MONTHLY ECONOMIC UPDATE & OUTLOOK

NOVEMBER 2023

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

Contents

Executive Summary

Pakistan's economy is on a gradual but promising path to recovery. The stride of economic revival initiatives is driving a surge in economic activity. Positive economic signals and recovery indicators have triggered the market sentiment, propelling the KSE-100 index of PSX by 33% in November, surpassing the 58199-point mark for the first time in history. The sustained monetary policy stance and successful IMF staff review in Novemberdrove the market confidence. Owing to reforms in exchange companies and a reduction in -illicit transactions, the exchange rate remains stable thus exerting a positive impact on overall economic activity.

The Large-Scale Manufacturing (LSM) sector demonstrated a positive trend for the second consecutive month while posting a growth of 1.0 percent in September 2023. After several months of decline, the industry has been on the path of recovery since August 2023.

The stability in the exchange rate, ease in supply disruptions due to the removal of import restrictions, and improved dollar liquidity contributed to this economic upswing.

In the agriculture sector, the input situation shows positive signs. The farm tractor production and sales witnessed growth of 55.1 percent (17,098) and 86.8 percent (17,296), respectively during Jul-Oct FY2024 over the corresponding period last year. During October 2023 the 6.8 percent growth in urea and 122 percent in DAP offtake compared to October 2022, indicating a positive growth in Rabi crops.

On the fiscal front, healthy growth in revenues outpaced the growth in expenditure during the first quarter of FY2024. Both tax and non-tax collection attributed to a significant rise in total revenues, however, a substantial increase in non-tax collection on the back of higher receipts from petroleum levy remained the major source of the increase. Thus, with healthy growth in revenues relative to expenditures, the fiscal deficit reduced to 0.9 percent of GDP in Jul-Sep FY2024 from 1.0 percent of GDP last year. Primary balances continued to be in surplus and improved to Rs.416.8 billion (0.4 percent of GDP) in Q1 FY2024 from Rs.134.7 billion (0.2 percent of GDP) last year.

The headline inflation sustained at 26.9 percent on YoY basis in October 2023 as compared to 26.6 percent in October 2022. The major drivers include Food and non-alcoholic beverages, Housing, water, electricity, gas & fuel, Transport, and Furnishing & household equipment maintenance. However. keeping in view the crop cycle of perishables, the supply pressures are expected to be relieved from the end of November and onwards. Moreover, the reduction of fuel prices by the government would help further easing out inflationary pressures.

On the external front, in Jul-Oct FY2024, the Current Account marked a deficit of $ 1.05 billion as against a deficit of $ 3.1 billion last year, largely reflecting an improvement in the trade balance. YoY Exports increased by 21.1 percent to $ 2.8 billion in October 2023 as compared to $ 2.3 billion in September 2023, owing to ease in import restrictions resulted in a smooth supply of raw material for export-oriented industries. FDI reached $ 524.7

million during Jul-Oct FY2024 ($ 489.9 million last year) increased by 7.1 percent mainly on account of Chinese investment. MoM, remittances increased by 11.5 percent in October 2023 ($ 2.5 billion) as compared to September 2023 ($ 2.2 billion), and YoY it grew by 9.1 percent because of structural reforms related to FX market and convergence of exchange rate in interbank and open markets.

The government expects remittances to recover in Oct 2023, as spreads between the interbank and open market have reduced below 1 percent. However, global inflation has impacted the disposable incomes of overseas workers, resulting slowdown across the board, particularly Bangladesh, India, and the Philippines.

The monetary policy rate was maintained at 22 percent, owing to the significant performance of high-frequency indicators and improved inflation outlook.

Overall, positive economic signals and recovery indicators steering the improvement in the GDP outlook for the fiscal year.

International Performance and Outlook

Global GDP has been observed at an annualized pace of 3.2 percent in the first half of 2023 compared to the second half of 2022, somewhat stronger than expected. Growth was comparatively robust in the US and Japan, but weak in most of Europe, particularly Germany. Growth in China has however lost momentum, with the initial impetus from reopening fading and structural problems in the property sector continuing to weigh on domestic demand. Contrary to global output, trade volumes have risen more slowly than expected in the first half of this year, with trade intensity declining. Services trade has held up better, helped by tourism continuing to rebound strongly from the steep drop during pandemic.

High-frequency activity indicators across the largest economies present a mixed picture, but on balance signal a loss of momentum in the second half of 2023. Labor markets generally remain tight, with unemployment rates at or near multi-year low level.

During the second half of 2023, declines in headline inflation are now helping to improve household real disposable incomes, but real wage losses over the past two years and tighter financial conditions continue to restrain consumer spending in most advanced economies, with the US a notable exception. Industrial production has continued to stagnate in many economies, despite some signs of an upturn in tech-related activity.

The impact of tighter monetary policy is becoming increasingly visible, business and consumer confidence have turned down, and the rebound in China has faded. However, in the near term, government's fiscal expansion should help the country achieve its 5.0 percent growth target for 2023. Global GDP growth is projected to remain sub-par in 2023 and 2024, at 3.0 percent and 2.7 percent respectively, held back by the macroeconomic policy tightening needed to rein in inflation.

