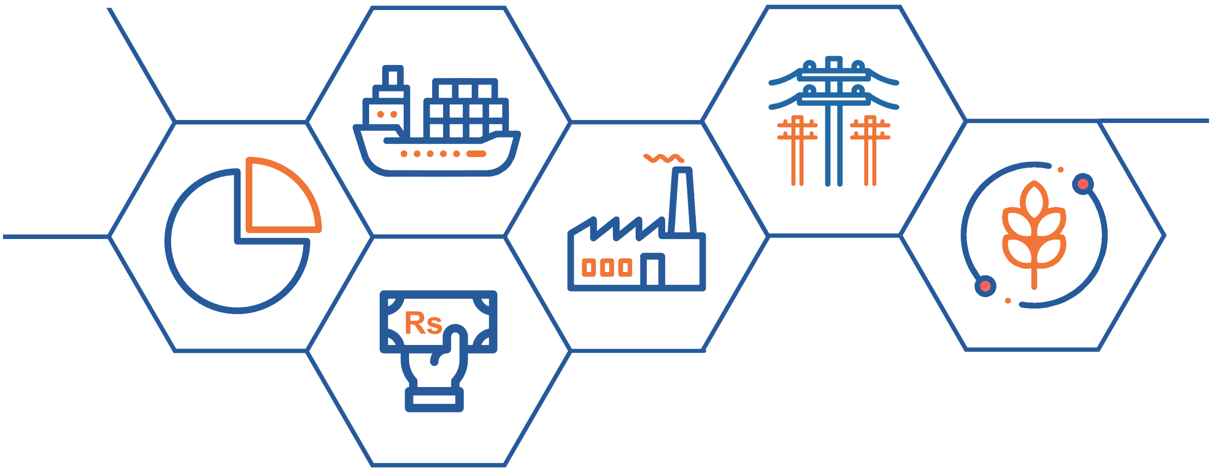

Monthly

ECONOMIC UPDATE & OUTLOOK

June 2023

Government of Pakistan
Finance Division
Economic Adviser's Wing

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Key Points

Global growth is projected to slow down significantly in 2023, before a tepid recovery in 2024. The deceleration is attributed to persistent inflationary pressures, consequent tight monetary policy, and a rising number of restrictions on international trade that would lead to geopolitical and economic fragmentation. Global inflation is projected to gradually edge down as growth decelerates, labor demand in many economies softens, and commodity prices remain stable.

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.

International Performance and Outlook

According to World Bank's "Global Economic Prospects-June 2023," 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 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.

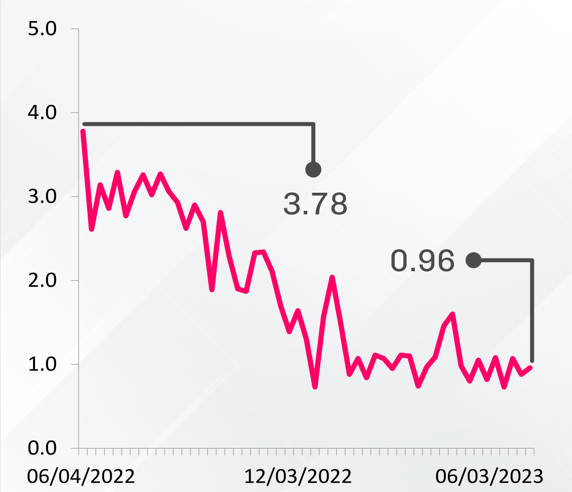
Global inflation is projected to gradually edge down as growth decelerates, labour demand in many economies softens, and commodity prices remain stable. The slow pace of improvement means that core inflation is expected to remain above central bank targets in many countries throughout 2024.

Federal Reserve Bank of New York's Survey of Consumer Expectations May-2023 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 "US economic activity stalled in recent months, with job growth and inflation both slowing, and near-term business prospects looking slightly worse than previously".

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).

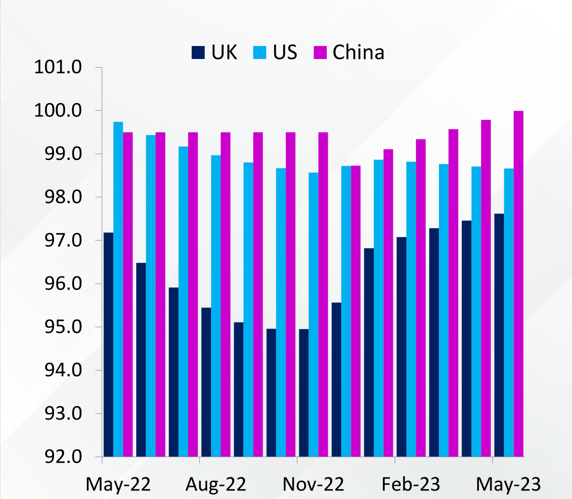
The J. P. Morgan Global Composite Output Index increased to 54.4 in May 2023, from 54.2 in April 2023, mainly contributed by the service sector as the manufacturing sector remained sluggish. The major growth was registered in India, China, Japan, and the

Fig-1: Growth in WEI (%)



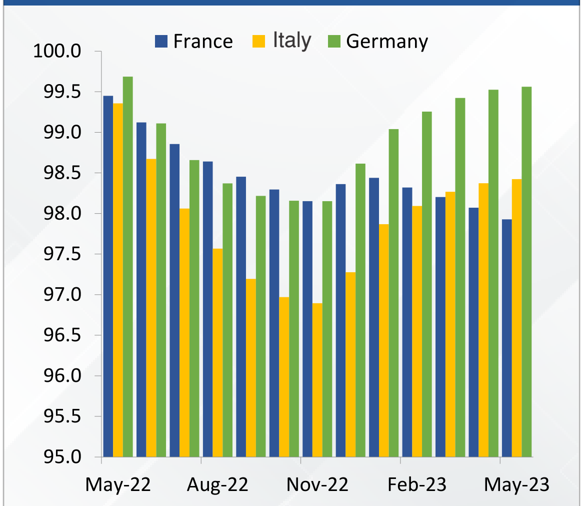
Source: Federal Reserve Bank of New York

Fig-2 (a): Composite Leading Indicator



Source: OECD

Fig-2 (b): Composite Leading Indicator



Source: OECD

US, however, the recovery is weakened in the Euro area and UK. The economic 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 Jul-Apr 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

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.

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.

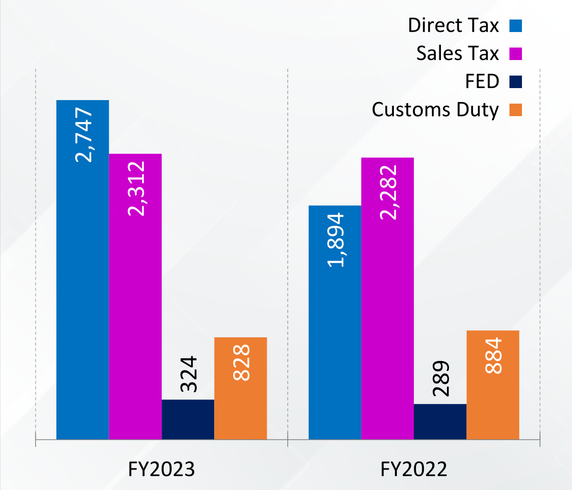
The main contributing factor was food inflation, which remained too high owing mainly to the disruption of supply chains and currency depreciation leading to high prices of imported food items. Moreover, the supply-side effects of high cost of borrowing and a significant jump in electricity and gas prices 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

Fig-3: FBR Tax Collection (Rs. bn) (Jul-May)



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 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 – 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 Jul-May 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

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.

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).

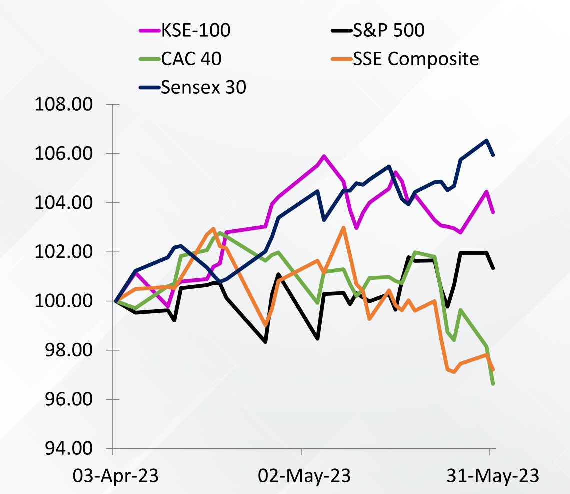
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves stood at $ 9.3 billion on June 23, 2023, with the SBP's reserves now stood at $ 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 KSE-100 index increased by 3.6 percent (Fig-4), second[1] 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



Source: PSX, Investing.com

Note: All indices are standardized to 100 on the initial day of the sample taken in this figure.

2.6 Social Sector

- 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.
- For FY2024, the budgetary allocation

[1] In the group of markets taken for comparison in this section

of the BISP programme has been increased to Rs 450 billion. Some of the important schemes under this programme are as follows:

- 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.
- 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.
- 92,000 students will be given Benazir undergraduate scholarships for which Rs 6 billion have been allocated.
- 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.

▪ 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.

▪ 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.

▪ 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

▪ Targeted subsidy on wheat flour, ghee, pulses, and rice through USC

▪ Increase in salaries of civil servants in the form of Ad-hoc Relief Allowance

▪ Increase in pension and increase in minimum pension to Rs. 12,000

▪ Minimum wage increased from Rs. 25,000 to Rs. 32,000

▪ Loan write-off scheme for widows

▪ Health Insurance cards for working journalists and artists.

▪ 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.

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.

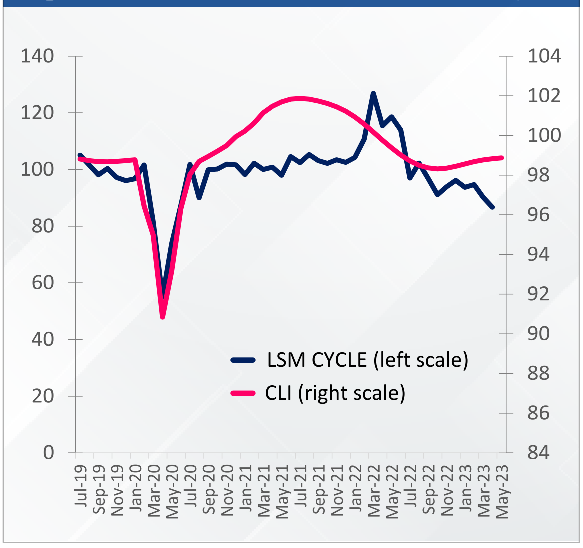
3.2 Agriculture

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 Calculations

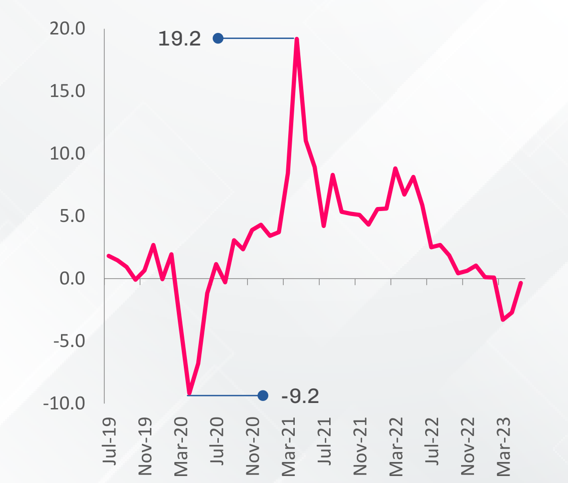
3.4. Overall Economic Activity

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

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)



Source: EA Wing'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.

ECONOMIC INDICATORS

27 June, 2023

External Sector		2021-22 Jul-May	2022-23 Jul-May	% Change
Remittances ($ Billion)		28.5	24.8	▼ 12.9%
Exports FOB ($ billion)		29.4	25.8	▼ 12.2%
Imports FOB ($ billion)		64.3	49.0	▼ 23.9%
Current Account Deficit ($ billion)		15.2	2.9	▼ 80.6%
FDI ($ million)		1,664.8	1,319.7	▼ 20.7%
Portfolion Investment ($ million)		-9.6	-1,025.6	▼
Total Foreign Investment ($ million)		1,655.2	294.1	▼ 82.2%
Forex Reserves ($ Billion)	Total	13.818	9.342	-
	SBP	7.943	4.071	-
	Banks	5.875	5.271	-
		23-Jun-22	23-Jun-23	
Exchange Rate (PKR/US$)		207.23	286.74	-
		23-Jun-22	23-Jun-23	

Source: SBP

Fiscal Sector (Rs. Billion)	2021-22 Jul-Apr	2022-23 Jul-Apr	% Change
FBR Revenue (Jul-May)	5348	6210	▲ 16.1%
Non-Tax Revenue (Federal)	1068	1323	▲ 23.9%
PSDP (Including grants to Provinces)	502	404	▼ 19.5%
Fiscal Deficit	3275	3929	▲ 20.0%
Primary Balance	-890	99	▲

Source: FBR & Budget Wing

Monetary Sector	2021-22	2022-23	Change
Agriculture Credit (Provisional) Jul-May	1,219.3	1,565.2	▲ 28.4%
Credit to Private Sector (Flows)	1424.7	25.4	▼ 98.2%
	1-Jul to 03-Jun	1-Jul to 02-Jun	
Growth in M2 (percent)	7.8	8.9	-
	1-Jul to 03-Jun	1-Jul to 02-Jun	
Policy Rate (percent)	13.75	22.00	-
	23-May-22	26-Jun-23	

Source: SBP

Inflation	2021-22	2022-23	% Change
CPI (National) %	13.8	38.0	-
	(May)	(May)	
	11.3	29.2	-
	(Jul-May)	(Jul-May)	

Real Sector			% Change
Large Scale Manufacturing (LSM) %	14.9	-21.1	-
	(Apr)	(Apr)	
	11.0	-9.4	-
	(Jul-Apr)	(Jul-Apr)	
PSX Index *	41630	40065	▼ 3.8%
	01-Jul-22	23-Jun-23	
Market Capitalization (Rs trillion)	6.96	6.16	▼ 11.5%
	01-Jul-22	23-Jun-23	
Market Capitalization ($ billion)	33.99	21.50	▼ 36.7%
	01-Jul-22	23-Jun-23	
Incorporation of Companies (Jul-May)	24,201	25,414	▲ 5.0%

* : Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP