MONTHLY ECONOMIC UPDATE & OUTLOOK

JANUARY 2024

GOVERNMENT OF PAKISTAN - FINANCE DIVISION - ECONOMIC ADVISER'S WING

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Contents

Executive Summary

In 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 Jul-Dec 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 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.

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.

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.

This positive outlook is contingent on the sustained implementation of sound and prudent economic policies, and stability both on domestic and external fronts.

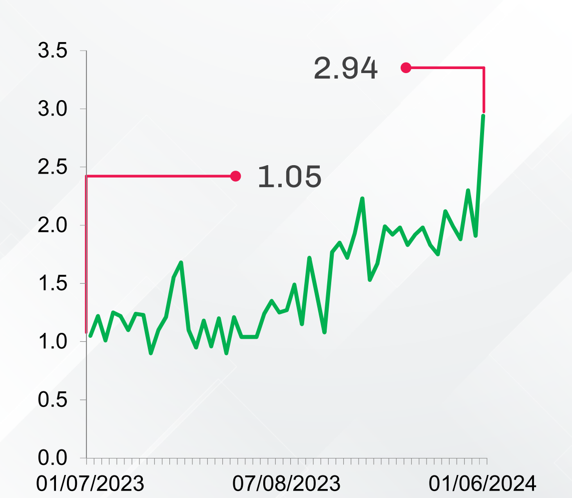
International Performance and Outlook

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.

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.

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 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).

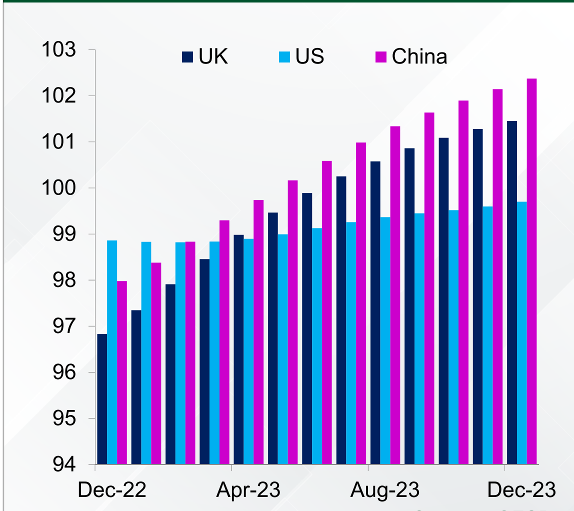
Fig-1: Growth in WEI (%)



Source: Federal Reserve Bank of New York

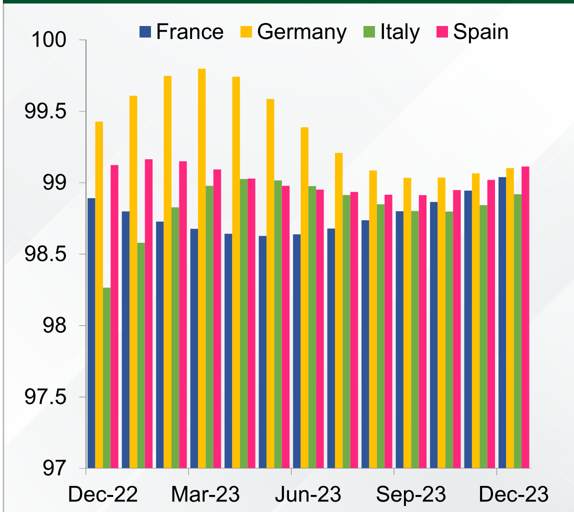
The global economic expansion accelerated in December. The J.P.Morgan Global PMI Composite Output Index - produced by S&P Global - rose to 51.0 in December, up from 50.5 in November. The headline PMI remains well below the survey's long-run average of 53.2. Growth in activity remained exclusive to the service sector, as

Fig-2 (a): Composite Leading Indicator



Source: OECD

Fig-2 (b): Composite Leading Indicator



Source: OECD

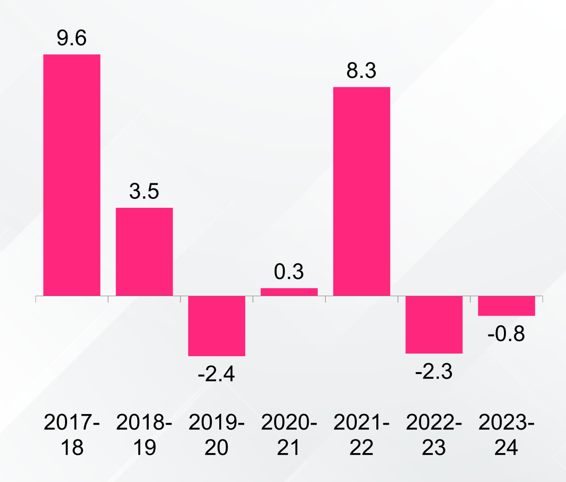
manufacturing output contracted for a seventh straight month. This moderate growth trend is also evident through CLI position of Pakistan's main export markets. The expansion has been observed in UK and China whereas US and Euro Area economies are below their potential (Fig-2).

The 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

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.

Fig-3: LSM Growth Rates (%) Jul-Nov



Source: PBS

Performance of Pakistan'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).

2.1-b Manufacturing

Large Scale Manufacturing (LSM) declined by 0.8 percent during Jul-Nov FY2024 against the contraction of 2.3 percent same 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.

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.

Cement dispatches, in December 2023, witnessed a robust increase of 4.63 percent. Total cement dispatches in

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 Inflation

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.

Fig-4 (a) : Month-wise FBR Tax Collection (Rs.Billion)

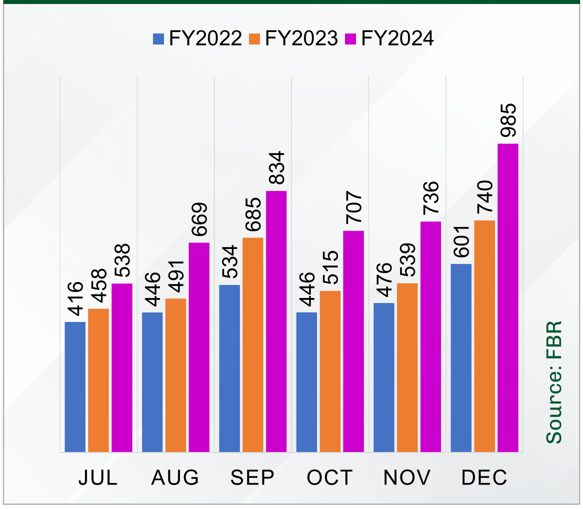
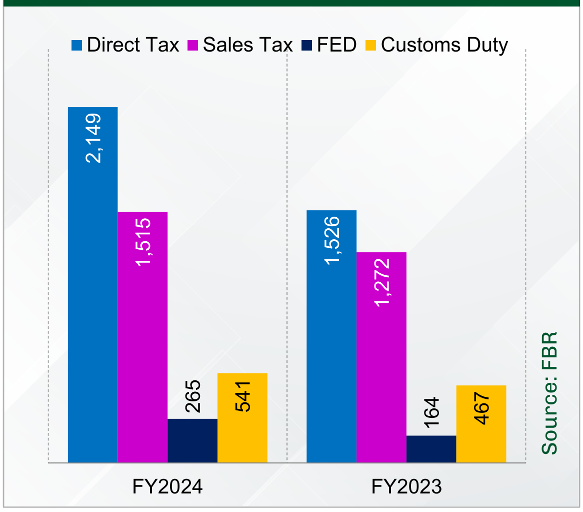


Fig-4 (b) : FBR Tax Collection (Rs Billion) Jul-Dec FY2024



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 Jul-Dec 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 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

During 1st July – 29th 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 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

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

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).

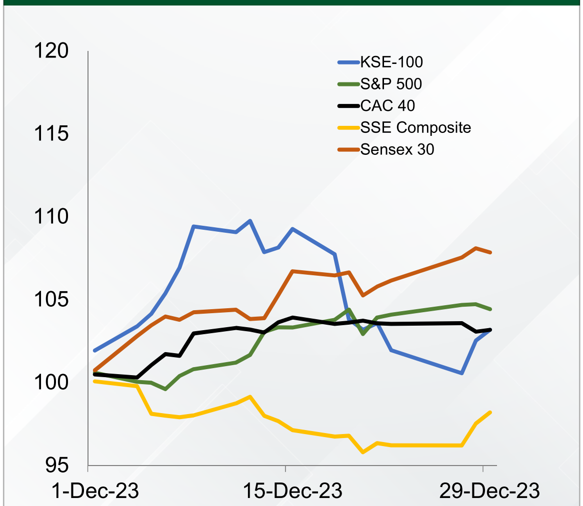
2.5.3 Foreign Exchange Reserves

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:

Fig-5: 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 figure.

2.7 Social Sector

- BISP has disbursed a quarterly tranche (Oct–Dec,2023) of Rs 8500 per household under Kafaalat cash assistance to around nine million registered beneficiary families.
- 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.
- 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.
- 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.

Economic Outlook

3.1 Inflation

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 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

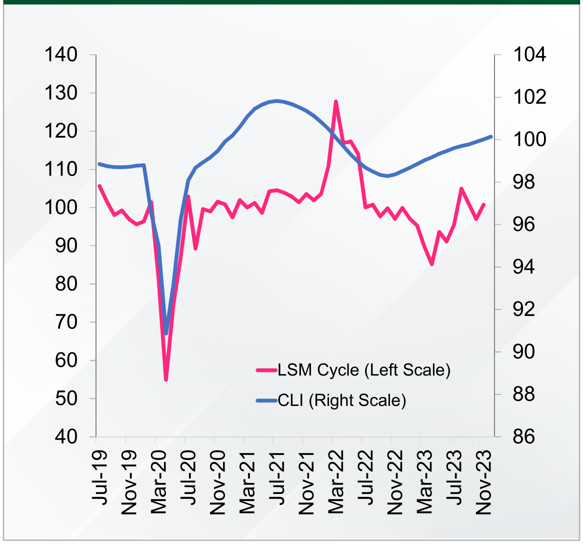
The performance of agriculture sector is depicting an uptick compared to last year as crops have performed well. Wheat being the major crop of Rabi 2023-24 is expected to perform well as cultivation surpassed the target.

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

Fig-6: Relationship between CLI and LSM cycle



Source: PBS, OECD and EAW Calculations

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.

Fig-7: Monthly Economic Indicator (MEI)

Source: EA Wing's Calculation

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 – 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 non-tax 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 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) – 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.

ECONOMIC INDICATORS

External Sector		2022-23 Jul-Dec	2023-24 Jul-Dec	% Change
Remittances ($ Billion)		14.4	13.4	▼ 6.8%
Exports FOB ($ billion)		14.2	15.3	▲ 7.5%
Imports FOB ($ billion)		29.6	25.2	▼ 14.7%
Current Account Deficit ($ billion)		3.6	0.8	▼ 77.1%
FDI ($ million)		640.0	862.6	▲ 34.8%
Portfolio Investment ($ million)		-1,033.4	71.0	▲
Total Foreign Investment ($ million)		-393.3	933.7	▲
Forex Reserves ($ Billion)	Total	8.742	13.257	-
	SBP	3.087	8.211	-
	Banks	5.655	5.046	-
		27-Jan-23	29-Jan-24	
Exchange Rate (PKR/US$)		262.60	279.64	-
		27-Jan-23	29-Jan-24	

Source: SBP

Fiscal Sector (Rs. Billion)	2022-23 (Jul-Dec)	2023-24 (Jul-Dec)	% Change
FBR Revenue	3429	4469	▲ 30.3%
Non-Tax Revenue (Federal)	914.1	1979.1	▲ 116.5%
PSDP (Federal)	161.7	152.1	▼ 5.9%
Fiscal Deficit	1683.5	2407.8	▲ 43.0%
Primary Balance	889.6	1812.2	▲ 103.7%

Source: FBR & Budget Wing

Monetary Sector	2022-23	2023-24	% Change
Agriculture Credit (Provisional) Jul-Dec	842.4	1,105.8	▲ 31.3%
Credit to Private Sector (Flows)	581.2	373.5	▼ 35.7%
	1-Jul to 30-Dec	1-Jul to 29-Dec	
Growth in M2 (percent)	0.9	4.4	-
	1-Jul to 30-Dec	1-Jul to 29-Dec	
Policy Rate (percent)	17.00	22.00	-
	23-Jan-23	29-Jan-24	

Source: SBP

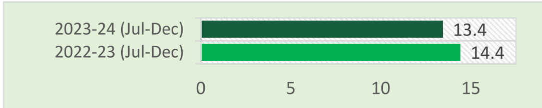
Inflation	2022-23	2023-24	% Change
CPI (National) %	24.5	29.7	-
	(Dec)	(Dec)	
	25.0	28.8	-
	(Jul-Dec)	(Jul-Dec)	

Real Sector	2022-23	2023-24	% Change
Large Scale Manufacturing (LSM) %	-4.85	1.59	-
	(Nov)	(Nov)	
	-2.33	-0.80	-
	(Jul-Nov)	(Jul-Nov)	
PSX Index *	43899	62774	▲ 43.0%
	3-Jul-23	29-Jan-24	
Market Capitalization (Rs trillion)	6.69	9.24	▲ 38.1%
	3-Jul-23	29-Jan-24	
Market Capitalization ($ billion)	23.39	33.05	▲ 41.3%
	3-Jul-23	29-Jan-24	
Incorporation of Companies (Jul-Dec)	13,694	14,328	▲ 4.6%

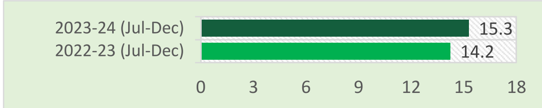
* : Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP

Remittances ($ bn) ▼ 6.8%

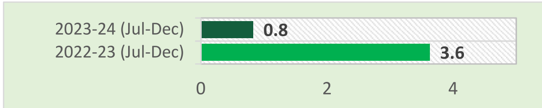


Exports FOB ($ bn) ▲ 7.5%



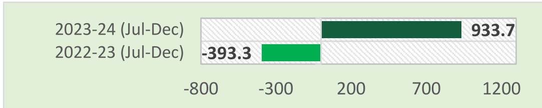
Imports FOB ($ bn) ▼ 14.7%

Current Account Deficit ($ bn) ▼ 77.1%

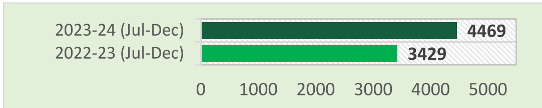


FDI ($ mn) ▲ 34.8%

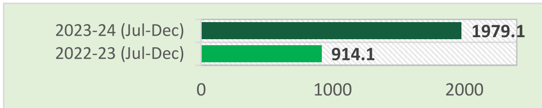
Total Foreign Investment ($ mn) ▲



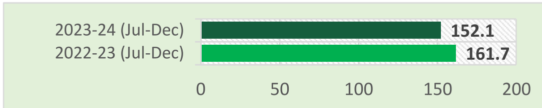
FBR Revenue (Rs.bn) ▲ 30.3%



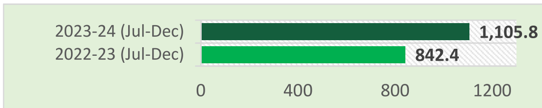
Non-Tax Revenue (Rs.bn) ▲ 116.5%



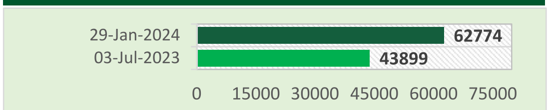
PSDP (Rs.bn) ▼ 5.9%



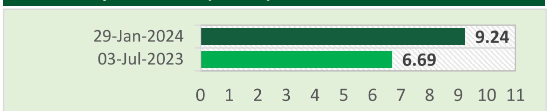
Agriculture Credit (Provisional) ▲ 31.3%



PSX Index ▲ 43.0%



Market Capitalization (Rs. bn) ▲ 38.1%



Market Capitalization ($ bn) ▲ 41.3%