US economic indicators are showing challenges and uncertainties, as manufacturing activity is contracting, interest costs are rising rapidly and job creation is slowing. The employment report for October shows 150,000 jobs were created, but 101,000 were removed from prior months. The growth in the labour force pushed the unemployment rate up to 3.9 percent. The level is still low, but higher readings could indicate the onset of a recession.

The Federal Open Market Committee (FOMC) held the Fed's benchmark overnight interest rate in the current 5.25%-5.50% range during a decision held on November 01, 2023. The Chair emphasized that "deliberations were focused solely on whether more rate hikes are ahead, but markets interpreted the message as saying the hiking cycle is complete. So long as inflation does not reignite and expect no further rate increases, but no cuts until the second half of 2024”. The situation is also reflected by growth in WEI which is moving around 2.0 percent in recent months-hovering around its target of 2.2 percent (Fig-1).

The J. P. Morgan Global Composite Output Index decreased to 50.0 in October 2023, the lowest reading since January. Manufacturing output decreased for the fifth successive month in October, as ongoing downturns at intermediate and investment goods more than offset further growth in the consumer goods category. The rate of expansion in the service sector also slowed for the fifth month in October.

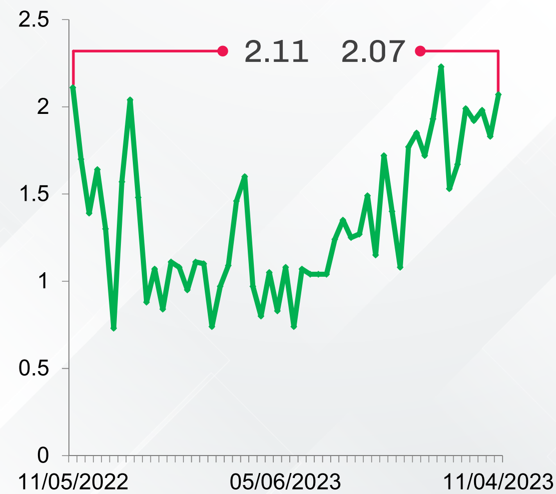
Europe remains on the precipice of recession as the manufacturing-driven economies led by Germany struggle with waning domestic goods demand, higher energy prices, and weaker growth among some of their key Asian trading partners. Continued services expansion has helped to avoid recession but that growth is expected to slow over the coming quarters.

The monthly cyclical position of Pakistan’s main export markets is also reflected through CLI, of which US and Euro Area economies are below their potential level in the month of October-2023 (Fig-2).

The FAO food prices index (FFPI) averaged 120.6 points in October 2023, down by 0.7 points from September. The decline in October was driven by a significant decrease in the price indices for sugar, cereals, vegetable oils, and meat, while the index for dairy products rebounded.

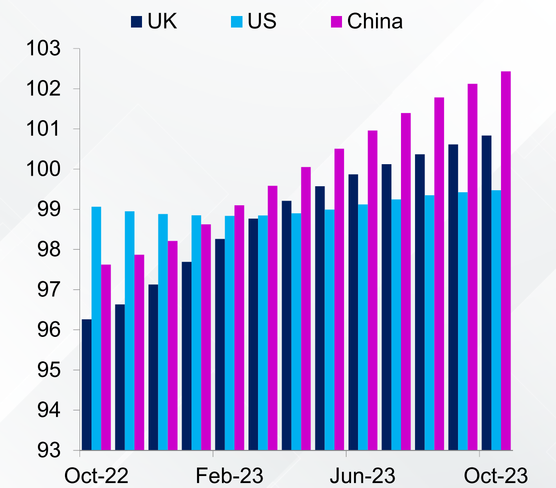
Global commodity prices plummeted in October 2023. Energy prices eased by 1.8 percent, led by coal (12.5 percent) and oil (-3.4 percent). Non-energy prices declined by 1.6 percent. Food prices decreased by 1.7 percent. Beverage and raw materials eased by 0.8 percent and 1.1 percent, respectively. Fertilizer prices soared 2.7 percent. Metal price declined by 2.7 percent and precious metal dropped by 0.5 percent.

Fig-1: Growth in WEI (%)



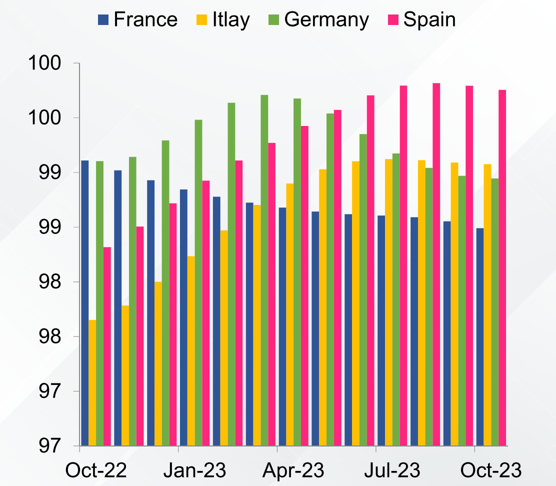
Source: Federal Reserve Bank of New York

Fig-2 (a): Composite Leading Indicator



Source: OECD

Fig-2 (b): Composite Leading Indicator



Source: OECD

Performance of Pakistan's Economy

2.1 Real Sector

2.1-a Agriculture

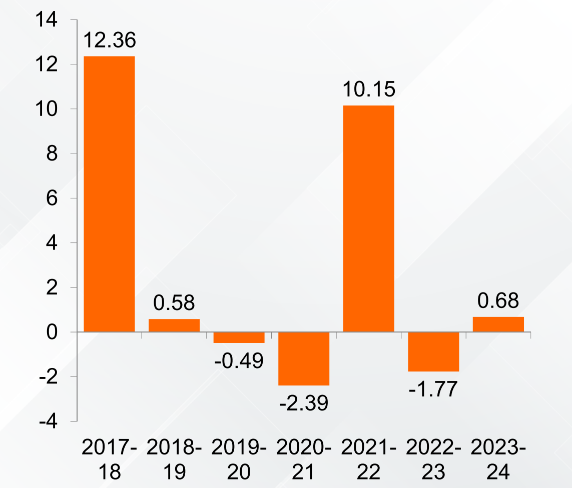
For the current Rabi season 2023-24, wheat crop sowing is in progress to achieve the area target of 8.998 million hectares for 32.12 million tonnes of production. The input situation shows positive signs. The farm tractor production and sales witnessed growth of 55.1 percent (17,098) and 86.8 percent (17,296), respectively during Jul-Oct FY2024 over the corresponding period last year. During Jul-Oct FY2024, the agriculture credit disbursement reached to at Rs 681.6 billion as compared to Rs 507.8 billion last year, an increase of 34.2 percent. During Rabi 2023-24 (October 2023), urea and DAP offtake stood at 459 thousand tonnes (6.8 percent higher than October 2022) and 159 thousand tonnes (122 percent higher than October 2022), respectively. DAP offtake seems extraordinarily high due to record low offtake in October 2022 because of the occurrence of floods.

2.1-b Manufacturing

Large Scale Manufacturing (LSM) grew by 0.7 percent during Jul-Sep FY 2024 against the contraction of 1.8 percent same period last year. In September2023, LSM increased by 1.0 percent on YoY basis against the contraction of 2.9 percent in the same month last year. While on a MoM basis, it declined by 3.6 percent in September against the increase of 8.5 percent in August.

During Jul-Sep FY2024, 11 out of 22 sectors witnessed positive growth. The main contributors towards the positive growth include Food, Beverages, Coke & Petroleum Products, Wearing apparel, Leather, Chemicals, Pharmaceuticals, Non-Metallic Mineral Products, Fabricated Metals, Machinery and Equipment, and others (Football).

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



Source: PBS

In Jul-Oct FY2024, the performance of auto-industry remains subdued due to massive increases in inputs prices, and tightening auto finance. Car production and sale decreased by 52.8 percent and 47.4 percent, while Trucks & Buses production and sale decreased by 54 percent and 45 percent. However, Tractor's production and sale increased by 55.1 percent and 86.8 percent.

The sale of petroleum products slumped by 18 percent to 5.0 mn tons against 6.2 mn tons in the same period last year. While in Oct 2023, oil sales recorded at 1.3 mn tons, down 24 percent YoY.

During Jul-Oct FY2024, total cement dispatches (domestic and exports) were 15.892 million tons (14.6 percent more) against 13.874 million tons during the corresponding period last year. Cement dispatches during October 2023 were registered at 4.007 million tons against 4.253 million tons dispatched during the same month of the last financial year, showing a decline of 5.8 percent. Exports dispatches however increased by massive 97.3 percent as the volumes increased from 362,350 tons in October 2022 to 715,028 tons in October 2023. Local cement dispatches by the industry during the month of October 2023 were 3.292 million tons compared to 3.890 million tons in October 2022, showing a decline of 15.4 percent.

2.2 Inflation

CPI inflation recorded at 26.9 percent on a YoY basis in October 2023 as compared to 26.6 percent in October 2022 whereas it increased to 31.4 percent in the previous month. During Jul-Oct FY 2024, CPI stood at 28.5 percent against 25.5 percent in the same period last year. On a Month on Month (MoM) basis, it increased to 1.1 percent in October 2023 compared to an increase of 2.0 percent in the previous month.

Major drivers contributing to the YoY increase in CPI include Alcoholic Beverages & Tobacco (84.6 percent), Furnishing & Household equipment maintenance (37.1 percent), non-perishable food items (33.0 percent), Transport (31.3 percent), Housing, Water, Electricity, gas & Fuel (20.5 percent), Health (25.2 percent), Clothing & Footwear (20.6 percent) and Perishable food items (-1.9 percent).

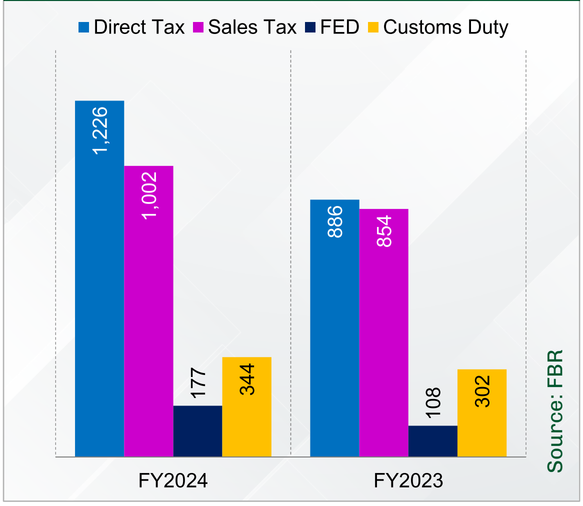
The SPI for the week ended on 16th November, 2023, recorded an increase of 9.95 percent as compared to previous week. The major increase witnessed in the prices of Gas charges. Prices of 13 items declined, 13 items remained stable and 25 items increased.

2.3 Fiscal

The first quarter of the current fiscal year has witnessed an improvement in fiscal deficit primarily driven by a substantial increase in total revenues in comparison to expenditures. During Jul-Sep FY2024, the fiscal deficit stood at 0.9 percent of GDP (Rs.962.8 billion) against 1.0 percent of GDP (Rs.819.3 billion) last year. The primary balance posted a surplus of Rs.416.8 billion (0.4 percent of GDP) against a surplus of Rs.134.7 billion (0.2 percent of GDP) during the period under review.

Total revenues registered a notable growth of 33.2 percent, reaching Rs. 2685.8 billion from Rs. 2017.0 billion last year. Non-tax collection witnessed an impressive growth of 99.6 percent to Rs. 468.8 billion against Rs. 234.9 billion in the corresponding period last year. The substantial increase in non-tax collection can be attributed to higher receipts from petroleum levy, passport fees, royalties on oil/gas, and mark-up (PSEs & others), etc. Tax collection on the other hand increased by 24.4 percent to Rs. 2216.9 billion against Rs. 1782.1 billion last year. According to the latest available data, Jul-Oct FY2024, FBR tax collection grew by 27.9 percent and stood at Rs. 2748.4 billion against Rs.2149.0 billion last year. Encouragingly, the tax collection has surpassed the target by Rs.66 billion. Domestic tax collection grew by 30.2 percent to stand at Rs.2404.7 billion in Jul-Oct FY2024 against Rs.1847.5 billion last year. Within total tax collection, direct taxes grew by 38.4 percent while indirect taxes increased by 20.5 percent on the back of a sharp rise in revenues from FED.

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



Total expenditure stood at Rs.3648.6 billion during the first quarter of FY2024 against Rs.2836.3 billion in the same period of last year, thus growing by 28.6 percent. Current expenditures grew by 25.0 percent to reach Rs.3172.6 billion against Rs.2538.1 billion last year. Within total current, mark-up payments experienced a substantial surge of 44.6 percent, primarily attributable to a higher policy rate. Meanwhile, the growth in non-mark-up spending remained restricted to 13.2 percent. The expenditures under the running of civil government and pensions remained the major contributor in stimulating the growth of non-mark-up spending, while expenditures on subsidies and grants to others witnessed a substantial decline during the first quarter of the current fiscal year.

2.4 Monetary Sector

In monetary policy decision held on 30th October 2023, MPC has maintained the policy rate at 22 percent. The decision was based on observed significant improvement in high-frequency indicators including crop performance, revival in the LSM sector and aligned indicators, fiscal consolidation, and external sector stability. The MPS highlights that inflation will 'decline significantly in October, owing to downward adjustments in fuel prices, easing prices of some major food commodities, and a favorable base effect'. Accordingly, in October, CPI inflation clocked in at 26.9 percent on a YoY basis as compared to 31.4 percent in Sep-2023. The MPC reaffirmed its earlier assessment that inflation will decline substantially from the second half of FY2024, barring any major adverse developments.

During 1st July – 27th October, FY2024 money supply (M_2) shows negative growth of 1.27 percent (Rs. -399.1 billion) compared negative growth of 0.3 growth (Rs. -73.6 billion) in last year. Within M2, Net Foreign Assets (NFA) increased by Rs 232.6 billion as compared decrease of Rs 355.0 billion in last year. On the other hand, Net Domestic Assets (NDA) of the banking sector decreased by Rs. 631.7 billion as compared an increase of Rs. 281.4 billion last year. Private Sector has retired Rs. 153.5 billion as compared borrowing of Rs. 28.5 billion in last year.

2.5 External Sector

The Current Account posted a deficit of $ 1.05 billion for Jul-Oct FY2024 as against a deficit of $ 3.1 billion last year, largely reflecting an improvement in the trade balance. Exports (fob) increased by 1.1 percent and reached $ 9.8 billion ($ 9.7 billion last year). Imports (fob) declined by 20.1 percent reaching $ 16.8 billion ($ 21.0 billion last year). Resultantly, the trade deficit was recorded at $ 7.0 billion as against $ 11.3 billion last year.

During the period under review, exports in services increased by 3.3 percent to $ 2,416 million as against $ 2,338 million same period last year. The imports in services increased by 19.6 percent to $ 3,263 million as compared to $ 2,729 million same period last year. The trade deficit in services stood at $ 847 million as against $391 million last year.

As per PBS, the export commodities that registered positive growth include Rice (7.4% in quantity & and 30.1% in value), Fruits (43.2% in quantity & 13.5% in value), Cotton Yarn (64.2% in quantity & 42.8% in value), Raw Cotton (48.8% in quantity & 137.1% in value), Towel (20.9% in quantity & 6.7% in value) and Plastic Materials (122.9% in quantity & 28.6% in value). Whereas, main imported commodities were Petroleum products ($ 2161.8 million), Petroleum crude ($ 1486.9 million), LNG ($ 1176.7 million), Palm Oil ($964.3 million), Plastic materials ($ 805.1 million), Iron & Steel ($ 640.3 million) and Medicinal products ($ 342.7 million).

2.5.1 Foreign Investment

Total foreign investment during Jul-Oct FY2024 recorded an inflow of $ 538.8 million as against $ 457.3 million last year. FDI stood at $ 524.7 million ($ 489.9 million last year) increasing by 7.1 percent. FDI received from China $ 158.0 million (30.1% share), Hong Kong $ 106.5 million (20.3%), UK $ 64.2 million (12.2%), Netherland $ 55.8 million (10.6%), and Switzerland $ 33.2 million (6.3%). Power sector attracted the highest FDI of $ 247.8 million (47.2% of total FDI) followed by Oil & Gas exploration $ 67.8 million (12.9%), and Financial Business $ 52.7 million (10.0%).

Foreign Private Portfolio Investment has registered a net inflow of $ 10.9 million. Foreign Public Portfolio Investment recorded a net inflow of $ 3.2 million. The total FPI recorded an inflow of $ 14.1 million as against an outflow of $ 32.6 million last year.

2.5.2 Worker's Remittances

In Jul-Oct FY2024, workers' remittances decreased by 13.3 percent to $ 8.8 billion ($ 10.1 billion last year). MoM, remittances increased by 11.5 percent in October 2023

($ 2.5 billion) as compared to September 2023 ($ 2.2 billion),and YoY it grew by 9.1 percent because of structural reforms related to exchange company and consequently convergence in exchange rate in interbank and open markets. Furthermore, the recently signed MoU between the Arab Monetary Fund and the SBP would increase cross-border remittances by reducing costs and processing times. Major sources of remittances are Saudi Arabia ($ 2132.9 million, 24.2% share), U.A.E ($ 1497.6 million, 17.0%), U.K ($ 1277.8 million, 14.5%), USA ($ 1051.0 million, 11.9%), other GCC countries ($ 990.6 million, 11.2%), EU ($ 1141.4 million, 12.9%), Australia ($ 175.4 million, 2.0%), and other countries ($ 527.8 million, 6.0%).

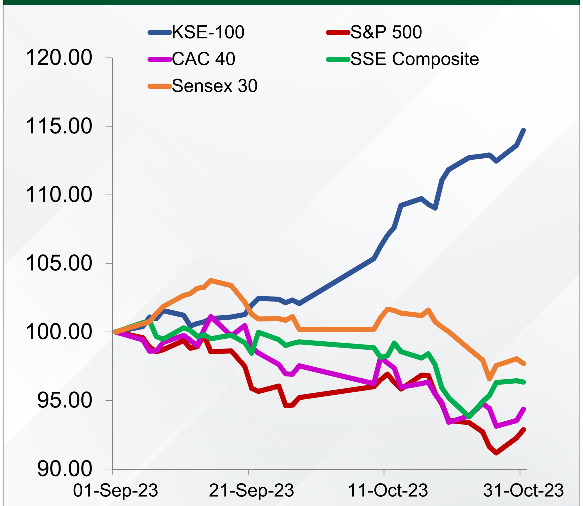
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to $ 12.4 billion on November 23, 2023, with SBP's reserves stood at $ 7.3 billion and Commercial banks' reserves remained at $ 5.1 billion.

2.6 Performance of KSE Index

The performance of the Pakistan Stock Exchange (PSX) remained unprecedented in October 2023. The benchmark of PSX, the KSE-100 index gained 5,724 points while the market capitalization of PSX increased by Rs 666 billion and settled at

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.

Rs 7,552 billion as of 31st October 2023. During the period under review (Sep-Oct, 2023), the KSE-100 index posted a significant growth of 14.7 percent, while S&P 500 of US declined by 7.1 percent, CAC 40 of France by 5.6 percent, SSE Composite of China by 3.7 percent and Sensex 30 of India by 2.3 percent. The performance of major world indices indexed at 100 is depicted in Figure.

2.7 Social Sector

- Pakistan Poverty Alleviation Fund (PPAF) through its 26 Partner Organizations has disbursed 30,805 interest free loans amounting to Rs 1,362 million during October 2023.Since inception of the program till date, a total of 2,532,414 interest free loans amounting to PKR 95,275 million have been disbursed to the borrowers.
- Pakistan is one of the largest labor exporting countries in the region. During October 2023 Bureau of Emigration & Overseas Employment has registered 90063 workers for overseas employment in different countries.
- Under Prime Minister Youth Business & Agriculture Loan Scheme, the government has disbursed Rs. 41,640 million till September 2023 to 71,997 beneficiaries for business.

Economic Outlook

3.1 Inflation

The Food and Agriculture Organization's food price index, which tracks the most globally traded food commodities, averaged 120.6 points in October, 2023 down from 121.3 in the previous month showing a decline of 0.7 points. The October reading was the lowest since March 2021.

Domestically, the high base effect would provide a little solace to inflation growth in the upcoming months. The spike witnessed in weekly SPI recorded on 16th November, 2023 is primarily contributed by increase in Gas charges (up to 3.3719 MMBTU) WoW and YoY at 480 percent and 1109 percent, respectively. However, this increase in gas prices will not impact CPI to much extent. National CPI inflation comprises Urban and Rural baskets. Gas charges are included only in the Urban CPI basket with a weight of 1.0807. So, the increase in gas prices will have a limited impact on the national CPI inflation as compared to the weekly SPI.

Keeping in consideration, the crop cycle of perishables, the supply pressures are expected to be relieved by end November onwards. Moreover, the reduction of fuel prices by the government would help further easing out inflationary pressures.

In view of the above, inflation is anticipated to remain low and expected to remain around 26.5-27.5 percent in November 2023 and further ease out to 25.5-26.5 percent in December 2023.

3.2 Agriculture

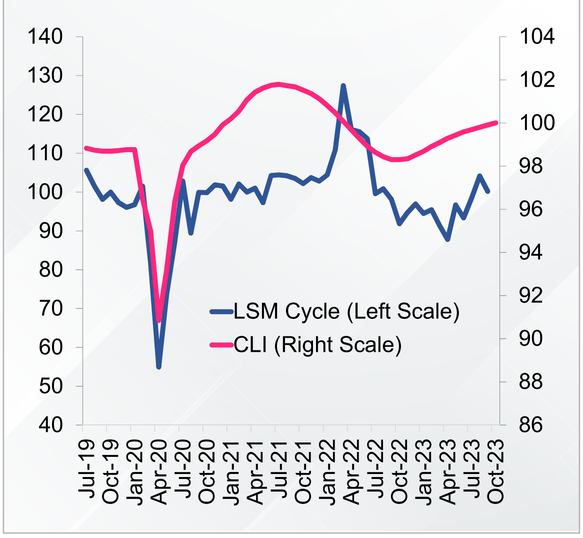
There is an uptick in farm input utilization and a better price of wheat will augur well in achieving the production target of wheat given favourable weather conditions.

3.3 Industrial activity

The LSM cycle usually follows the cyclical movements in the main trading partners, but since it is focused on the main industrial sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets. The aggregate CLI in the main export markets has improved and reached its potential level. The cyclical LSM pattern for the month of September shows convergence with that of its main trading partners.

During Jul-Oct FY2024, total cement dispatches (domestic and exports) were 15.892 million tons which is 14.6 percent more than 13.874 million tons in the corresponding period of last year. Similarly, tractor's production and sales increased by

Fig-6: Relationship between CLI and LSM cycle



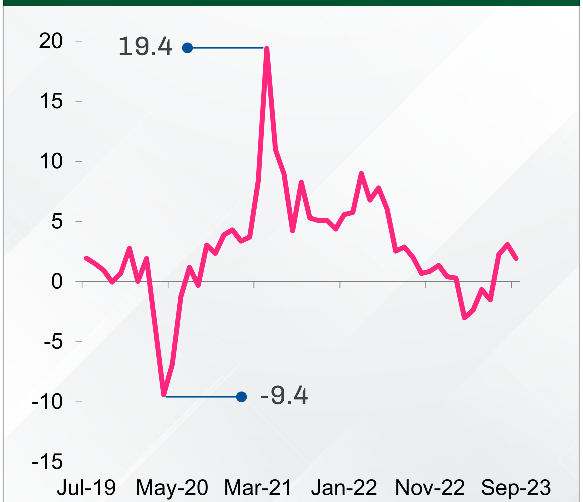
Source: PBS, OECD and EAW Calculations

55.1 percent and 86.8 percent. All these positive indicators bode well for the prospects of the LSM sector in the upcoming months, especially from November 2023 onwards.

Overall Economic Activity

The Monthly Economic Indicator (MEI) is developed as a tool to distribute the past annual GDP numbers, reported by the PBS, on a monthly/quarterly basis, and to nowcast GDP growth for the FY in which the National Accounts are not yet available on the same frequency. The figure presents the MEI on a monthly basis since July 2019, it should be noted that some of the data

Fig-7: Monthly Economic Indicator (MEI)



Source: EA Wing's Calculation

underlying the October 2023 MEI are still provisional and may be revised next month.

The MEI continued to be positive in October 2023 driven by notable improvement in key indicators of economic activity. Better performance of the LSM sector fueled by positive trends in high-frequency data, a steady uptick in imports, and improvement in CLI of Pakistan's major export markets are providing impetus to overall economic activity. Furthermore, the inflationary pressures are receding on the back of a decline in international commodity prices, better crop outlook, and exchange rate stability. With all these positive developments anticipating further improvement in domestic economic activities, the MEI is expected to remain positive throughout the ongoing fiscal year.

3.5 External

According to BOP data, October imports of goods and services were at $ 5.2 billion, higher than $ 4.8 billion in September and marginally lower than the $ 5.4 billion in October 2023. The soothed international oil prices, stable exchange rate in October somewhat offset by expansion in economic activities, contributed to an increase in imports. Given these recent dynamics and under unchanged policy assumptions, imports would remain at around the current observed levels in the coming months. Exports of goods reached $2.8 billion, the highest value observed after June 2022. As a result, export of goods and services posted significant growth of 10.5 and 17.8 percent on MoM and YoY basis, respectively. In the coming months, it is expected that exports will continue to observe its momentum with assumptions of growth in the LSM sector and encouraging foreign demand. As a result, the trade balance in goods and services has marginally deteriorated on MoM basis but improved significantly on YoY basis.

Remittance inflows have touched the $ 2.5 billion mark and observed positive YoY growth after 13 months. It is expected that it will remain at the current level in the coming months. Considering the improvement in all other components of secondary income, as well as primary income balance, it will be reflected in the current account balance.

3.6 Fiscal

The fiscal performance in Q1-FY2024 reflects a positive trajectory, characterized by a notable surge in total revenues relative to expenditures. As a result, the fiscal deficit reduced from 1.0 percent of GDP recorded in Jul-Sep FY2023 to 0.9 percent of GDP during the current period. The surplus in the primary balance has improved, attributed to the restricted growth in non-markup expenditures.

Similarly, the pace of growth in FBR tax collection remained robust sustained by various tax policy and administrative initiatives. Encouragingly, this marks the 4th consecutive month in which FBR achieved the revenue collection target. Despite better fiscal accounts during the first quarter of the current fiscal year, higher mark-up payments may put significant pressure on the expenditure side. However, it is expected that effective fiscal management through robust growth in revenues and a cautious expenditure approach will navigate potential challenges and maintain positive momentum in the fiscal sector.

3.7 Final Remarks

During the first four months of FY2024, performance of the overall economy is encouraging as the MEI continued to be positive in October 2023 driven by a notable improvement in key indicators of economic activity. Better performance of the LSM sector fueled by positive trends in high-frequency data, a steady uptick in imports, and improvement in CLI of Pakistan's major export markets are providing impetus to overall economic activity. All these gains are also reflected in improved fiscal and external accounts position.

IMF staff and the Pakistani authorities reached a staff-level agreement on the first review under Pakistan's Stand-By Arrangement (SBA) on 15th November 2023. Upon approval, Pakistan will have access to $700 million. The SBA supports the government's commitment to advance the planned fiscal consolidation, accelerate cost-reducing reforms in the energy sector, complete the return to a market-determined exchange rate, pursue SOEs and governance reforms to attract investment and support job creation while continuing to strengthen social assistance.

The Government's execution of the FY2024 budget with continued adjustment of energy prices, and renewed flows into the foreign exchange (FX) market have lessened fiscal and external pressures. Furthermore, the inflationary pressures are receding and the outlook has improved Inflation is expected to decline over the coming months amid receding supply constraints and modest demand. With all these positive developments, further improvement in domestic economic activities is anticipated in upcoming months.

ECONOMIC INDICATORS

External Sector		2022-23 Jul-Oct	2023-24 Jul-Oct	% Change
Remittances ($ Billion)		10.145	8.795	▼ 13.3%
Exports FOB ($ billion)		9.667	9.777	▲ 1.1%
Imports FOB ($ billion)		21.008	16.791	▼ 20.1%
Current Account Deficit ($ billion)		3.107	1.059	▼ 65.9%
FDI ($ million)		489.9	524.7	▲ 7.1%
Portfolion Investment ($ million)		-32.6	14.1	▲
Total Foreign Investment ($ million)		457.3	538.8	▲ 17.8%
Forex Reserves ($ Billion)	Total	13.373	12.416	-
	SBP	7.546	7.272	-
	Banks	5.827	5.144	-
		23-Nov-22	23-Nov-23	
Exchange Rate (PKR/US$)		223.81	285.27	-
		23-Nov-22	23-Nov-23	

Source: SBP

Fiscal Sector (Rs. Billion)	2022-23 (Jul-Sep)	2023-24 (Jul-Sep)	% Change
FBR Revenue (Jul-Oct)	2149	2748	▲ 27.9%
Non-Tax Revenue (Federal)	211.0	453.0	▲ 114.7%
PSDP (Federal)	75.0	53.0	▼ 29.3%
Fiscal Deficit	819.0	963.0	▲ 17.6%
Primary Balance	135.0	417.0	▲

Source: FBR & Budget Wing

Monetary Sector	2022-23	2023-24	% Change
Agriculture Credit (Provisional) Jul-Oct	507.8	681.6	▲ 34.2%
Credit to Private Sector (Flows)	-94.3	-291.1	▼
	1-Jul to 07-Oct	1-Jul to 06-Oct	
Growth in M2 (percent)	0.0	-0.8	-
	1-Jul to 07-Oct	1-Jul to 06-Oct	
Policy Rate (percent)	15.00	22.00	-
	10-Oct-22	30-Oct-23	

Source: SBP

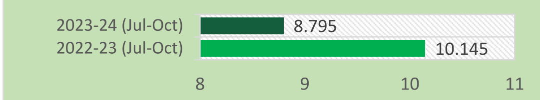
Inflation	2022-23	2023-24	% Change
CPI (National) %	26.6	26.9	-
	(Oct)	(Oct)	
	25.5	28.5	-
	(Jul-Oct)	(Jul-Oct)	

Real Sector	2022-23	2023-24	% Change
Large Scale Manufacturing (LSM) %	-2.85	1.01	-
	(Sep)	(Sep)	
	-1.77	0.68	-
	(Jul-Sep)	(Jul-Sep)	
PSX Index *	43899	58900	▲ 34.2%
	03-Jul-23	23-Nov-23	
Market Capitalization (Rs trillion)	6.69	8.53	▲ 27.5%
	03-Jul-23	23-Nov-23	
Market Capitalization ($ billion)	23.39	29.90	▲ 27.8%
	03-Jul-23	23-Nov-23	
Incorporation of Companies (Jul Sep)	8,937	10,011	▲ 12.0%

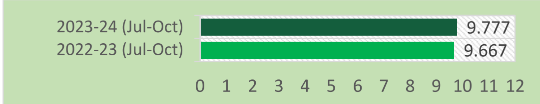
* : Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP

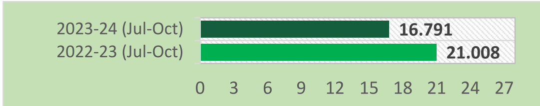
Remittances ($ bn) ▼ 13.3%



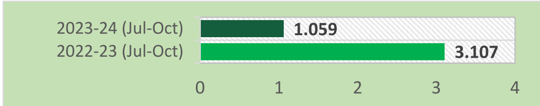
Exports FOB ($ bn) ▲ 1.1%



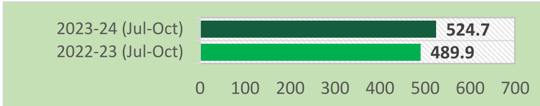
Imports FOB ($ bn) ▼ 20.1%



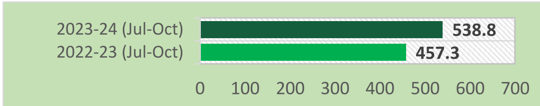
Current Account Deficit ($ bn) ▼ 65.9%



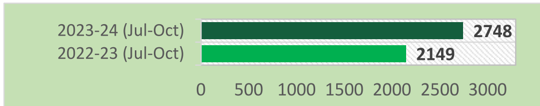
FDI ($ mn) ▲ 7.1%



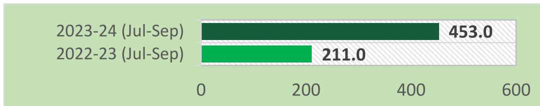
Total Foreign Investment ($ mn) ▲ 17.8%



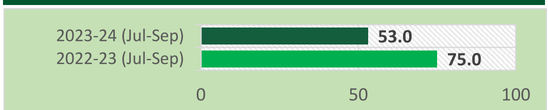
FBR Revenue (Rs.bn) ▲ 27.9%



Non-Tax Revenue (Rs.bn) ▲ 114.7%

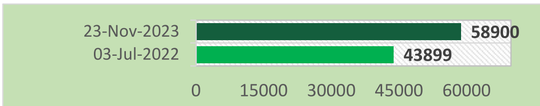


PSDP (Rs.bn) ▼ 29.3%

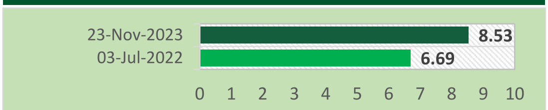


Agriculture Credit (Provisional) ▲ 34.2%

PSX Index ▲ 34.2%



Market Capitalization (Rs. bn) ▲ 27.5%



Market Capitalization ($ bn) ▲ 27.8%