 points while the market capitalization of PSX increased by Rs 666 billion and settled at Â§ Under Prime Minister Youth Business & Agriculture Loan Scheme, the government has disbursed Rs. 41,640 million till September 2023 to 71,997 beneficiaries for business. Fig-5: Trend of Major World Standardized Indices Rs Economic Outlook 3.1 Inflation Source: PSX, Investing.com Note: All indices are standardized to 100 on the initial day of the sample taken in this ï¬\u0081gure. The Food and Agriculture Organization's food price index, which tracks the most globally traded food commodities, averaged 120.6 points in October, 2023 down from 121.3 in the previous month showing a decline of 0.7 points. The October reading was the lowest since March 2021. Domestically, the high base effect would NOVEMBER - 2023 7 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K provide a little solace to inflation growth in the upcoming months. The spike witnessed in weekly SPI recorded on 16th November, 2023 is primarily contributed by increase in Gas charges (up to 3.3719 MMBTU) WoW and YoY at 480 percent and 1109 percent, respectively. However, this increase in gas prices will not impact CPI to much extent. National CPI inflation comprises Urban and Rural baskets. Gas charges are included only in the Urban CPI basket with a weight of 1.0807. So, the increase in gas prices will have a limited impact on the national CPI inflation as compared to the weekly SPI. Keeping in consideration, the crop cycle of perishables, the supply pressures are expected to be relieved by end November onwards. Moreover, the reduction of fuel prices by the government would help further easing out inflationary pressures. In view of the above, inflation is anticipated to remain low and expected to remain around 26.5-27.5 percent in November 2023 and further ease out to 25.5-26.5 percent in December 2023. 3.2 Agriculture There is an uptick in farm input utilization and a better price of wheat will augur well in achieving the production target of wheat given favourable weather conditions. 3.3 Industrial activity The LSM cycle usually follows the cyclical movements in the main trading partners, but since it is focused on the main industrial sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets. The aggregate CLI in the main export markets has improved and reached its potential level. The cyclical LSM pattern for the month of September shows convergence with that of its main trading partners. During Jul-Oct FY2024, total cement dispatches (domestic and exports) were 15.892 million tons which is 14.6 percent more than 13.874 million tons in the corresponding period of last year. Similarly, tractor's production and sales increased by Fig-6: Relationship between CLI and LSM cycle Source: PBS, OECD and EAW Calcula ons 55.1 percent and 86.8 percent. All these positive indicators bode well for the prospects of the LSM sector in the upcoming months, especially from November 2023 onwards. Overall Economic Activity The Monthly Economic Indicator (MEI) is developed as a tool to distribute the past annual GDP numbers, reported by the PBS, on a monthly/quarterly basis, and to nowcast GDP growth for the FY in which the National Accounts are not yet available on the same frequency. The figure presents the MEI on a monthly basis since July 2019, it should be noted that some of the data Fig-7: Monthly Economic Indicator (MEI) 19.4 -9.4 Source: EA Wingâ€™s Calculation NOVEMBER - 2023 8 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K underlying the October 2023 MEI are still provisional and may be revised next month. well as primary income balance, it will be reflected in the current account balance. The MEI continued to be positive in October 2023 driven by notable improvement in key indicators of economic activity. Better performance of the LSM sector fueled by positive trends in high-frequency data, a steady uptick in imports, and improvement in CLI of Pakistan's major export markets are providing impetus to overall economic activity. Furthermore, the inflationary pressures are receding on the back of a decline in international commodity prices, better crop outlook, and exchange rate stability. With all these positive developments anticipating further improvement in domestic economic activities, the MEI is expected to remain positive throughout the ongoing fiscal year. 3.6 Fiscal 3.5 External According to BOP data, October imports of goods and services were at $ 5.2 billion, higher than $ 4.8 billion in September and marginally lower than the $ 5.4 billion in October 2023. The soothed international oil prices, stable exchange rate in October somewhat offset by expansion in economic activities, contributed to an increase in imports. Given these recent dynamics and under unchanged policy assumptions, imports would remain at around the current observed levels in the coming months. Exports of goods reached $2.8 billion, the highest value observed after June 2022. As a result, export of goods and services posted significant growth of 10.5 and 17.8 percent on MoM and YoY basis, respectively. In the coming months, it is expected that exports will continue to observe its momentum with assumptions of growth in the LSM sector and encouraging foreign demand. As a result, the trade balance in goods and services has marginally deteriorated on MoM basis but improved significantly on YoY basis. Remittance inflows have touched the $ 2.5 billion mark and observed positive YoY growth after 13 months. It is expected that it will remain at the current level in the coming months. Considering the improvement in all other components of secondary income, as The fiscal performance in Q1-FY2024 reflects a positive trajectory, characterized by a notable surge in total revenues relative to expenditures. As a result, the fiscal deficit reduced from 1.0 percent of GDP recorded in Jul-Sep FY2023 to 0.9 percent of GDP during the current period. The surplus in the primary balance has improved, attributed to the restricted growth in nonmarkup expenditures. Similarly, the pace of growth in FBR tax collection remained robust sustained by various tax policy and administrative initiatives. Encouragingly, this marks the 4th consecutive month in which FBR achieved the revenue collection target. Despite better fiscal accounts during the first quarter of the current fiscal year, higher mark-up payments may put significant pressure on the expenditure side. However, it is expected that effective fiscal management through robust growth in revenues and a cautious expenditure approach will navigate potential challenges and maintain positive momentum in the fiscal sector. 3.7 Final Remarks During the first four months of FY2024, performance of the overall economy is encouraging as the MEI continued to be positive in October 2023 driven by a notable improvement in key indicators of economic activity. Better performance of the LSM sector fueled by positive trends in highfrequency data, a steady uptick in imports, and improvement in CLI of Pakistan's major export markets are providing impetus to overall economic activity. All these gains are also reflected in improved fiscal and external accounts position. IMF staff and the Pakistani authorities reached a staff-level agreement on the first review under Pakistan's Stand-By th Arrangement (SBA) on 15 November 2023. Upon approval, Pakistan will have access to $700 million. The SBA supports the government's commitment to advance the planned fiscal consolidation, accelerate NOVEMBER - 2023 9 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K cost-reducing reforms in the energy sector, complete the return to a market-determined exchange rate, pursue SOEs and governance reforms to attract investment and support job creation while continuing to strengthen social assistance. The Government's execution of the FY2024 budget with continued adjustment of energy prices, and renewed flows into the foreign exchange (FX) market have lessened fiscal and external pressures. Furthermore, the inflationary pressures are receding and the outlook has improved Inflation is expected to decline over the coming months amid receding supply constraints and modest demand. With all these positive developments, further improvement in domestic economic activities is anticipated in upcoming months. NOVEMBER - 2023 10 \f27th November 2023 ECONOMIC INDICATORS Remi ances ($ bn) Exports FOB ($ bn) Imports FOB ($ bn) Current Account Deï¬\u0081cit ($ bn) Source: SBP FDI ($ mn) Total Foreign Investment ($ mn) Source: FBR & Budget Wing FBR Revenue (Rs.bn) Non-Tax Revenue (Rs.bn) Source: SBP PSDP (Rs.bn) Agriculture Credit (Provisional) PSX Index Market Capitaliza on (Rs. bn) Market Capitaliza on ($ bn) \* : Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX & SECP NOVEMBER - 2023 11 \f"

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[1] "RS MONTHLY ECONOMIC UPDATE & OUTLOOK OCTOBER 2023 GOVERNMENT OF PAKISTAN - FINANCE DIVISION - ECONOMIC ADVISERâ€™S WING \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Contents 01 Foreword 02 Executive Summary 03 International Performance and Outlook 05 Performance of Pakistan's Economy 09 Economic Outlook 12 Economic Indicators Foreword Dr. Shamshad Akhtar Minister for Finance, Revenue & Economic Affairs Hard earned gains on the fiscal and external accounts have started to translate into a pick-up in economic activity. Markets have rallied on positive economic data and signs of an emerging recovery. PSX has rallied 11% in October and has crossed the psychological barrier of 51,000 points, for the first time since May 2017. The international and domestic bond markets have rallied around 8% in October on expectations of ease in inflationary pressures and a positive expectation for the IMF staff review in November. The rupee (PKR) recovered 9% in October due to reforms initiated on the exchange companies and crackdown against illegal transactions. The Monthly Economic Indicator (MEI) for Sept 2023 posted the third consecutive month of positive gains in the index, reflecting growth momentum in the highfrequency economic variables. GDP growth outlook has improved with data showing positive momentum in manufacturing activity and improved outlook for agriculture output. The recent release of LSM data showed positive growth of 2.5% in August, reversing 14 months of downward spiral in the manufacturing sector. The removal of restrictions on imports, clearance of outstanding L/Cs, and improved dollar liquidity in the markets following an increase in SBP FX reserves contributed towards the pick-up in economic activity. The recovery in the manufacturing sector is broad-based with the export sector, construction activity, and consumer goods all positing gains in August. Higher output for Ready-made garments (41.2%) reflects higher exports and was the main contributor to LSM. Higher cement (27.6%) production signifies higher construction-related activity. Food (8%), beverages (8.4%), and pharmaceuticals (41.8%) reflect a recovery in domestic demand. Power Generation also posted a growth of 7.4% in Q1 FY2024, indicating a recovery in economic activity from last year. In the agriculture sector, cotton production is projected to rise 127% (estimated at 11.5 million bales) for 2023-24, compared to last year. Rice production is also showing an impressive growth 18% percent compared to last year. The increase in these main crops is encouraging for the exports and overall economic outlook in FY2024. Moreover, input situation is positive as farm tractors production and sales show a steep growth of 45% percent (11,586) and 64% percent (12,090), respectively during JulSep FY2024 over the same period last year. During Q1 FY2024, the strong revenue performance led to a primary surplus of Rs 417bn (0.4% of GDP) against the target of Rs 87bn under the IMF SBA. FBR revenues clocked in at Rs 2,042bn compared to the target of Rs 1,978bn during Q1, with a strong 37% y/y increase in direct taxes, while FED collection increased by 61%y/y. Similarly, non-tax revenue also posted a significant increase of 100% in Q1 with higher collection on Petroleum Levy (PL) and dividends of SOEs. On the expenditure side, the primary concern is the rise in the cost of servicing public debt, with the rise in SBP policy rates to 22% and weaker PKR fueling the rise in servicing costs. Debt servicing costs increased 45% in Q1 to Rs 1.4 trillion. OCTOBER - 2023 1 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Despite this increase, the government managed to limit growth in expenditures through a prudent reduction in untargeted subsidies and a reduction in spending on new projects and schemes under the PSDP. While headline inflation has accelerated to 31.4%y/y in Sept 2023 from 27.4% in Aug; this increase was an anomaly due to the low base impact as a result of a one-time power tariff adjustment in Sep-2022. Food inflation softened to 33%y/y in Sept compared to 39%y/y in Aug. Major contributors to the decline were Tomatoes (14%m/m), Chicken (12%), and cooking oil (2%). th The 30 October MPS states that inflation will 'decline significantly in October, owing to downward adjustments in fuel prices, easing prices of some major food commodities, and a favorable base effect'. The MPC 'reaffirmed its earlier assessment that inflation will decline substantially from the second half of FY24, barring any major adverse developments'. On the external front, the global markets remain volatile but the global growth outlook has improved. Global economic growth is gradually rising, though wide disparities among regions persist. Some economies have yet to fully return to pre-pandemic levels. Factors hindering this recovery include geopolitical tensions, cyclical monetary policy adjustments, reduced fiscal support due to high debt, and extreme weather events. In the first three months of the current year, CAD has declined further by 58% to $ 0.95 bn. The full-year CAD is projected to stabilize around $ 6.5bn (1.5% of GDP) in FY2024 as trade & investment flows normalize. SBP FX reserves have stabilized at around $ 7.5bn (1.5 months of import cover). To meet the external financing requirements, we are working to secure concessional funding from multilateral (WB, ADB, IsDB) of US$ 6.3bn, IMF $ 3bn has already been approved, and bilateral assistance of around US$ 10bn. The government expects remittances to recover in Oct 2023, as spreads between the interbank and open market have reduced below 1%. However, global inflation has impacted the disposable incomes of overseas workers, resulting in lower remittances. We note that remittances have recorded a slowdown across the board in most countries and in particular Bangladesh, India, and the Philippines. Executive Summary Global economic growth is gradually rebounding, though wide disparities among regions persist. Some economies have yet to fully return to pre-pandemic levels. Factors hindering this recovery include geopolitical tensions, cyclical monetary policy adjustments, reduced ï¬\u0081scal support due to high debt, and the extreme weather events. Pakistan's economy has set the growth momentum from beginning of the current ï¬\u0081scal year, evident through a notable upturn in various economic indicators. The recent release of LSM data showed a positive growth of 0.5 percent during Jul-Aug FY2024 against the contraction of 1.3 percent last year. The MoM and YoY basis growth trajectory is encouraging, as LSM grew by 8.4% and 2.5% in Aug-2023, respectively. The positive growth is backed by recovering sub-sectors which include Food, Coke & Petroleum Products, Wearing apparel, Chemicals, Pharmaceuticals, Rubber Products, Non-Metallic Mineral Products, Machinery and Equipment, and others. In agriculture sector, the Cotton production showing a bumper increase of 126.6 percent (estimated at 11.5 million bales) for 2023-24, compared to last year. Rice production is also showing a surge of 18.0 percent compared to last year. The increase in these main crops is encouraging for the exports and overall economic outlook in FY2024. Moreover, input situation is positive as farm tractors production and sales show a steep growth of 45.0 percent (11,586) and 64.1 percent (12,090), respectively during OCTOBER - 2023 2 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Jul-Sep FY2024 over the same period last year. On the external front, FDI reached $ 402.3 million during Jul-Sep FY2024 ($ 349.8 million last year) increased by 15.0 percent on account of some Chinese investment in the CPEC related projects. The MoM Exports increased by 1.5 percent to $ 2.5 billion in September 2023 as compared to $ 2.4 billion in August 2023. The rebounded economic activity in major trading partners coupled with relaxed import restrictions, is mitigating disruptions in the supply of raw materials and supporting export-oriented industries. The narrower trade balance is supporting the current account which has recorded a deï¬\u0081cit of $ 947 million for JulSep FY2024 as against a deï¬\u0081cit of $ 2.3 billion last year. Workers' remittances stood at $ 6.3 billion ($ 7.9 billion last year) posting a decrease by 19.8 percent during the period under review. However, on MoM basis, it increased by 5.3 percent mainly on account of shrinking wedge between interbank and open market excgange rate. During Jul-Aug FY2024, the performance of the ï¬\u0081scal sector remained satisfactory owing to a signiï¬\u0081cant rise in revenues relative to expenditures. Although higher markup payments continued to be the major source of increase in current expenditures, but growth in non-mark-up spending was restricted to 7.4 percent. The ï¬\u0081scal deï¬\u0081cit stood at almost the same level of 0.8 percent of GDP as last year whereas the primary balance posted a surplus of Rs 144.8 billion against the deï¬\u0081cit of Rs 90.2 billion during the period under review. CPI inï¬‚ation stood at 31.4 percent on a YoY basis in September 2023 as compared to 23.2 percent in September 2022. The major drivers include Food and non-alcoholic beverages, Housing, Water, Electricity, Gas & Fuel, Transport and Furnishing & household equipment maintenance. st th During 1 July â€“ 30 September, FY2024 money supply shows negative growth of 0.02 percent compared to negative growth of 0.012 percent during the same period last year. This is due to decline in NDA of banking sector. The government is pursuing economic revival measures to improve the near-term economic situation and taking policy, administrative, and relief intervensions in order to control inï¬‚ationary pressure in FY2024. International Performance and Outlook The global economic recovery from the COVID-19 pandemic and Russia-Ukraine remains slow and uneven. Economic activity have not yet fully rebounded to prepandemic level in several economies. According to World Economic Outlook (October-2023), global growth is forecasted to slow from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024. The projections remain below the historical (2000â€“2019) average of 3.8 percent. For advanced economies, the expected slowdown is from 2.6 percent in 2022 to 1.5 percent in 2023 and 1.4 percent in 2024, amid stronger-than-expected US momentum but weaker-than-expected growth in the euro area. Emerging market and developing economies are projected to have growth modestly declined, from 4.1 percent in 2022 to 4.0 percent in both 2023 and 2024, reï¬‚ecting the property sector crisis in China. The global growth over the medium term is projected at 3.1 percent which is the lowest in decades. China's growth momentum is fading following a COVID-19 reopening surge in early 2023. Growth slowed from 8.9 percent in the ï¬\u0081rst quarter of 2023 to 4.0 percent in the second quarter. High-frequency indicators suggest further weakness with the property sector crisis in the country as the leading factor hampering growth. Commodity exporter countries that are part of the Asian industrial supply chain are the most exposed to China's loss of momentum. Growth in the euro area is projected to fall from 3.3 percent in 2022 to 0.7 percent in OCTOBER - 2023 3 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K 2023, before rising to 1.2 percent in 2024. Among other major advanced economies, growth in the UK is projected to decline from 4.1 percent in 2022 to 0.5 percent in 2023 and 0.6 percent in 2024. The decline in growth reï¬‚ects tighter monetary policies to curb still-high inï¬‚ation and lingering impacts of the terms-of-trade shock from high energy prices. Global inï¬‚ation is forecasted to decline steadily, from 8.7 percent in 2022 to 6.9 percent in 2023 and 5.8 percent in 2024. However, forecasts for 2023 and 2024 are revised up by 0.1 and 0.6 percentage point, respectively. Consequenctly, inï¬‚ation is not expected to return to the target until 2025 in many economies. In the United States, growth is projected at 2.1 percent in 2023 (same as 2022) and 1.5 percent in 2024. The forecast is revised upward, owing to stronger business investment in the second quarter and resilient consumption growth, a reï¬‚ection of a still-tight labor market. Policymakers foresee the economy's resilience combined with high inï¬‚ation may trigger the Federal Reserve to raise interest rates again in November. Others, however, expect the darkening cloud over the economy would discourage the US central bank from tightening monetary policy further. The situation is also evident through growth in WEI which is hovering around 1-2 percent in the month of September (Fig-1). Fig-1: Growth in WEI (%) 2.36 2.14 Source: Federal Reserve Bank of New York Global economic growth remained lacklustre at the end of the third quarter of 2023, as output edged higher and intakes of new work contracted in Sep-2023. There were also signs of further weakness in the coming months, as backlogs of work fell sharply and business optimism dipped to a nine-month low. The J.P.Morgan Global Composite PMI Output Index â€“ fell to 50.5 in September, down from 50.6 in August, on account of contraction in manufacturing activity. The month of September also observed signs of slowdown in the global services sector. PMI data is available for 13 economies, of which 08 have witnessed an overall output increase. Russia and Kazakhstan were at the top of the growth rankings, while Japan, China and the US also posted expansions. Weakness was largely centred on the euro area, where output fell for the fourth successive month. Germany and France were at the bottom of the PMI rankings. The UK, Italy and Brazil were the other nations to register declines. The monthly output movement is also reï¬‚ected through CLI position of Pakistan's main trading partners, of which euro area countries and US moving below potential level (Fig-2). The overall measure of international food commodity prices, FAO Food Prices Index (FFPI) was broadly stable in September, averaged 121.5 points compared to 121.4 points in August. The index has been declined by 10.7 percent on YoY basis and 24.0 percent below its all-time high in March, 2022. In September, decline in prices of vegetable oils (3.9%), wheat (1.6%), Rice (0.5%), dairy (2.3%) and meat (1.0%) offset by a notable increase in sugar (9.8%) and maize (7.0%). Global commodity prices surged YoY in September, 2023 . Energy prices increased by 8.3 percent, led by oil (9.1%) and coal Australia (6.5%). Non-energy prices increased by 1.5 percent. Food prices increased by 2.0 percent. Beverage gained by 1.1 percent while raw materials and fertilizers prices change little. Metal price rose 1.5 percent led by iron ore (9.8%). Whereas precious metal dropped by 0.3 percent. OCTOBER - 2023 4 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Fig-2 (a): Composite Leading Indicator Sugarcane & Maize production declined by 10.7 percent and 6.1 percent to 78.5 million tonnes and 10.3 million tonnes, respectively, compared to period under review. The FCA has ï¬\u0081xed the production target of wheat for Rabi 2023-24 at 32.12 million tonnes on an area of 8.9 million hectares based on satisfactory input situation. Sep-23 Source: OECD Fig-2 (b): Composite Leading Indicator The input situation is positive as farm tractors production and sales show a steep growth of 45.0 percent (11,586) and 64.1 percent (12,090), respectively during JulSep FY2024 over the same period last year. During Jul-Sep FY2024, the agriculture credit disbursement was stood at Rs 499.3 billion as compared to Rs 383.7 billion last year, an increase of 30.1 percent. During Kharif 2023, urea and DAP offtake stood at 3,322 thousand tonnes (5.9 percent more than Kharif 2022) and 756 thousand tonnes (54.0 percent higher than Kharif 2022), respectively. 2.1-b Manufacturing Source: OECD Performance of Pakistanâ€™s Economy Large Scale Manufacturing (LSM) grew by 0.5 percent during Jul-Aug FY2024 against the contraction of 1.3 percent same period last year. In August 2023, LSM increased by 2.5 percent on YoY basis against 0.3 percent in the same month last year. While on a MoM basis, it bounced back by 8.4 percent in August against the decline of 3.7 percent in July. The main contributors towards the positive growth include Food, Wearing Apparel, Coke & Petroleum Products Chemicals, Pharmaceuticals, Fig-3: LSM Growth Rates (%) Jul-Aug Rs 2.1 Real Sector 2.1-a Agriculture According to Federal Committee on Agricultre (FCA) for Rabi 2023-24, Cotton production is provisionally estimated at 11.5 million bales showing a bumper increase of 126.6 percent in production over the last year. Rice production estimated at 8.6 million tonnes showing an increase of 18.0 percent compared to the last year. Source: PBS OCTOBER - 2023 5 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K In Jul-Sep FY2024, the performance of auto-industry remains subdued due to massive increase in input prices, and tightening auto ï¬\u0081nance. Car production and sale decreased by 49.1 percent and 43.9 percent, while Trucks & Buses production and sale decreased by 59.0 percent and 44.9 percent, respectively. The sale of petroleum products slumped by 16 percent during Jul-Sep FY2024 to 3.77 mn tons against 4.49 mn tons in the same period last year. While in Sep 2023, oil sales are dwindling around 1.06 mn tons, down by 31.0 percent YoY and 25.0 percent MoM. Total cement dispatches signiï¬\u0081cantly grew by 23.4 percent and reached to 11.873 mn tons during Jul-Sep FY2024, against 9.621 mn tons last year. In September 2023, cement dispatches declined by 3.96 percent and stood at 4.115 mn tons against 4.284 mn tons same period last year. Local cement sales by the industry came in at 3.544 mn tons in Sep 2023 against 3.806 mn tons, showing a decline of 6.9 percent from the last year. Whereas exports witnessed a healthy increase of 19.24 percent from 478,097 tons to 570,101 tons during the same period. items (4.4%). The SPI for the week ended on 19th October 2023, recorded a decrease of 1.75 percent as compared to previous week. Prices of 24 items declined, 13 items remained stable and 14 items increased. 2.3 Fiscal The net federal revenues witnessed a substantial increase of 54.7 percent surging to Rs 816.6 billion during Jul-Aug FY2024 from Rs 527.8 billion last year. The revenue performance has been largely attributed to a sharp rise in non-tax collection which escalated from Rs 111.1 billion during JulAug FY2023 to Rs 282.8 billion during JulAug FY2024. Higher receipts from petroleum levy, markup (PSEs and others), Fig-4 (a): FBR Tax Collection (Rs Billion) Jul-Sep FY2024 Source: FBR Rubber Products, Non-Metallic Mineral Products, Machinery and Equipment, and others (Football). 2.2 Inflation CPI inï¬‚ation increased by 31.4 percent on YoY basis in September 2023 as compared to 23.2 percent in September 2022 whereas it increased by 27.4 percent in August 2023. During Q1 FY2024, CPI inï¬‚ation stood at 29.0 percent against 25.1 percent in Q1 FY2023. On MoM basis, it increased by 2.0 percent in September 2023 compared to an increase of 1.7 percent in the previous month. Fig-4(b): Month Wise Tax Collection (Rs Billion) Source: FBR Major drivers contributing to YoY increase in CPI inï¬‚ation include Alcoholic Beverages & Tobacco (87.5%), Furnishing & Household equipment maintenance (39.3%), nonperishable food items (38.4%), Transport (31.3%), Housing, Water, Electricity, gas & Fuel (29.7%), Health (25.3%), Clothing & Footwear (20.6%) and Perishable food OCTOBER - 2023 6 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K passport fee, and royalties on oil & gas continued to be the main factors in raising non-tax revenues. last year. Private Sector has retired Rs 195.7 billion as compared borrowing of Rs 86.2 billion in last year. Similarly, FBR tax collection grew by 27.5 percent to reach Rs 1207.5 billion during the ï¬\u0081rst two months of the current ï¬\u0081scal year against Rs 947.3 billion last year. The ï¬\u0081rst quarter of FY2024 concluded with a remarkable performance by FBR, as the total collection not only grew by 24.9 percent but also surpassed the target by Rs 64.0 billion. The provisional net collection amounted to Rs 2041.5 billion during JulSep FY2024 against Rs 1633.9 billion last year. Similarly, in the month of September 2023, tax collection exceeded the target by Rs 40.0 billion to reach Rs 834.1 billion against Rs 684.8 billion in September last year. 2.5 External Sector Total expenditures grew by 20.1 percent to Rs 1585.7 billion during Jul-Aug FY2024 against Rs 1320.2 billion last year. The growth in expenditures primarily stemmed from a 38.6 percent increase in current spending which stood at Rs 1450.0 billion in Jul-Aug FY2024 against Rs 1046.2 billion last year. Higher markup payments continued to be the major source of increase in current expenditures, as it grew by 63.5 percent during Jul-Aug FY2024. In contrast, the growth in non-markup spending has been restricted to 7.4 percent. Overall, the ï¬\u0081scal deï¬\u0081cit stood at almost the same level of 0.8 percent of GDP in Jul-Aug FY2024 as observed last year. However, the primary balance remained in surplus of Rs 144.8 billion against the deï¬\u0081cit of Rs 90.2 billion during the period under review. 2.4 Monetary st th During 1 July â€“ 30 September FY2024, money supply (M2) showed negative growth of 0.02 percent (Rs -6.2 billion) compared negative growth of 0.012 growth (Rs 0.33 billion) in last year. Within M2, Net Foreign Assets (NFA) increased by Rs 249.0 billion as compared to a decrease of Rs 561.7 billion in last year. On the other hand, Net Domestic Assets (NDA) of the banking sector decreased by Rs 255.2 billion as compared to an increase of Rs 893.3 billion The Current Account posted a deï¬\u0081cit of $ 947 million for Jul-Sep FY2024 as against a deï¬\u0081cit of $ 2.3 billion last year, largely reï¬‚ecting an improvement in trade balance. Exports (fob) declined by 5.0 percent and reached $ 7.0 billion ($ 7.4 billion last year). Imports (fob) declined by 23.8 percent reaching $ 12.5 billion ($ 16.3 billion last year). Resultantly, the trade deï¬\u0081cit recorded at $ 5.4 billion as against $ 8.9 billion last year. During the period under review, exports in services decreased by 0.6 percent to $ 1,707 million as against $ 1,717 million same period last year. The imports in services increased by 18.1 percent to $ 2,395 million as compared to $ 2,028 million same period last year. The trade deï¬\u0081cit in services stood at $ 688 million as against $311 million last year. As per PBS, the export commodities that registered positive growth include Fish & Fish Preparation (23.1% in quantity & and 3.7% in value), Fruits (47.0% in quantity & 12.4% in value), Cotton Yarn (56.8% in quantity & 33.5% in value), Towel (16.2% in quantity & 2.9% in value) and Plastic Materials (126.1% in quantity & 25.1% in value). Whereas, main imported commodities were Petroleum products ($ 1515.7 million), Petroleum crude ($ 947.2 million), LNG ($ 898.4 million), Palm Oil ($758.6 million), Plastic materials ($ 598.2 million), Iron & Steel ($ 458.0 million) and Medicinal products ($ 249.2 million). 2.5.1 Foreign Investment Total foreign investment during Jul-Sep FY2024 recorded an inï¬‚ow of $ 412.0 million as against $ 319.7 million last year. FDI stood at $ 402.3 million ($ 349.8 million last year) increasing by 15.0 percent. FDI received from China $ 126.3 million (31.4% share), Hong Kong $ 91.3 million (22.7%), Netherland $ 45.3 million (11.3%), UK $ 44.7 million (11.1%), and Switzerland $ 29.4 million (7.3%). Power sector attracted the OCTOBER - 2023 7 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K highest FDI of $ 199.7 million (49.6% of total FDI), Oil & Gas exploration $ 65.0 million (16.1%), and Financial Business $ 44.2 million (11.0%). performance of major world indices (standardized at 100) is depicted in the Figure: Fig-5: Trend of Major World Standardized Indices Foreign Private Portfolio Investment has registered a net inï¬‚ow of $ 9.5 million during the period under review. Foreign Public Portfolio Investment recorded a net inï¬‚ow of $ 0.2 million. The total FPI recorded an inï¬‚ow of $ 9.8 million as against an outï¬‚ow of $ 30.1 million last year. 2.5.2 Worker's Remittances In Jul-Sep FY2024, workers' remittances decreased by 19.8 percent to $ 6.3 billion ($ 7.9 billion last year). MoM, remittances increased by 5.3 percent in September 2023 ($ 2.2 billion) as compared to August 2023 ($ 2.1 billion) amid structural reforms related to exchange companies and consequently convergence between exchange rates in interbank and open market. Major sources of remittances are Saudi Arabia ($ 1516.0 million, 24.0% share), U.A.E ($ 1023.7 million, 16.2%), U.K ($ 947.4 million, 15.0%), USA ($ 767.4 million, 12.1%), other GCC countries ($ 721.1 million, 11.4%), EU ($ 843.5 million, 13.3%), Australia ($ 131.1 million, 2.1%), and other countries ($ 379.7 million, 6.0%). Source: PSX, Investing.com Note: All indices are standardized to 100 on the initial day of the sample taken in this ï¬\u0081gure. 2.7 Social Sector Â§ Under the Interest Free Loan Program of National Poverty Graduation Initiative, the Pakistan Poverty Alleviation Fund through its Partner Organizations has disbursed 35,312 loans amounting to Rs 1,588 million during September, 2023. Since inception of the program till date, a total of 2,501,609 interest free loans amounting to Rs 93,911 million have been disbursed. Â§ Benazir Income Support Program is providing support to 770,000 lactating mothers and infants through 488 Facilitation Centers spread across Pakistan, delivering both Special Nutritious Food and cash stipends. Â§ Under the Prime Minister Youth Business & Agriculture Loan Scheme, the government has disbursed Rs 33,675 million till August 2023 to 63,432 beneï¬\u0081ciaries for business. Â§ Pakistan is one of the largest labour exporting countries in the region. During September 2023, Bureau of Emigration & Overseas Employment registered 92,660 workers for overseas employment in different countries. 2.5.3 Foreign Exchange Reserves Pakistan's total liquid foreign exchange reserves increased to $ 12.6 billion on October 27, 2023, with SBP's reserves stood at $ 7.5 billion and Commercial banks' reserves remained at $ 5.1 billion. 2.6 Performance of KSE Index The performance of Pakistan Stock Exchange (PSX) witnessed an improvement in September 2023. The benchmark of PSX, KSE-100 index gained 1,151 points, while market capitalization increased by Rs 170 billion and settled at Rs 6,886 billion as on th 28 September 2023. During September, the KSE-100 index increased by 2.0 percent and Sensex 30 index of India increased by 0.2 percent. Contrarily, S&P 500 of US declined by 4.8 percent, CAC 40 of France declined by 2.5 percent and SSE Composite of China declined by 0.7 percent. The OCTOBER - 2023 8 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Economic Outlook Rs 3.1 Inflation The international food price trends, as reported by the FAO, indicate a relatively stable situation in September 2023. While certain food categories, like vegetable oils, dairy and meat prices witnessed decline, while others, including sugar and cereals, recorded increase. However, these ï¬‚uctuations balanced out, resulting in an overall index value of 121.5 points, nearly identical to August 2023. On the domestic front, the government has slashed the petrol and diesel prices consecutively in two instances, capitalizing on declining global crude rates and a stronger domestic currency. These developments are expected to mitigate the inï¬‚ationary pressures in the country. Moreover, the subsequent efforts of the subnational governments to implement lower fares of local public and freight transportation, in line with the reduced fuel prices, would further relieve stress on consumer prices. Taking these factors into account, it is anticipated that inï¬‚ation will be better contained compared to the elevated levels observed in the ï¬\u0081rst quarter of FY2024. The projection of inï¬‚ation is hovering around 27 to 29 percent for October 2023. 31.66 MAF of water but prevailing weather conditions are conducive and the shortage is manageable. 3.3 Industrial activity The LSM cycle usually follows the cyclical movements in the main trading partners, but since it is focused on the main industrial sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets. The aggregate CLI in the main export markets slightly has improved but still below the potential level. The cyclical LSM pattern for the month of August came out above its stochastic trend. For September, LSM growth may converge to its potential if the overall economic situation continues to improve in coming months. Fig-6: Relationship between CLI and LSM cycle Source: PBS, OECD and EAW Calcula ons 3.2 Agriculture 3.4 Overall Economic Activity To improve food security situation in the country, the government is facilitating the farmers by providing inputs at affordable prices and ensuring better price of their produce to bridge the gap between cost of production and output price. For Rabi crops 2023-24, the outlook is positive as the seed availability will remain satisfactory and supply of urea and DAP expected to remain stable (Nov-Dec, 2023). However, the water availability is anticipated to be short by 15 percent for Punjab & Sindh during the season. Provinces have been allocated The Monthly Economic Indicator (MEI) is developed as a tool to distribute the past annual GDP numbers, reported by the PBS, on a monthly/quarterly basis, and to nowcast GDP growth for the FY in which the National Accounts are not yet available on the same frequency. Figure presents the MEI on a monthly basis since January 2019. It should be noted that some of the data underlying the September 2023 MEI are still provisional and may be revised next month. The MEI estimated for the month of OCTOBER - 2023 9 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K September 2023 stood positive on the back of improved high frequency variables such as LSM, exports, cement dispatches etc. MEI is expected to be positive throughout the outgoing ï¬\u0081scal year due to a rebound in domestic economic activities. Fig-7: Monthly Economic Indicator (MEI) 19.4 -9.4 Source: EA Wingâ€™s Calculation 3.5 External The BoP data for September 2023 reveals that exports of goods and services increased marginally by 0.6% on MoM basis, while imports of goods and services decreased by 5.9%. In response to this, trade deï¬\u0081cit of goods and services declined by 15.6% on MoM basis in the month of September. Moreover, recent administrative and regulative action for curbing illegal activities in the FX market has narroweddown the gap between interbank and open market exchange rates and worker's remittances increased by 5.3% on MoM basis. All these components have been reï¬‚ected in the current account deï¬\u0081cit, which decreased signiï¬\u0081cantly by 95.1% on MoM basis and 97.8% on YoY basis. For the outlook, it is expected that exports of goods and services for October 2023 will remain around $ 3.0 billion as observed in September and gradually take its increasing momentum in the coming months as LSM shows some turning point and posted growth of 8.4 percent in August on monthly basis. On the other hand, imports are showing some ï¬‚uctuations on monthly basis and are expected to remain in the range of $ 4.0 - 4.5 billion in October as PKR is continuously appreciating against USD. Taking all these factors into account and with a positive outlook for remittances, the current account will continue to observe it's improved monthly trend. 3.6 Fiscal The government's commitment to ï¬\u0081scal consolidation efforts is evident through better ï¬\u0081scal accounts during the ï¬\u0081rst quarter of the current ï¬\u0081scal year. The ï¬\u0081scal outlook for FY2024 presents encouraging revenue growth and prudent expenditure management. The substantial increase in net federal revenues, primarily driven by a sharp rise in non-tax collection, indicates a positive trend in revenue performance. Similarly, higher-than-expected tax collection in the ï¬\u0081rst quarter of FY2024 highlights the effective implementation of new tax measures, the moderate revival of economic activities, and efï¬\u0081cient tax administration. Whereas, on the expenditure side, higher markup payments will continue to pose signiï¬\u0081cant challenges for ï¬\u0081scal consolidation efforts. Nonetheless, cautious expenditure management is paying off in terms of restricted growth in non-markup spending. This helped in maintaining the primary balance in surplus indicating better ï¬\u0081scal management, while the ï¬\u0081scal deï¬\u0081cit has remained at a similar level of 0.8 percent of GDP in Jul-Aug FY2024 compared to the last year. The government is highly committed to achieve long-term ï¬\u0081scal sustainability through prudent ï¬\u0081scal management. Measures are focused on rationalizing expenditures through austerity measures, reducing subsidies and grants, no supplementary grants, increasing revenues through various policy and administration measures, widening the tax base, and removal of tax exemption. These measures would be helpful in building ï¬\u0081scal buffers for social safety nets together with meeting the ï¬\u0081scal and primary balance targets set for the current ï¬\u0081scal year. OCTOBER - 2023 10 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K 3.7 Final Remarks The ï¬\u0081rst quarter of FY2024 demonstrates that the economy is yielding positive results from the development and government stabilization measures. In real sector of the economy, Cotton and Rice production for 2023-24 has posted exceptional growth of 126.6 and 18.0 percent, respectively. Similarly, LSM increased by 2.5 percent on YoY basis in Aug-23 and on MoM basis, it bounced back by 8.4 percent against the decline of 3.7 percent in July. Moreover, the external account has improved considerably and foreign exchange buffers are being built up. At ï¬\u0081scal front, the government's commitment to ï¬\u0081scal consolidation efforts and maintaining ï¬\u0081scal discipline is evident through better ï¬\u0081scal accounts during JulAug, FY2024. In the coming months, it is expected that overall economic activity will remain positive throughout the outgoing ï¬\u0081scal year due to a rebound in domestic economic activities and improvement in inï¬‚ationary pressures. Moreover, recent coordinated efforts by the Government organizations to address macroeconomic imbalances, will gear towards achieving stabilization in the coming months and realizing sustainable and inclusive economic growth in the medium to long-term. OCTOBER - 2023 11 \f31st October 2023 ECONOMIC INDICATORS Remi ances ($ bn) Exports FOB ($ bn) Imports FOB ($ bn) Current Account Deï¬\u0081cit ($ bn) Source: SBP FDI ($ mn) Total Foreign Investment ($ mn) Source: FBR & Budget Wing FBR Revenue (Rs.bn) Non-Tax Revenue (Rs.bn) Source: SBP PSDP (Rs.bn) Agriculture Credit (Provisional) PSX Index Market Capitaliza on (Rs. bn) Market Capitaliza on ($ bn) \* : Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX & SECP OCTOBER - 2023 12 \f"

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[1] "RS MONTHLY ECONOMIC UPDATE & OUTLOOK SEPTEMBER 2023 GOVERNMENT OF PAKISTAN - FINANCE DIVISION - ECONOMIC ADVISERâ€™S WING \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Contents 01 Executive Summary 02 International Performance and Outlook 04 Performance of Pakistan's Economy 08 Economic Outlook 11 Economic Indicators Executive Summary T he global economy is showing signs of an upturn, poised to grow faster than it was projected in the first half of 2023. Nonetheless, these improvements remain fragile with a slower economic rebound in China, persistent core inflation, elevated interest rates, and lingering geopolitical uncertainties continuing to exert pressure on economic activities. Since the beginning of FY2024, Pakistan's economy stepped up on the recovery path. In August FY2024, month-on-month exports increased by 14.2 percent while imports grew by 2.1 percent for the same period. The upturn in the global economy coupled with relaxed import restrictions, is mitigating disruptions in the supply of raw materials and supporting export-oriented industries. FDI also increased by 16.1 percent during Jul-Aug FY2024 on account of rise in Chinese investments and exchange rate stability. In the agriculture sector, the arrival of cotton in September 2023 posted a remarkable growth of 79.9 percent to 3.93 million bales compared to 2.19 million bales during same period last year. This surge reflects a growing focus on enhancing cotton production which is encouraging for the export and overall economic outlook in FY2024. The large manufacturing scale sector (LSM) is recovering from slump. Although LSM remained negative in July FY2024, however, 09 out of 22 sectors picked up positive growth including Food (10.0%), Tobacco (54.0%), Wearing Apparel (30.8%), Pharmaceuticals (54.0%), Chemicals (5.9%), and others. The better input situation through lifting of import restriction paving the way of sectoral growth. However, several sectors are still under pressure as tight financing facilities and inflationary pressures persistently hinder their production activities. CPI inflation recorded at 27.4 percent on a year-on-year basis in August 2023 as compared to 27.3 percent in August 2022. On a month-on-month basis, it increased to 1.7 percent in August 2023 compared to an increase of 3.5 percent in the previous month. The government's stern administrative measures to curtail the hoarding of commodities and foreign currency measures resulted in moderating the inflation pressure. However, given the international oil price pressure and adjustment in energy prices, uncertainty in inflation will remain. On the fiscal side, the fiscal deficit in July, FY2024 remained 0.2 percent of GDP almost the same level as last year whereas the primary balance surplus improved to Rs 311.2 billion from Rs 142.2 billion last year. The improvement in fiscal accounts is attributed to a significant upsurge in net federal revenues, which outpaced the growth in total expenditures. Net federal revenues grew by 66 percent largely primarily driven by a notable increase in non-tax collections, particularly stemming from higher receipts related to the petroleum development levy. On the other hand, new tax measures and increased collection from import-related taxes contributed to raise tax collection. Within expenditures, although markup payments grew by 52 percent, non-markup spending was reduced by 48 percent. This reduction in non-markup spending played a key role in improving the primary surplus during July FY2024. SEPTEMBER - 2023 1 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K The Current Account posted a deficit of $ 935 million for Jul-Aug FY2024 as against a deficit of $ 2.0 billion last year, largely reflecting an improvement in the trade balance. During the same period, workers' remittances recorded at $ 4.1 billion ($ 5.3 billion last year), decreased by 21.6 percent, mainly on account of slowdown in the host countries, and the wedge between the exchange rate in interbank and open market. MPC has maintained the policy rate at 22 percent in September 2023, on account of an improved inflation outlook. During 1st July â€“ 1st September, FY2024 money supply shows negative growth of 1.8 percent compared to negative growth of 1.3 percent during the same period last year. This is due to decline in the NDA of the banking sector. The government is laying the foundation for short to long-term measures that will improve the near-term economic situation during FY2024. International Performance and Outlook The global economic outlook remains weak. Uncertainty around the trajectory of the world economy remains high despite waning fear of a global recession and expectation of moderate pick-up in growth of many regions. Global headwinds persist, and the prospects of a stronger recovery next year have dimmed, due to mounting concerns about the vitality of China's economy following its post-COVID reopening at the end of 2022. The IMF notes that global growth is currently heavily reliant on expansions in the majority of emerging and developing economies, whereas there is a continuing slowdown across 93 percent in advanced economies. Asia and the Pacific continuing their solid economic recovery. Growth is holding up, supported by strong domestic demand, rebounding tourism, and stable financial conditions, even as export demand remains weak. Inflation is slowing, on account of lower food and energy prices as well as timely action by central banks across the region. Asian Development Outlook September 2023 forecasts that economies in developing Asia and the Pacific will expand by 4.7%. However, it was observed that recovery is still fragile. The growth is accompanied by climate risks, supply-chain disruptions from the Russia-Ukraine conflict, as well as restrictions on food exports, this could exacerbate food inflation and food insecurity. Continued weakness in China's property sector could slow growth in Asia's largest economy. According to the Fed Beige Book, US economic growth was modest amid a softening labor market with moderate wage growth and slowing inflation pressures in July, strengthening expectations that the Fed's fastest hiking cycle in decades is coming to an end. The Fed is widely expected to leave its benchmark overnight interest rate in the current 5.25-5.50 percent range at the end of its September policy meeting while leaving open the door to a final quarter-percentage-point hike before end of the year 2023. In August 2023, CPI increased by 0.6 percent on a MoM basis, bringing inflation to over 3.7 percent on YoY basis compared to 3.2 percent reported for July 2023. The 10.6 percent increase in gasoline prices contributed to inflation number. US inflation expectations fell in early September to the lowest levels in more than two years as consumers grew more optimistic about the economic outlook. According to JP Morgan, economic outlook for the US economy is better than expected and a recession could be avoided. The US economy has expanded at an estimated rate of 2.0 percent in Q1 and 2.4 percent in Q2 reflecting the momentum of projected growth in the first half of the year 2023. Consumer spending which drives 65 percent of GDP - has been resilient throughout 2023. However, if consumer spending moderates as expected in the second half, growth could slow down during SEPTEMBER - 2023 2 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K the second half of 2023. The US economic situation is also reflected through the cyclical trend in WEI which indicates an increasing trend in recent months (Fig-1). which euro area, US, UK and China are moving around their potential level, indicating a surge in Pakistan's export demand (Fig-2). Fig-2 (a): Composite Leading Indicator Fig-1: Growth in WEI (%) 1.88 2.90 Source: Federal Reserve Bank of New York The global economic expansion further decelerated into the third quarter. The J.P. Morgan Global PMI Composite Output Index - produced by S&P Global â€“ recorded at 50.6 in August, down from 51.6 in July, 2023. This is the third straight month in which the rate of expansion declined to now sit at the slowest since the global economy returned to growth in February. The current reading is broadly consistent with an annualized quarterly global GDP growth of just under 1 percent, which is below the long-run average of 2.9 percent. The expansion of output remained exclusive to the service sector as manufacturing output contracted marginally for a third straight month. Deterioration in global trade remained the key driver for the latest developments, although some signs of global destocking signal some relief in the coming months. Meanwhile, the service sector remained in expansion, but the rate of growth continued to trend lower to the weakest since January. Weakening service sector growth momentum is partly attributed to softer consumer services conditions as the recent travel surge fades. The global situation is also evident from the monthly CLI position of Pakistan's main trading partners, of Source: OECD Fig-2 (b): Composite Leading Indicator Source: OECD The FAO food prices index (FFPI) averaged 121.4 points in August 2023, down by 2.1 points from July. The decline in August was driven by a significant decrease in the price indices for vegetable oils by 3.1 percent, sunflower oil by 8.0 percent, cereal price by 0.7 percent, wheat by 3.8 percent, and coarse grain price by 3.4 percent. Global commodity prices soared in August 2023. Energy prices increased by 7.8 percent, led by 17.3 percent increase in natural gas in Europe and 8.5 percent in coal in Australia. Non-energy prices SEPTEMBER - 2023 3 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K declined by 1.2 percent. Food prices decreased by 2.2 percent. Beverage gained by 1.4 percent while raw materials eased by 0.7 percent. Fertilizer prices soared 8.2 percent. Metal price declined by 1.9 percent led by 9.3 percent decline in tin. Precious metal dropped by 1.9 percent led by a 3.4 percent drop in sliver. Rs Fig-3: LSM Growth Rates (%) Performance of Pakistanâ€™s Economy Source: PBS 2.1 Real Sector 2.1-a Agriculture According to the Pakistan Cotton Ginners' Association (PCGA), arrivals of Cotton as of 15th September 2023 posted a remarkable growth of 79.9 percent to 3.93 million bales compared to 2.19 million bales during the same period last year. This surge reflects a growing focus on enhancing cotton production. If the cotton crop production continues to thrive, it will augur well for the economic outlook. For Jul-Aug FY2024, farm tractor production inched up by 6.5 percent to 6,189 and its sales also increased by 27.3 percent to 6,645 compared to the corresponding period last year. During July FY2024, the agriculture credit disbursement was recorded at Rs 151 billion as compared to Rs 112 billion last year showing an increase of 35.1 percent. During Jul-Aug 2023, urea and DAP offtake for Kharif 2023 was 2,757 thousand tonnes (4.9 percent more than Kharif 2022) and 650 thousand tonnes (51.9 percent higher than Kharif 2022), respectively. 2.1-b Manufacturing The headwinds of FY2023 continued to prevail in the ongoing fiscal year as LargeScale Manufacturing (LSM) could not outperform in July 2023 and remained in negative territory. On YoY basis, LSM declined by 1.09 percent in July 2023, while on MoM basis, it decreased by 3.62 percent. During the period, 9 sectors witnessed positive growth including, Food, Tobacco, Wearing apparel, Chemicals, Pharmaceuticals, Rubber Products, NonMetallic Mineral Products, Machinery and Equipment, and others (Football). The auto industry remained under pressure due to ongoing inflationary pressures and tight auto financing. The downturn was evident across all categories except tractors. Car production and sales decreased by 59.5 percent and 50.4 percent, Jul-Aug FY2024 while Trucks & Buses production and sale decreased by 63.2 percent and 41.1 percent. The sale of petroleum products declined by 7 percent during Jul-Aug FY2024 to 2.8 mn tons against 3.0 mn tons in the same period last year. While in August 2023, a decline of 8 percent is observed in oil sales reaching 1.40 mn tons from 1.52 mn tons. On a positive note, total cement dispatches significantly grew by 45 percent during JulAug FY2024 and reached to 7.7 mn tons against the period of last year. In August 2023, cement dispatches surged by 37 percent and stood at 4.518 mn tons against 3.297 mn tons same period last year. Local cement sales by the industry came in at 3.793 mn tons in August 2023, a substantial growth of 30.4 percent from the last year. Whereas exports witnessed a healthy increase of 87.1 percent from 387,440 tons to 724,777 tons during the same period. SEPTEMBER - 2023 4 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K 2.2 Inflation Fig-4: Fiscal Indicators % of GDP (Jul) CPI inflation increased to 27.4 percent on YoY basis in August 2023 as compared to 27.3 percent in August 2022. On a Monthon-month (MoM) basis, it increased to 1.7 percent in August 2023 compared to an increase of 3.5 percent in the previous month. Major drivers contributing to the year-onyear increase in CPI include nonperishable food items (42.8 percent), Perishable food items (12.7 percent), Alcoholic Beverages & Tobacco (97.5 percent), Clothing & Footwear (18.5 percent), Housing, Water, Electricity, gas & Fuel (6.3 percent), Health (22.6 percent), Transport (23.0 percent) and Recreation and Culture (61.4 percent). The SPI for the week ended on 21st September 2023, recorded an increase of 0.93 percent as compared to the previous week. Prices of 11 items declined, 18 items remained stable and 22 items increased. Fig-5: FBR Tax Collection (Rs. bn) (Jul FY24) 2.3 Fiscal The net federal revenues grew significantly by 66.4 percent in July FY2024 to Rs 380.9 billion against Rs 228.9 billion last year. The primary factor in the revenue performance was a substantial rise in non-tax collection, which soared to Rs 139.4 billion in July FY2024 from Rs 40.8 billion last year. Amongst all, higher receipts from petroleum levy, royalties on oil/gas, and the United Nations played a vital role in improving the non-tax collection. On the other hand, FBR tax collection grew by 23.0 percent to Rs 538.4 billion in July FY2024 against Rs 437.4 billion last year. FBR net provisional tax collection during July-Aug FY2024 grew by 27.2 percent to Rs 1207.5 against Rs 949.1 billion last year. In the month of August 2023, FBR collected 36.4 percent more taxes to reach Rs,669.1 billion from Rs 490.7 billion last year. FBR tax collection has surpassed both its monthly and Jul-Aug FY2024 targets by Rs 20.0 billion and Rs 24.4 billion, respectively. During Jul-Aug FY2024, direct tax revenues increased by 42.2 percent, sales tax by 16.6 percent, FED by 58.0 percent, and customs duty by 11.3 percent. Overall, the growth of Source: FBR domestic tax was recorded at 30.2 percent, indicating the revival of economic activities and sales. As compared to revenues, total expenditures grew by 20 percent to Rs 644.9 billion in July FY2024 against Rs 536.2 billion last year. Within total, current spending increased by 18.0 percent on account of a 52.0 percent rise in markup payments, while non-markup current spending reduced by 48.3 percent. Consequently, in July FY2024, the primary balance showed a surplus of Rs 311.2 billion (0.3 percent of GDP) against the surplus of Rs 142.2 billion (0.2 percent of GDP) last year. Overall fiscal deficit remained at 0.2 percent of GDP in July FY2024 almost the same as last year. SEPTEMBER - 2023 5 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K Rs Box: Economic Revival - Key Measures SEPTEMBER - 2023 6 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K 2.4 Monetary Monetary Policy Committee (MPC) has maintained the policy rate at 22 percent, a decision held on 14th September 2023. This decision considers the latest inflation outturn reflecting the continuing declining trend in inflation from its peak of 38 percent in May to 27.4 percent in August 2023. Even though global oil prices have risen recently and are being passed on to consumers through adjustments in energy prices, inflation is projected to remain on a downward trajectory, especially from the second half of FY2024. During 1st July â€“1st September, FY2024 money supply showed negative growth of 1.8 percent (Rs -563.0 billion) compared to negative growth of 1.3 percent (Rs -350.4 billion) last year. Within M2, NFA increased by Rs174.0 billion as compared to a decrease of Rs 432.6 billion last year. Whereas the NDA of the banking sector decreased by Rs 737.1 billion as compared to an increase of Rs 82.2 billion last year. 2.5 External Sector The Current Account posted a deficit of $ 935 million for Jul-Aug FY2024 as against a deficit of $ 2.0 billion last year, largely reflecting an improvement in the trade balance. Exports (fob) declined by 8.3 percent and reached $ 4.5 billion ($ 4.9 billion last year). Imports (fob) declined by 26.0 percent and reached $ 8.5 billion ($ 11.5 billion last year). Resultantly the trade deficit reached $ 3.9 billion as against $ 6.5 billion last year. During the period under review, exports in Services increased by 2.1 percent to $ 1135 million as against $ 1112 million same period last year. The imports in services increased by 24.7 percent to $ 1598 million as compared to $ 1281 million same period last year. The trade deficit in services stood at $ 463 million as against $169 million last year. As per PBS, the export commodities that registered positive growth include Fish & Fish Preparation (29.0 percent in quantity & and 3.3 percent in value), Fruits (40.3 percent in quantity & 0.9 percent in value), Cotton Yarn (44.6 percent in quantity & 25.8 percent in value), Towel (17.8 percent in quantity & 6.5 percent in value) and Plastic Materials (152.4 percent in quantity & 31.9 percent in value). Whereas, main imported commodities were Petroleum products ($ 971.4 million), Petroleum crude ($ 456.2 million), Liquefied Natural gas ($ 645.4 million), Palm Oil ($ 552.4million), Plastic materials ($ 431.6 million), Iron & Steel ($ 309.6 million) and Medicinal products ($ 177.1 million). 2.5.1 Foreign Investment Total foreign investment during Jul-Aug FY2024 recorded an inflow of $ 260.4 million as against $ 176.4 million last year. FDI reached $ 233.8 million during Jul-Aug FY2024 ($ 201.4 million last year) increasing by 16.1 percent. FDI received from China $ 50.4 million (21.6 percent), Netherlands $ 42.6 million (18.2 percent) Switzerland $ 36.5 million (15.6 percent of total FDI), and Hong Kong $ 33.0 million (14.1 percent). Power sector attracted the highest FDI of $ 97.6 million (41.8 percent of total FDI), Oil & Gas exploration $ 29.2 million (12.5 percent), and Pharmaceuticals & OTC products $ 25.4 million (10.9 percent). Foreign Private Portfolio Investment has registered a net inflow of $ 22.7 million during the same period. Foreign Public Portfolio Investment recorded a net inflow of $ 3.9 million. The total foreign portfolio investment recorded an inflow of $ 26.6 million as against an outflow of $ 25.0 million last year. 2.5.2 Worker's Remittances In Jul-Aug FY2024, workers' remittances decreased by 21.6 percent to $ 4.1 billion ($ 5.3 billion last year). MoM, remittances increased by 3.1 percent in August 2023 ($ 2.1 billion) as compared to July 2023 ($ 2.0 billion). Major sources of remittances are Saudi Arabia 23.7 percent ($ 976.9 million), U.A.E 15.1 percent ($ 623.5 million), U.K 15.5 percent ($ 637.9 million), USA 12.2 percent ($ 503.7 million), other GCC countries 11.5 percent ($ 472.8 million), EU 13.9 percent ($ 573.8 million), Canada 1.7 SEPTEMBER - 2023 7 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K percent ($ 71.5 million), and other countries 6.5 percent ($ 261.9 million). The decline is attributed to the global economic slowdown as higher inflation in developed countries has led to higher cost of living abroad, thus reducing the surplus funds that could be sent back to homeland as remittances, and the wedge between the exchange rate in interbank and open market. 2.5.3 Foreign Exchange Reserves Pakistan's total liquid foreign exchange reserves increased to $ 13.2 billion on September 26, 2023, as the SBP's reserves stood at $ 7.7 billion and Commercial banks' reserves remained at $ 5.5 billion. 2.6 Performance of KSE Index The performance of Pakistan Stock Exchange (PSX) remained volatile during the month of August 2023, ranges between 45,081 â€“ 48,765 points. However, the index remained significantly higher than its 6month average i.e., 43,245. The market capitalization of PSX settled at Rs 6,716 billion as of 31st August 2023. During JulAug 2023, the KSE-100 index increased by 2.7 percent, while the S&P 500 of the US increased by 1.2 percent. Contrary, the SSE Composite of China declined by 3.8 percent, the CAC 40 of France declined by 0.9 percent and the Sensex 30 of India declined by 0.6 percent. The performance of major world indices indexed at 100 is depicted in Figure: 2.7 Social Sector w PPAF through its Partner Organizations has disbursed 32,176 interest-free loans amounting to Rs 1414 million during August 2023. Since the inception of the interest-free loan component, a total of 2,466,309 interest-free loans amounting to Rs 93,323 million have been disbursed. w Under the Prime Minister Youth Business & Agriculture Loan Scheme, the government has disbursed Rs 30,000 million till June 2023 to 61,687 beneficiaries for business. w Pakistan is one of the largest labour exporting countries in the region. During August 2023 Bureau of Emigration & Overseas Employment registered 90014 workers for overseas employment in different countries. w An alarming increase in dengue cases was witnessed nationwide reaching 6,274. Balochistan reported the highest number of cases (2,627), followed by Punjab (1,961), Sindh (1,014), ICT (438), and KP (234). The federal government in coordination with the provincial governments is framing a coordinated strategy for the prevention of the dengue virus to protect the people from disease Fig-6: Trend of Major World Standardized Indices Rs Economic Outlook 3.1 Inflation Source: PSX, Investing.com Note: All indices are standardized to 100 on the initial day of the sample taken in this ï¬\u0081gure. International food prices have been experiencing a decline during August 2023. The Food and Agriculture Organization (FAO)'s price index, which tracks the most globally traded food commodities, averaged 121.4 points in August 2023 against 124.0 for the previous month. The August figure was the lowest since March 2021 and also 24 percent below than an all-time high in March 2022, in the wake of Russia's SEPTEMBER - 2023 8 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K invasion of Ukraine. The decline in most of the food commodities is offsetting the increases in rice and sugar. Domestically, the government's stern administrative action against the unlawful foreign exchange dealers and hoarders in commodity markets is stabilizing the exchange rate, providing a respite to the imported inflation and easing out commodity prices. The SBP has also maintained the policy rate to the previous level in view of anchored inflationary expectations. The impact of the double-digit base effect is a relief to the September inflation; however, its impact seems to be minimized owing to the major increase in fuel price in the month of September 2023. Together with this, the upward adjustment in energy tariffs is further likely to intensify inflationary pressures in the coming months as these price adjustments are expected to place additional burden on transportation costs, essential items, and services. In view of the above, inflation is anticipated to remain high in the coming month. In September 2023, it is expected to be around 29 to 31 percent. 3.2 Agriculture The agricultural outlook for Kharif 2023 seems promising as the input demand shows an uptick due to lucrative incentives by the government, however, there may be downside risks due to climate shocks. The recent pest attack on cotton crops may pose substantial risks to the cotton yield. Fig-7: Relationship between CLI and LSM cycle Source: PBS, OECD and EAW Calcula ons 3.4 Overall Economic Activity The Monthly Economic Indicator (MEI) is developed as a tool to distribute the past annual GDP numbers, reported by the PBS, on a monthly/quarterly basis, and to nowcast GDP growth for the FY in which the National Accounts are not yet available on the same frequency. Figure presents the MEI on a monthly basis since January 2019. It should be noted that some of the data underlying the August, 2023 MEI are still provisional and may be revised next month. Fig-8: Monthly Economic Indicator (MEI) 19.4 3.3 Industrial activity The LSM cycle usually follows the cyclical movements in the main trading partners, but since it is focused on the main industrial sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets. The aggregate CLI in the main export markets continued to remain below the potential level since April 2022. The cyclical LSM pattern in the month of July showed some improvement though still below the potential level. For the month of August, the pressure is expected to ease out further on the back of significant rebounds in cement dispatches and the removal of import restrictions. -9.4 Source: EA Wingâ€™s Calculation The MEI estimated for the month of August 2023 stood positive on the back of improved exports and imports on MoM basis and SEPTEMBER - 2023 9 \fM O N T H LY E C O N O M I C U P D AT E & O U T L O O K rising cement dispatches. As the government is striving hard to revive the economy, MEI is expected to be positive throughout the outgoing fiscal year. 3.5 External August-FY2024 BoP data shows some developments - as exports of goods and services increased by 13.8 percent on MoM basis, and imports of goods and services increased marginally by 1.4 percent. As a result, strong growth in exports has been transmitted in the trade deficit of goods and services which decreased by 12.6 percent on MoM basis in the month of August. Similarly, worker's remittances increased by 3.2 percent in August 2023. All these positive factors impacted the current account and its deficit decreased by around 79 percent on both MoM and YoY basis. For the outlook, recent administrative measures against speculative activity in the foreign exchange market in the month of September will impact positively remittances inflows, trade, and current account balance. Moreover, Pakistan's main export markets particularly US, UK, Euro Area and China's monthly CLI positions indicate an upward trend, indicating positive prospects for export growth in the coming months. However, imports will gradually increase to stimulate economic activities in the economy. Therefore, it is expected that the current account will remain with a sustainable limit. 3.6 Fiscal In July FY2024, fiscal performance remained satisfactory while exhibiting a surplus in the primary balance accompanied by a fiscal deficit at the same level as last year. On the revenue side, new tax measures are contributing to direct tax collection. Other components of tax collection like FED have also posted significant growth mainly due to an uptick in collections at the import stage. With the removal of import restrictions, the collection from import-related taxes is likely to increase further. Similarly, the increase in sales tax is primarily attributed to 25.6 percent from domestic collection. Overall performance signifies the revival of economic activities and sales. These developments collectively bode well for achieving the tax collection target in the first quarter of FY2024. The government is actively engaged in implementing a strategy to ensure fiscal sustainability through revenue-enhancing initiatives and prudent expenditure management. The government is particularly focusing on restricting nonmarkup expenses through the implementation of austerity measures and targeted subsidies. The main objectives are to limit the fiscal deficit to 6.5 percent of GDP and to keep the primary balance in surplus of 0.4 percent of GDP during FY2024. 3.7 Final Remarks Recent administrative measures aimed at improving the availability of essential food commodities and expected ease in supply constraints have improved the inflation outlook. Moreover, administrative and regulative action for curbing illegal activities in the foreign exchange market have started to yield desired dividends and narrowing the gap between interbank and open market exchange rates. On the external front, current account deficit and aligned indicators are showing some developments in August. Similarly, fiscal performance remains satisfactory at the start of FY2024. It is expected that the economic revival plan and prudent actions - policies including SIFC and IT policy- will attract new investments to create a multiplier effect in the economy for higher and inclusive economic growth in FY2024 and further in the medium term. SEPTEMBER - 2023 10 \f27th September 2023 ECONOMIC INDICATORS Remi ances ($ bn) Exports FOB ($ bn) Imports FOB ($ bn) Current Account Deï¬\u0081cit ($ bn) Source: SBP FDI ($ mn) Total Foreign Investment ($ mn) Source: FBR & Budget Wing FBR Revenue (Rs.bn) Non-Tax Revenue (Rs.bn) Source: SBP PSDP (Rs.bn) Agriculture Credit (Provisional) PSX Index Market Capitaliza on (Rs. bn) Market Capitaliza on ($ bn) \* : Formerly Karachi Stock Exchange (KSE) Source: PBS, PSX & SECP SEPTEMBER - 2023 11 \f"