Monthly

ECONOMIC UPDATE & OUTLOOK

December 2022

Government of Pakistan
Finance Division
Economic Adviser's Wing

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Executive Summary

The world economies are struggling while flashing warning signs that the global economy is teetering on a cliff's edge. Aggressive monetary tightening by Federal Reserve in decades to wring inflation in US with effects far beyond its borders. The contractionary policy stance of the Federal Reserve made dollar more appealing to investors around the world. This situation has created problems for other economies around the globe by making their imports, especially essential items like food and fuel more expensive. A contraction in global GDP is a real possibility amid rapid deterioration of growth prospects coupled with rising inflation and tightening financing conditions.

Real Sector:

For Rabi season 2022-23, wheat crop has been sown on an area of 20.77 million acres[1]. The input situation is expected to remain favorable due to incentives announced in Kissan Package 2022 that will boost agriculture productivity. The better input situation is expected to increase crops production in Rabi season. According to IRSA the irrigation water supply recorded at 6.32 MAF for November 2022 against the last year's supply of 5.50 MAF, increased by 0.82 MAF.

The Consumer Price Index (CPI) recorded at 23.8 percent on a YoY basis in November 2022 as compared to 26.6 percent in the previous month.

Fiscal, Monetary & External:

Net FBR revenues increased by 9.2 percent to Rs 1317 billion during Jul-Oct FY2023 against Rs 1205 billion last year. Tax collection grew by 16.8 percent to reach Rs 2139 billion in the first four months of FY2023 up from Rs.1830 billion in the comparable period of last year. Overall, the fiscal deficit stood at 1.5 percent of GDP (Rs.1266 billion) during Jul-Oct FY2023 as compared to 0.9 percent of GDP (Rs.587 billion) last year. During 1st July – 02nd December, FY23 money supply (M_2) recorded growth of 1.3 percent (Rs 367.0 billion) compared negative growth of 0.2 percent (Rs -41.8 billion) in last year.

The Current Account posted a deficit of $ 3.1 billion for Jul-Nov FY2023 against a deficit of $ 7.2 billion last year, mainly due to improvement in trade balance. The current account deficit shrank to $ 276 million in November 2022 as against $ 569 million in October 2022.

International Performance and Outlook

Battle against inflation intensifies, world GDP forecasts for 2023 downgraded as central banks are forced to toughen up in their fight against inflation and China's property market outlook deteriorates. Asian Development Outlook[2] projected that South Asia is on track to meet the update growth forecast of 6.5% in 2022, but the forecast for 2023 is downgraded slightly from 6.5% to 6.3%. However, the subregional revision for 2023 largely reflects lower forecasts for Bangladesh and Pakistan.

The EU gas crisis has eased a little, but sharper ECB rate rises will weigh on demand. The risk of European natural gas shortages and rationing this winter has receded as LNG imports have surged and gas consumption has fallen. But the crisis is far from over and high wholesale gas prices continue to weigh heavily on firms costs and household budgets in the world.

Inflationary pressures have deepened, largely due to the war in Ukraine, which has pushed up energy and food commodity prices. The higher price of

1: As on 19-12-2022, sowing is still in progress.
2: Asian Development Outlook, December 2022, ADB

energy has triggered prices across a broad basket of goods and services. Tighter monetary policy and decelerating growth will help to eventually moderate inflation in 2023 but will remain high.

Among major economies, the Governing Council of ECB raises the interest rate by 50 bps and, based on the substantial upward revision to the inflation outlook, it is expected to raise it further. According to Eurostat's flash estimate, inflation was 10.0 percent in November, slightly lower than the 10.6 percent recorded in October. The decline resulted mainly from lower energy price inflation. Food price inflation and underlying price pressures across the economy have strengthened and will persist for some time. The Euro area economy may contract in the current quarter and the next quarter, it is projected that the economy will grow by 3.4 percent in 2022 and 0.5 percent in 2023.

The Bank of England's MPC increase Bank Rate by 0.5 percentage points, to 3.5%. The BoE, which is battling double-digit inflation that has unleashed a cost-of-living crisis that is pushing the economy deeper into recession, has raised rates by a combined 325 bps in 2022 alone to their highest since late 2008. It is expected that it will reach to its peak by more 100 bps.

The Federal Reserve raised interest rates by half a percentage point and the Committee decided to raise the target range for the federal funds rate to 4.25-4.5 percent. The Committee anticipates that ongoing increase in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.

U.S. services industry activity surprisingly picked up in November, with recovery in employment, presenting more facts of basic momentum in the economy as it supports for an expected recession next year. The Federal Reserve will keep on increasing interest rates and raise its policy rate to a higher level than the recently forecasted 4.6%, where it could stay for some time. The U.S. central bank's rate-hiking cycle is the fastest since the 1980s.

According to Institute of Supply Management (ISM) report, US manufacturing activity contracted for first time in November 2022, stood at 49 percent as lower than 50.2 percent in October 2022. The contraction was led by the decline in services activity, flared by the higher cost of living and tightening of financial conditions. US economic situation is also reflected through decline in WEI which is continuously on declining trend in the month of November (Fig-1).

Fig-1: Growth in WEI

Source: Federal Reserve Bank of New-York

The J.P Morgan Global Composite Output Index declined to 48 in November 2022, from 49.0 in October 2022. Output contracted in both the manufacturing and service sectors.

The downturn in global economic activity deepened during November. Output fell at the quickest pace in almost 30 months following a similarly steep drop in new order intakes. There was slightly better news on the price front, however, as rates of increase in input costs and output charges both eased further.

Furthermore, of the six sub sector definitions covered by the survey, five (business services, consumer goods, consumer services, intermediate goods and investment goods) registered contractions. Financial services were the only category to see expansion, although the rate of increase was marginal.

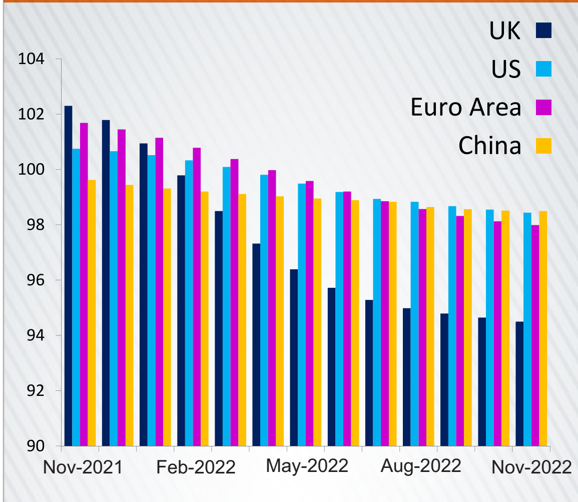
There was a broad slump in developed market output during November. The rate of decline accelerated to a three-month record in the US, remained solid in both the Euro area and the UK while Japan contracted following back-to-back expansions in September and October. The performance of emerging markets was more mixed. Downturns were signaled in China and Brazil, Russia stabilized and India expanded.

The trend in international trade also remained weak, with new export orders contracting for the ninth successive month. Lower intakes in new work led to a further reduction in outstanding business, which fell for the fifth straight month.

The CLIs continued slowing growth in November 2022 in OECD and major economies, dragged down by high inflation, rising interest rates and falling 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 shows stabilisation driven by production of motor vehicles and share prices. Overall in China, a sharp increase in Covid cases had contributed to a slowing in activity. China's quarterly GDP growth in 2022-Q4 was likely to be some way below the 1.4% rate that had been anticipated. Covid outbreaks and related restrictions had weighed on consumption, and import growth had contracted sharply as a result. Chinese export growth had also contracted in November, reflecting

Fig-2: Composite Leading Indicator



Source: OECD

slowing global growth and some Covid-related disruption to production. The Chinese government has issued new guidelines recently that has eased some zero-Covid policies. The weakening property sector had continued to have a negative impact on activity.

Global commodity prices declined in November 2022. Energy prices fell by 4.5 percent, led by natural gas Europe (8.5 percent) and US (27.6 percent). Non-energy price gained 0.7 percent, Agricultural prices eased 0.4 percent. Food prices eased 0.1 percent led by grains 3.9 percent Fertilizers declined 5.8%. Metal prices gained 5 percent led by nickel (16%), tin (9.6%) and copper (5.2%). Precious metals increased by 4.4 percent.

Monthly Performance of Pakistan's Economy

2.1 Real Sector

2.1-a Agriculture

For Rabi season 2022-23, wheat crop has been sown on an area of 20.77 million acres[3]. The input situation is expected to remain favourable due to incentives announced in Kissan Package 2022 that will boost agriculture productivity. The better input situation is

3: As on 19-12-2022, sowing is still in progress.

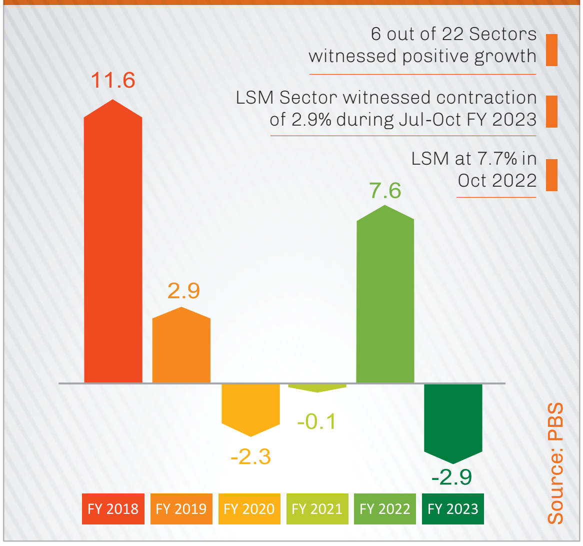
expected to increase crops production in Rabi season. According to IRSA the irrigation water supply recorded at 6.32 MAF for November 2022 against the last year's supply of 5.50 MAF, increased by 0.82 MAF. During Jul-Nov FY2023, the agriculture credit disbursement increased by 35.9 percent to Rs 663.9 billion from Rs 488.5 billion compared to corresponding period last year. During Rabi 2022-23 (November 2022), urea and DAP off-take stood at 583 thousand tonnes (1.6 percent higher than November 2021) and 236 thousand tonnes (7.5 percent higher than November 2021).

2.1-b Manufacturing

The global slowdown due to supply chain disruptions, higher inflation, and monetary tightening has tone down the overall demand at international level which have its implications on the performance of manufacturing industry in Pakistan. Concurrently, the followed demand compression policies in Pakistan to correct the imbalances and tame down inflation along with damages incurred by flood has muted the production of LSM sector which witnessed contraction of 2.9 percent during Jul-Oct FY023. On YoY basis, LSM plunged by 7.7 percent in October 2022, while on MoM basis it shrinks by 3.6 percent. During Jul-Oct FY2023, 6 out of 22 sub-sectors witnessed positive growth which includes, Wearing apparel, leather Products, Chemicals, Iron & Steel products, Furniture and other manufacturing sectors. While it decreased in Food, Beverages, Tobacco, Textile, Coke & Petroleum Products, Pharmaceuticals, Wood Products, Paper & Paperboard, Rubber Products, Non-Metallic Mineral Products, Fabricated metal, Electrical Equipment, Machinery and Equipment, Automobiles and Other Transport Equipment.

Import compression strategies, tightening of monetary policy and lower purchasing power of the consumer continued to compress the performance

Fig-3: LSM Growth (%) July-October



of automobile sector. During, Jul-Nov FY2023, Car production and sale decreased by 32.3 percent and 38.9 percent, respectively, Trucks & Buses production and sale decreased by 23.8 percent and 39.1 percent and tractor production and sale decreased by 40.9 percent and 52.3percent, respectively.

The impact has also been translated into the sales of petroleum products which plummeted by 20 percent to 7.7 mn tons during Jul-Nov FY2023 from 9.6 mn tons in the same months of last fiscal year. YoY, oil sales decreased by 12 percent in Nov 2022 to 1.55 mn tons (1.76 mn tons in Nov 2021).

2.2 Inflation

The CPI recorded at 23.8 percent on a YoY basis in November 2022 as compared to 26.6 percent in the previous month. On MoM basis, CPI increased to 0.8 percent in November 2022 as compared to an increase of 4.7 percent in the previous month and an increase of 3.0 percent in November 2021. The average CPI in the first five months of the current fiscal year remained 25.1 percent compared to 9.3 percent during the same period of last year. The SPI for the week ended on 22nd December 2022, recorded a decrease of 0.11 percent as compared to previous week. This is fourth consecutive decline in SPI. Prices of more than 50% essential items either declined or remained stable which shows the effectiveness of policy measures.

2.3 Fiscal

Net FBR revenues increased by 9.2 percent to Rs 1317 billion during Jul-Oct FY2023 against Rs 1205 billion last year. Tax collection grew by 16.8 percent to reach Rs 2139 billion in the first four months of FY2023 up from Rs.1830 billion in the comparable period of last year. In contrast, non-tax collection was reduced by 23.4 percent to Rs 346 billion during Jul-Oct FY2023 against Rs 452 billion last year.

Total expenditure rose by 26.1 percent to Rs 2737 billion during Jul-Oct FY2023 against Rs2171 billion in the same period of last year. The increase is driven by a 34.4 percent growth in current spending. While PSDP expenditures stood at Rs 98 billion during Jul-Oct FY2023 against Rs 207 billion in the comparable period of last year.

Overall, the fiscal deficit stood at 1.5 percent of GDP (Rs.1266 billion) during Jul-Oct FY2023 as compared to 0.9 percent of GDP (Rs.587 billion) last year. Primary balance posted a surplus of Rs.136 billion (0.2 percent of GDP) against the surplus of Rs.206 billion (0.3 percent of GDP) last year.

FBR Tax Collection

The provisional net tax collection grew by 15.9 percent to Rs 2688 billion during Jul-Nov FY2023 as compared to Rs 2319 billion in the same period of last year. In the first five months, FBR has been able to collect Rs 8 billion in excess of the target.

Head-wise tax collection indicates a 45 percent growth in direct taxes followed by 12 percent in FED and 1.2 percent in sales tax. Thus, total domestic tax collection grew by 19.3 percent. On the other hand, revenues from customs duty were reduced by 1.0 percent during the period under review.

2.4 Monetary

Monetary Policy Committee (MPC) increased the policy rate by 100 basis points to 16 percent in latest Monetary Policy decision held on 25th November, 2022. This decision reflects the MPC's view that inflationary pressures have proven to be stronger and more persistent than expected.

During 1st July – 02nd December, FY2023 money supply (M_2) shows growth of 1.3 percent (Rs 367.0 billion) compared negative growth of 0.2 percent (Rs -41.8 billion) in last year. Within M2, Net Foreign Assets (NFA) decreased by Rs 1098.4 billion as compared decrease of Rs 147.0 billion in last year. Whereas, Net Domestic Assets (NDA) of the banking sector increased by Rs 1465.4 billion as compared an increase of Rs 105.2 billion last year.

Fig-4: FBR Tax Collection (Rs. bn) (Jul-Nov)

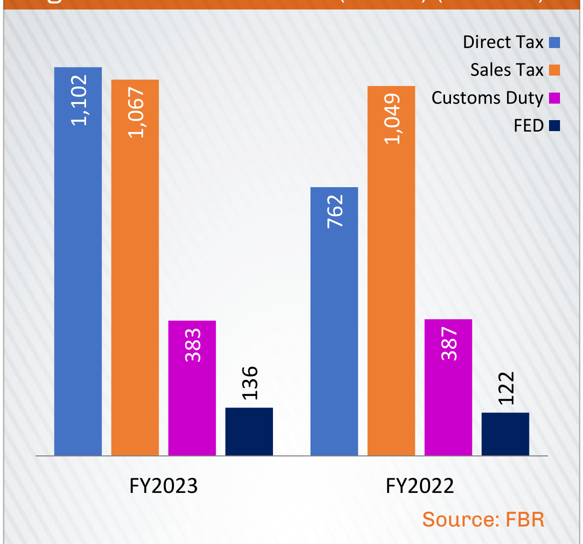
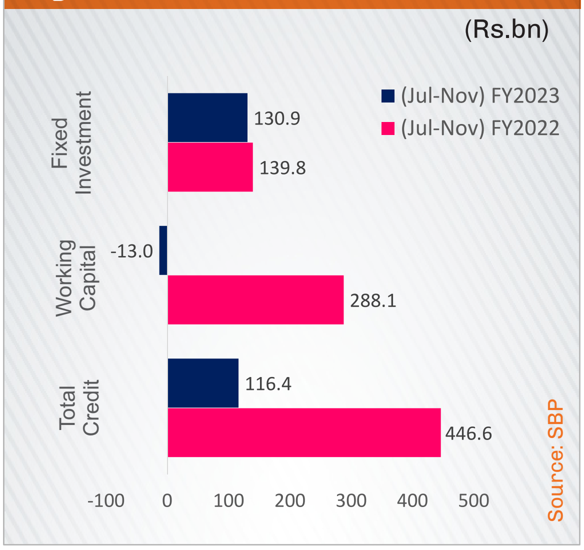


Fig-5: Loans to Private Sector Businesses



2.5 External Sector

The Current Account posted a deficit of $ 3.1 billion for Jul-Nov FY2023 as against a deficit of $ 7.2 billion last year, mainly due to improvement in trade balance. However, the current account deficit shrank to $ 276 million in November 2022 as against $ 569 million in October 2022. Exports on fob declined by 2.0 percent during Jul-Nov FY2023 and reached $ 12.1 billion ($ 12.3 billion last year). Imports on fob declined by 16.2 percent during Jul-Nov FY2023 and reached $ 24.9 billion ($ 29.7 billion last year). Resultantly the trade deficit (Jul-Nov FY2023) reached to $ 12.8 billion as against $ 17.3 billion last year.

As per PBS, during Jul-Nov FY2023, exports stood at $ 11.9 billion ($ 12.4 billion last year), declined by 3.4 percent. The major export commodities which have shown tremendous performance during the review period include Readymade garments (1.9 percent in value & 78.4 percent in quantity), Knitwear (2.5 percent in value & 20.2 percent in quantity), Carpet, Rugs & Mats (7.0 percent in value & 10.2 percent in quantity) Foot wear (28.0 percent in value and 68.3 percent in quantity), Foot Balls (60.2 percent in Value & 61.9 percent in quantity) and pharmaceutical products (26.9 percent in value & 92.1 percent in quantity).

The total imports in Jul-Nov FY2023 decreased to $ 26.2 billion ($ 32.9 billion last year), thus declined by 20.5 percent. Main commodities imported were Petroleum products ($3552.3 million), Medicinal products ($ 632.8 million), Petroleum crude ($ 2273.3 million), Liquefied Natural gas ($ 1584.8 billion), Palm Oil ($ 1724.7 million), Plastic materials ($ 1065.4 million) and Iron & Steel ($ 848.9 million).

2.5.1 Foreign Investment

FDI reached $ 430.1 million during Jul-Nov FY2023 ($ 884.9 million last year) decreased by 51.4 percent. On MOM basis, FDI recorded at $ 81.8 million in November 2022 as against inflow of $ 94.9 million in October 2022. FDI received from China $ 102.5 million (23.8 percent), U.A.E $ 81.6 million (19.0 percent of total FDI), Switzerland $ 58.7 million (13.6 percent), and Netherland $ 44.3 million (10.3 percent). Power sector attracted highest FDI of $ 201.0 million (47.4 percent of total FDI), Financial Business $ 141.1 million (32.8 percent), and Oil & Gas Explorations $ 40.2 million (9.3 percent).

Foreign Private Portfolio Investment has registered a net outflow of $ 14.8 million during Jul-Nov FY2023. Foreign Public Portfolio Investment recorded a net outflow of $ 18.1 million. The total foreign portfolio investment recorded an outflow of $ 32.9 million during Jul-Nov FY2023 as against outflow of 342.5 million last. Total foreign investment during Jul-Nov FY2023 reached $ 397.2 million ($ 542.5 million last year).

2.5.2 Worker's Remittances

In Jul-Nov FY2023, workers' remittances recorded at $ 12.0 billion ($ 13.3 billion last year), decreased by 9.6 percent. Share of remittances (Jul-Nov FY2023) from Saudi Arabia remained 24.6 percent ($ 2957.5 million), U.A.E 18.9 percent ($ 2266.7 million), U.K 13.9 percent ($ 1667.0 million), USA 10.8 percent ($ 1299.3 million), other GCC countries 11.6 percent ($1392.9 million), EU 10.9 percent ($ 1306.9 million), Malaysia 0.5 percent ($ 54.8 million), and Other Countries 8.8 percent.

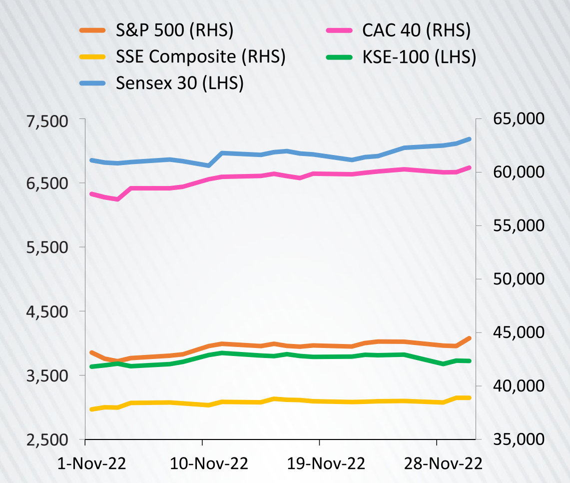
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to $ 12.0 billion on December 21, 2022, with the SBP's reserves now stood at $ 6.1 billion. Commercial banks' reserves remained at $ 5.9 billion.

2.6 Performance of KSE Index

The KSE-100 index closed at 42,349 points as on 30th November 2022 while market capitalization settled at Rs 6,768 billion. The performance of major world indices is depicted in Fig-6:

Fig-6: Major World Indices



Source: Investing.com, PSX

2.7 Social Sector

The government has decided to include transgenders in the Benazir Kafalat programme for the first time to mobilize this marginalized community, so that the maximum number of transgender persons could benefit from this policy.

PPAF through its 24 Partner Organizations has disbursed 41,369 interest free loans amounting to Rs 1.70 billion during the month of November, 2022. Since inception of interest free loan component, a total of 2,142,190 interest free loans amounting to Rs 78.54 billion have been disbursed to the borrowers.

During January-November 2022 Bureau of Emigration and Overseas Employment has registered 762,767 emigrants and 71055 emigrants during November, 2022 for overseas employment in different countries.

According to WHO, cases of malaria, cholera, acute watery diarrheal diseases, and dengue fever are declining in most of the flood-affected districts. Overall, malaria cases have reduced to around 50,000 from over 100,000 confirmed cases in early October. Malaria cases have declined by 25% in Balochistan, 58% in Khyber Pakhtunkhwa (KP) and 67% in Sindh provinces. However, high malaria and cholera cases are still being reported in some pocket districts in Sindh and Balochistan where standing water remains. In November 2022, around 70 suspected cases of Diphtheria were reported from the flood-affected provinces of KP, Sindh, and Punjab.

There are about 1.6 million children with Severe Acute Malnutrition (SAM) across all the flood-affected districts who need treatment with Ready to Use Therapeutic Food (RUTF). About 400,000 of these children are in the 34 Government High Priority Districts (GHPD). Bridging the nutrition budget gap for an aggressive sector-wide response is therefore very critical. (OCHA, Flood situation report on Pakistan, December, 06, 2022).

Economic Outlook

3.1 Inflation

Inflationary pressure has started easing out as the MoM CPI inflation declined from massive high of 4.7 percent in October 2022 to 0.8 percent in November. The same trend is witnessed in SPI which decelerated for three consecutive weeks in December that would also be transmitted into CPI inflation of the current month. Moreover, the recent government's decision to provide relief to the masses by slashing the prices of petroleum products is expected to translate into lower cost of food and non food for general public. SBP has announced the increase of 100 bps in policy rate in order to curtail the inflationary expectation.

Moreover, the declining international commodity prices are expected to offset the inflation spikes that emerged due to domestic supply shocks. Nevertheless, it can be expected that YoY CPI inflation in the month of December will maintain its declining tendency observed in November. It is expected that CPI inflation will remain in the range of 21-23%.

3.2 Agriculture

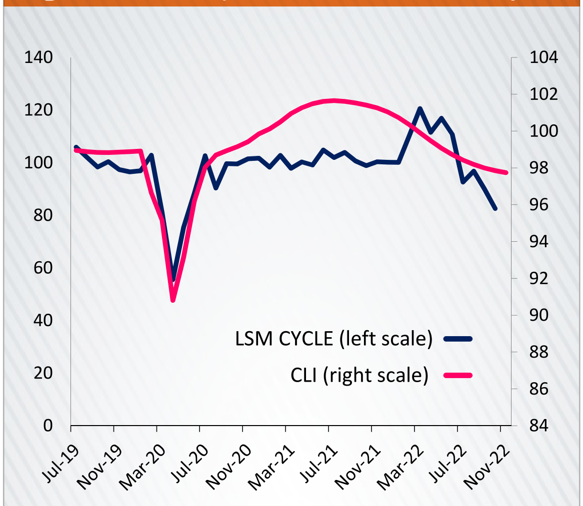
Standing water due to recent floods may create problem in achieving the assigned wheat sowing target, however, the federal and provincial governments are working hard and committed to enhance wheat productivity. In addition to timely increase in Minimum Support Price (MSP), the government has taken measures/initiatives like awareness campaigns, extension services, subsidized and quality provision of inputs (seed and fertilizers) etc, are focused to enhance wheat productivity.

3.3 Industrial activity

Industrial activity, measured by the LSM index is the sector which is most exposed to external conditions. Its exposure to developments in international markets is illustrated in Fig-6 which compares the cyclical component of LSM with the weighted average Composite Leading Indicators in Pakistan's main export markets (CLI). The CLI reflects the deviation of current GDP from its potential level. The cyclical component of Pakistan's LSM output is obtained by extracting the stochastic trend from the seasonally adjusted LSM series.

In October 2022, LSM output came in somewhat lower than expected on the basis of a baseline scenario. In fact, the underlying trend in LSM is still positive, but, by historical standards, its cyclical position is significantly negative. This development can be the result of several factors. Firstly, the weighted average cyclical output gap in Pakistan's main trading partners remains in negative territory and continues to widen gradually, which implies reduction of global demand. Secondly, the impact of floods-induced destruction of agricultural output may start finding its way into the industrial sectors. Thirdly, Pakistan's official reserves are at relatively low levels, necessitating restrictive monetary policy and other measures to limit imports.

Fig-7: Relationship between CLI and LSM cycle



Source: PBS, OECD and EAW Calculations

It is expected that pressure on LSM is likely to be sustain in November if the negative shocks are continuing to prevail and outpace the LSM output which may gain some momentum as sugarcane crushing starts in November.

3.4 Overall economic activity

The Monthly Economic Indicator (MEI) is developed as a tool to distribute the past annual GDP numbers 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. It is based on combining monthly data of indicators that are proven to be correlated with GDP at constant prices. Fig-7 presents the MEI on monthly basis since January 2019.It should be noted that some of the data underlying the November MEI are still provisional and may be revised next month.

The average MEI during the first 5 months of the current FY points to positive but slow YoY economic growth. This is illustrated by the CPI inflation which remains elevated and weighs on real incomes, the further deteriorating cyclical position in Pakistan's main trading areas, declining growth of imports and negative output gap in LSM output. Also, other monthly indicators seem to confirm this development such as cement sales, automobile production and sale and oil sale.

Most of the high frequency indicators showing the signs of lower growth since the start of the current FY as the economic situation is faced with severe headwinds both at global and domestic ends. These are reflected in the MEI which continues to remain on a lower path of economic expansion. However, the Government is taking all possible measures to counter the downside risks and supporting the incomes of the most needed as well as crucial sectors of the economy. As a result, contraction or recession as of yet been avoided.

Fig-8: Monthly Economic Indicator (MEI) Growth (percent)

Source: EA Wing's Calculation

3.5 External

Bop data indicates that exports of goods and services increased by around 1.9 percent in November as compared to October. Exports have now settled around 2.9 billion US$ mark and are expected to climb further in coming months so as to again restore its 3 billion mark in coming months. However, on YoY basis, they decreased by 12.7 percent. Several factors are contributing in low exports for goods including continuously downward trend in cyclical position of the main trading partners (as witness by the CLI), the underlying growth trend in those countries remained bleak during 2022. Second, REER low level has implied price competitiveness for exports which cannot provide desired dividends to exports due to high RPI. Third, the domestic economic dynamism remains uncertain. Fourth and important risk factor is geopolitical tensions, Russia-Ukraine conflict which elevated the risks for Pakistan's economy in terms of high international prices and significant pressure on external and fiscal accounts.

November BoP data further witnessed that import of goods and services decreased by 5.9 % on MoM and massive decline of 32% on YoY basis. Contained domestic demand and higher domestic interest rate reflect in low imports for machinery, transport, textile, agri and other chemicals and metal groups. It is expected that imports will settle at further lower levels gradually in the coming months.

Accordingly, trade balance of goods and services decreased by 14.8% on MoM and 47.8% on YoY basis. Furthermore, the Government continues on implementing measures to curb unnecessary imports and striving hard to cope with the macroeconomic imbalances and financing challenges. Along, stabilization trend in international commodity prices, it is expected that the trade deficit will further improve in coming months and settled down at significantly lower levels in the second half of the CFY. Assuming targeted remittance inflows, the expected improvement in the trade balance will be reflected in declining current account deficits, such that these deficits remain manageable and comfortably financeable for FY2023.

3.6 Fiscal

The first four months of FY2023 have witnessed a higher expenditure growth on the back of higher mark-up payments. Currently, the government is facing the unprecedented challenge of providing relief to people in flood-hit areas. The government is providing relief through the Kisaan package and BISP. Although the government is committed to achieve fiscal consolidation by reinforcing fiscal discipline, additional spending due to flood-related activities may put significant pressure on total expenditure.

On the revenue side, despite import compression and a zero rating on POL products, FBR has surpassed both its 5-month target of Rs 2,680 billion and its monthly target of Rs 537 billion. Extraordinary actions in the areas of recovery, monitoring, and daily vigilance allowed for the achievement of set targets. Despite the challenges on domestic and global economic fronts, the continuation of these efforts would help FBR reach the specified revenue targets for the current fiscal year.

3.7 Final Remarks

As in many other countries, Pakistan's economic activity remains currently below potential, implying a negative output gap. At the same time, again as in many other countries, inflation remains substantially above targets. Furthermore, as is also the case in several other emerging economies, the global energy crises, which has pushed up global commodity prices, also puts downward pressure on international official reserves.

During first five months of FY2023, Pakistan's economy showed signs of resilience to domestic and global challenges. Despite facing inflationary pressures, trade and current account deficits are continuously showing improvement, which is a sigh of relief for financing challenges. On fiscal front, fiscal consolidation is topmost priority to achieve targeted fiscal deficit despite government is facing the unprecedented challenge of providing relief to people in flood-hit areas.

For FY2023, economic growth is likely to remain below the budgeted target due to devastation created by floods. This combination of low growth, high inflation and low levels of official reserves is particularly challenging for policy makers. In the short run, demand management policies by Pakistan's Central Bank and Government are designed to fight inflation and protect official reserves and protect inclusive growth.

But in the long run, the Government aims to stimulate the supply side to elevate the long run potential growth rate of the economy. Increasing the long run growth trends of output, per capita real incomes and employment can only be achieved by stimulating investments in new production capacities and improving overall productivity.

ECONOMIC INDICATORS

30 December, 2022

External Sector	2021-22 Jul-Nov	2022-23 Jul-Nov	Change
Remittances ($ billion)	13.3	12.0	▼ 9.6%
Exports FOB ($ billion)	12.3	12.1	▼ 2.0%
Imports FOB ($ billion)	29.7	24.9	▼ 16.2%
Current Account Deficit ($ billion)	7.2	3.1	▼ 57.2%
FDI ($ million)	884.9	430.1	▼ 51.4%
Portfolion Investment ($ million)	-342.5	-32.9	▲
Total Foreign Investment ($ million)	542.5	397.2	▼ 26.8%
Forex Reserves ($ Billion) Total	24.116	11.496	-
Forex Reserves ($ Billion) SBP	17.681	5.614	-
Forex Reserves ($ Billion) Banks	6.435	5.882	-
	28-Dec-21	28-Dec-22	
Exchange Rate (PKR/US$)	178.19	226.37	-
	28-Dec-21	28-Dec-22	

Source: SBP

Fiscal Sector (Rs. Billion)	2021-22 Jul-Oct	2022-23 Jul-Oct	Change
FBR Revenue (Jul-Nov)	2319	2688	▲ 15.9%
Non-Tax Revenue (Federal)	452	346	▼ 23.4%
PSDP (Including grants to Provinces)	207	98	▼ 52.9%
Fiscal Deficit	587	1266	▲
Primary Balance	206	136	▼

Source: FBR & Budget Wing

Monetary Sector	2021-22	2022-23	Change
Agriculture Credit (Provisional) Jul-Nov	488.5	663.9	▲ 35.9%
Credit to Private Sector (Flows)	454.3	90.0	▼ 80.2%
	1-Jul to 3-Dec	1-Jul to 2-Dec	
Growth in M2 (percent)	-0.2	1.3	▲
	1-Jul to 3-Dec	1-Jul to 2-Dec	
Policy Rate (percent)	8.75	16.00	▲
	19-Nov-21	25-Nov-22	

Source: SBP

Inflation	2021-22	2022-23	Change
CPI (National) %	11.5	23.8	▲
	(Nov)	(Nov)	
CPI (National) %	9.3	25.1	▲
	(Jul-Nov)	(Jul-Nov)	

Real Sector			Change
Large Scale Manufacturing (LSM) %	5.3	-7.7	▼
	(Oct)	(Oct)	
Large Scale Manufacturing (LSM) %	7.6	-2.9	▼
	(Jul-Oct)	(Jul-Oct)	
PSX Index *	41630	39279	▼ 5.6
	1-Jul-22	28-Dec-22	
Market Capitalization (Rs trillion)	6.96	6.31	▼ 9.3
	1-Jul-22	28-Dec-22	
Market Capitalization ($ billion)	33.99	27.86	▼ 18.0
	1-Jul-22	28-Dec-22	
Incorporation of Companies (Jul-Nov)	10,397	11,319	▲ 8.9%

* : Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP