MONTHLY ECONOMIC UPDATE & OUTLOOK

OCTOBER 2023

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

Contents

Foreword

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Hard earned gains on the fiscal and external accounts have started to translate into a pick-up in economic activity. Markets have rallied on positive economic data and signs of an emerging recovery. PSX has rallied 11% in October and has crossed the psychological barrier of 51,000 points, for the first time since May 2017. The international and domestic bond markets have rallied around 8% in October on expectations of ease in inflationary pressures and a positive expectation for the IMF staff review in November. The rupee (PKR) recovered 9% in October due to reforms initiated on the exchange companies and crackdown against illegal transactions.

The Monthly Economic Indicator (MEI) for Sept 2023 posted the third consecutive month of positive gains in the index, reflecting growth momentum in the high-frequency economic variables. GDP growth outlook has improved with data showing positive momentum in manufacturing activity and improved outlook for agriculture output.

The recent release of LSM data showed positive growth of 2.5% in August, reversing 14 months of downward spiral in the manufacturing sector. The removal of restrictions on imports, clearance of outstanding L/Cs, and improved dollar liquidity in the markets following an increase in SBP FX reserves contributed towards the pick-up in economic activity.

The recovery in the manufacturing sector is broad-based with the export sector, construction activity, and consumer goods all positing gains in August. Higher output for Ready-made garments (41.2%) reflects higher exports and was the main contributor to LSM. Higher cement (27.6%) production signifies higher construction-related activity. Food (8%), beverages (8.4%), and pharmaceuticals (41.8%) reflect a recovery in domestic demand. Power Generation also posted a growth of 7.4% in Q1 FY2024, indicating a recovery in economic activity from last year.

In the agriculture sector, cotton production is projected to rise 127% (estimated at 11.5 million bales) for 2023-24, compared to last year. Rice production is also showing an impressive growth 18% percent compared to last year. The increase in these main crops is encouraging for the exports and overall economic outlook in FY2024. Moreover, input situation is positive as farm tractors production and sales show a steep growth of 45% percent (11,586) and 64% percent (12,090), respectively during Jul-Sep FY2024 over the same period last year.

During Q1 FY2024, the strong revenue performance led to a primary surplus of Rs 417bn (0.4% of GDP) against the target of Rs 87bn under the IMF SBA. FBR revenues clocked in at Rs 2,042bn compared to the target of Rs 1,978bn during Q1, with a strong 37% y/y increase in direct taxes, while FED collection increased by 61%y/y. Similarly, non-tax revenue also posted a significant increase of 100% in Q1 with higher collection on Petroleum Levy (PL) and dividends of SOEs.

On the expenditure side, the primary concern is the rise in the cost of servicing public debt, with the rise in SBP policy rates to 22% and weaker PKR fueling the rise in servicing costs. Debt servicing costs increased 45% in Q1 to Rs 1.4 trillion.

Despite this increase, the government managed to limit growth in expenditures through a prudent reduction in untargeted subsidies and a reduction in spending on new projects and schemes under the PSDP.

While headline inflation has accelerated to 31.4%y/y in Sept 2023 from 27.4% in Aug; this increase was an anomaly due to the low base impact as a result of a one-time power tariff adjustment in Sep-2022. Food inflation softened to 33%y/y in Sept compared to 39%y/y in Aug. Major contributors to the decline were Tomatoes (14%m/m), Chicken (12%), and cooking oil (2%).

The 30th October MPS states that inflation will 'decline significantly in October, owing to downward adjustments in fuel prices, easing prices of some major food commodities, and a favorable base effect'. The MPC 'reaffirmed its earlier assessment that inflation will decline substantially from the second half of FY24, barring any major adverse developments'.

On the external front, the global markets remain volatile but the global growth outlook has improved. Global economic growth is gradually rising, though wide disparities among regions persist. Some economies have yet to fully return to pre-pandemic levels. Factors hindering this recovery include geopolitical tensions, cyclical monetary policy adjustments, reduced fiscal support due to high debt, and extreme weather events.

In the first three months of the current year, CAD has declined further by 58% to $ 0.95 bn. The full-year CAD is projected to stabilize around $ 6.5bn (1.5% of GDP) in FY2024 as trade & investment flows normalize. SBP FX reserves have stabilized at around $ 7.5bn (1.5 months of import cover). To meet the external financing requirements, we are working to secure concessional funding from multilateral (WB, ADB, IsDB) of US$ 6.3bn, IMF $ 3bn has already been approved, and bilateral assistance of around US$ 10bn.

The government expects remittances to recover in Oct 2023, as spreads between the interbank and open market have reduced below 1%. However, global inflation has impacted the disposable incomes of overseas workers, resulting in lower remittances. We note that remittances have recorded a slowdown across the board in most countries and in particular Bangladesh, India, and the Philippines.

Executive Summary

Global economic growth is gradually rebounding, though wide disparities among regions persist. Some economies have yet to fully return to pre-pandemic levels. Factors hindering this recovery include geopolitical tensions, cyclical monetary policy adjustments, reduced fiscal support due to high debt, and the extreme weather events.

Pakistan's economy has set the growth momentum from beginning of the current fiscal year, evident through a notable upturn in various economic indicators. The recent release of LSM data showed a positive growth of 0.5 percent during Jul-Aug FY2024 against the contraction of 1.3 percent last year. The MoM and YoY basis growth trajectory is encouraging, as LSM grew by 8.4% and 2.5% in Aug-2023, respectively. The positive growth is backed by recovering sub-sectors which include Food, Coke & Petroleum Products, Wearing apparel, Chemicals, Pharmaceuticals, Rubber Products, Non-Metallic Mineral Products, Machinery and Equipment, and others.

In agriculture sector, the Cotton production showing a bumper increase of 126.6 percent (estimated at 11.5 million bales) for 2023-24, compared to last year. Rice production is also showing a surge of 18.0 percent compared to last year. The increase in these main crops is encouraging for the exports and overall economic outlook in FY2024. Moreover, input situation is positive as farm tractors production and sales show a steep growth of 45.0 percent (11,586) and 64.1 percent (12,090), respectively during

Jul-Sep FY2024 over the same period last year.

On the external front, FDI reached $ 402.3 million during Jul-Sep FY2024 ($ 349.8 million last year) increased by 15.0 percent on account of some Chinese investment in the CPEC related projects. The MoM Exports increased by 1.5 percent to $ 2.5 billion in September 2023 as compared to $ 2.4 billion in August 2023. The rebounded economic activity in major trading partners coupled with relaxed import restrictions, is mitigating disruptions in the supply of raw materials and supporting export-oriented industries. The narrower trade balance is supporting the current account which has recorded a deficit of $ 947 million for Jul-Sep FY2024 as against a deficit of $ 2.3 billion last year. Workers' remittances stood at $ 6.3 billion ($ 7.9 billion last year) posting a decrease by 19.8 percent during the period under review. However, on MoM basis, it increased by 5.3 percent mainly on account of shrinking wedge between inter-bank and open market excgange rate.

During Jul-Aug FY2024, the performance of the fiscal sector remained satisfactory owing to a significant rise in revenues relative to expenditures. Although higher markup payments continued to be the major source of increase in current expenditures, but growth in non-mark-up spending was restricted to 7.4 percent. The fiscal deficit stood at almost the same level of 0.8 percent of GDP as last year whereas the primary balance posted a surplus of Rs 144.8 billion against the deficit of Rs 90.2 billion during the period under review.

CPI inflation stood at 31.4 percent on a YoY basis in September 2023 as compared to 23.2 percent in September 2022. The major drivers include Food and non-alcoholic beverages, Housing, Water, Electricity, Gas & Fuel, Transport and Furnishing & household equipment maintenance.

During 1st July – 30th September, FY2024 money supply shows negative growth of 0.02 percent compared to negative growth of 0.012 percent during the same period last year. This is due to decline in NDA of banking sector.

The government is pursuing economic revival measures to improve the near-term economic situation and taking policy, administrative, and relief interventions in order to control inflationary pressure in FY2024.

International Performance and Outlook

The global economic recovery from the COVID-19 pandemic and Russia-Ukraine remains slow and uneven. Economic activity have not yet fully rebounded to pre-pandemic level in several economies. According to World Economic Outlook (October-2023), global growth is forecasted to slow from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024. The projections remain below the historical (2000–2019) average of 3.8 percent. For advanced economies, the expected slowdown is from 2.6 percent in 2022 to 1.5 percent in 2023 and 1.4 percent in 2024, amid stronger-than-expected US momentum but weaker-than-expected growth in the euro area. Emerging market and developing economies are projected to have growth modestly declined, from 4.1 percent in 2022 to 4.0 percent in both 2023 and 2024, reflecting the property sector crisis in China. The global growth over the medium term is projected at 3.1 percent which is the lowest in decades.

China's growth momentum is fading following a COVID-19 reopening surge in early 2023. Growth slowed from 8.9 percent in the first quarter of 2023 to 4.0 percent in the second quarter. High-frequency indicators suggest further weakness with the property sector crisis in the country as the leading factor hampering growth. Commodity exporter countries that are part of the Asian industrial supply chain are the most exposed to China's loss of momentum.

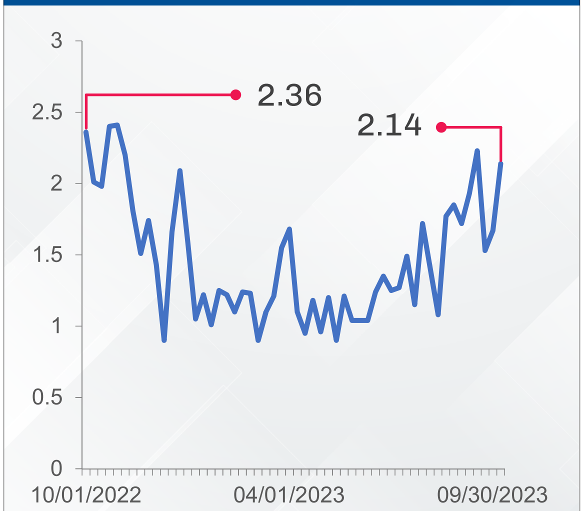
Growth in the euro area is projected to fall from 3.3 percent in 2022 to 0.7 percent in

2023, before rising to 1.2 percent in 2024. Among other major advanced economies, growth in the UK is projected to decline from 4.1 percent in 2022 to 0.5 percent in 2023 and 0.6 percent in 2024. The decline in growth reflects tighter monetary policies to curb still-high inflation and lingering impacts of the terms-of-trade shock from high energy prices.

Global inflation is forecasted to decline steadily, from 8.7 percent in 2022 to 6.9 percent in 2023 and 5.8 percent in 2024. However, forecasts for 2023 and 2024 are revised up by 0.1 and 0.6 percentage point, respectively. Consequenctly, inflation is not expected to return to the target until 2025 in many economies.

In the United States, growth is projected at 2.1 percent in 2023 (same as 2022) and 1.5 percent in 2024. The forecast is revised upward, owing to stronger business investment in the second quarter and resilient consumption growth, a reflection of a still-tight labor market. Policymakers foresee the economy's resilience combined with high inflation may trigger the Federal Reserve to raise interest rates again in November. Others, however, expect the darkening cloud over the economy would discourage the US central bank from tightening monetary policy further. The situation is also evident through growth in WEI which is hovering around 1-2 percent in the month of September (Fig-1).

Fig-1: Growth in WEI (%)



Source: Federal Reserve Bank of New York

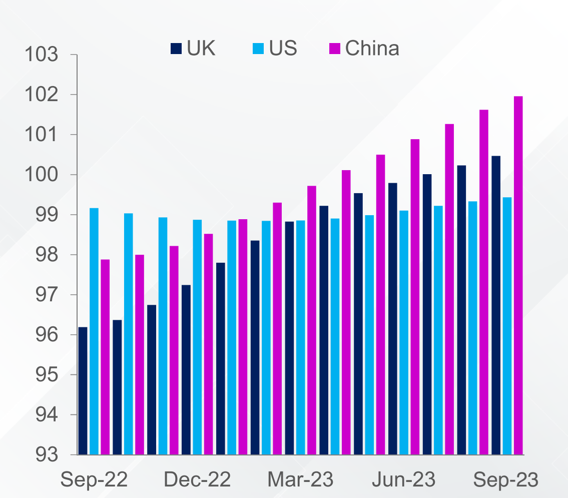
Global economic growth remained lacklustre at the end of the third quarter of 2023, as output edged higher and intakes of new work contracted in Sep-2023. There were also signs of further weakness in the coming months, as backlogs of work fell sharply and business optimism dipped to a nine-month low. The J.P.Morgan Global Composite PMI Output Index – fell to 50.5 in September, down from 50.6 in August, on account of contraction in manufacturing activity. The month of September also observed signs of slowdown in the global services sector.

PMI data is available for 13 economies, of which 08 have witnessed an overall output increase. Russia and Kazakhstan were at the top of the growth rankings, while Japan, China and the US also posted expansions. Weakness was largely centred on the euro area, where output fell for the fourth successive month. Germany and France were at the bottom of the PMI rankings. The UK, Italy and Brazil were the other nations to register declines. The monthly output movement is also reflected through CLI position of Pakistan's main trading partners, of which euro area countries and US moving below potential level (Fig-2).

The overall measure of international food commodity prices, FAO Food Prices Index (FFPI) was broadly stable in September, averaged 121.5 points compared to 121.4 points in August. The index has been declined by 10.7 percent on YoY basis and 24.0 percent below its all-time high in March, 2022. In September, decline in prices of vegetable oils (3.9%), wheat (1.6%), Rice (0.5%), dairy (2.3%) and meat (1.0%) offset by a notable increase in sugar (9.8%) and maize (7.0%).

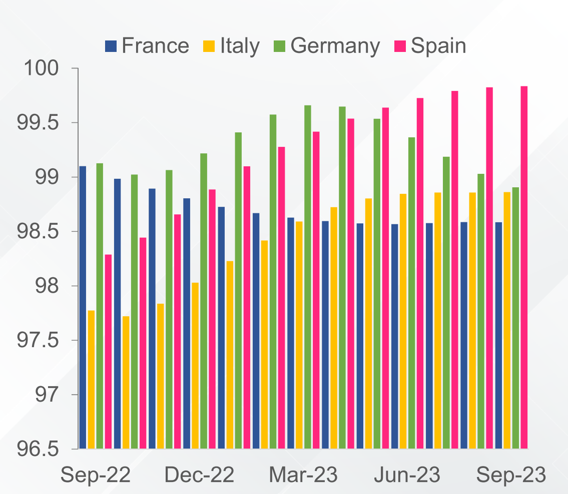
Global commodity prices surged YoY in September, 2023 . Energy prices increased by 8.3 percent, led by oil (9.1%) and coal Australia (6.5%). Non-energy prices increased by 1.5 percent. Food prices increased by 2.0 percent. Beverage gained by 1.1 percent while raw materials and fertilizers prices change little. Metal price rose 1.5 percent led by iron ore (9.8%). Whereas precious metal dropped by 0.3 percent.

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

According to Federal Committee on Agricultre (FCA) for Rabi 2023-24, Cotton production is provisionally estimated at 11.5 million bales showing a bumper increase of 126.6 percent in production over the last year. Rice production estimated at 8.6 million tonnes showing an increase of 18.0 percent compared to the last year.

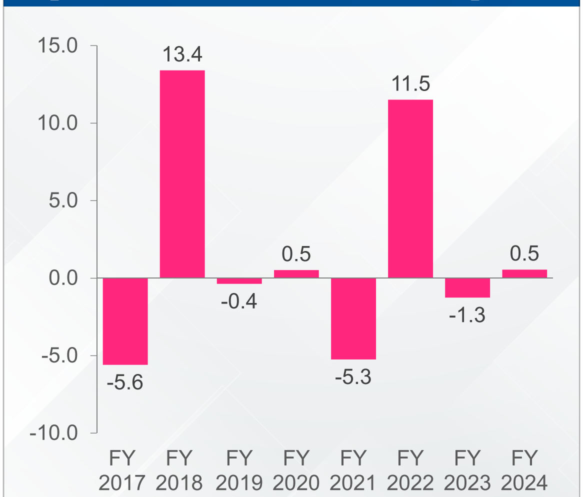
Sugarcane & Maize production declined by 10.7 percent and 6.1 percent to 78.5 million tonnes and 10.3 million tonnes, respectively, compared to period under review. The FCA has fixed the production target of wheat for Rabi 2023-24 at 32.12 million tonnes on an area of 8.9 million hectares based on satisfactory input situation.

The input situation is positive as farm tractors production and sales show a steep growth of 45.0 percent (11,586) and 64.1 percent (12,090), respectively during Jul-Sep FY2024 over the same period last year. During Jul-Sep FY2024, the agriculture credit disbursement was stood at Rs 499.3 billion as compared to Rs 383.7 billion last year, an increase of 30.1 percent. During Kharif 2023, urea and DAP offtake stood at 3,322 thousand tonnes (5.9 percent more than Kharif 2022) and 756 thousand tonnes (54.0 percent higher than Kharif 2022), respectively.

2.1-b Manufacturing

Large Scale Manufacturing (LSM) grew by 0.5 percent during Jul-Aug FY2024 against the contraction of 1.3 percent same period last year. In August 2023, LSM increased by 2.5 percent on YoY basis against 0.3 percent in the same month last year. While on a MoM basis, it bounced back by 8.4 percent in August against the decline of 3.7 percent in July. The main contributors towards the positive growth include Food, Wearing Apparel, Coke & Petroleum Products Chemicals, Pharmaceuticals,

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



Source: PBS

Rubber Products, Non-Metallic Mineral Products, Machinery and Equipment, and others (Football).

In Jul-Sep FY2024, the performance of auto-industry remains subdued due to massive increase in input prices, and tightening auto finance. Car production and sale decreased by 49.1 percent and 43.9 percent, while Trucks & Buses production and sale decreased by 59.0 percent and 44.9 percent, respectively.

The sale of petroleum products slumped by 16 percent during Jul-Sep FY2024 to 3.77 mn tons against 4.49 mn tons in the same period last year. While in Sep 2023, oil sales are dwindling around 1.06 mn tons, down by 31.0 percent YoY and 25.0 percent MoM.

Total cement dispatches significantly grew by 23.4 percent and reached to 11.873 mn tons during Jul-Sep FY2024, against 9.621 mn tons last year. In September 2023, cement dispatches declined by 3.96 percent and stood at 4.115 mn tons against 4.284 mn tons same period last year. Local cement sales by the industry came in at 3.544 mn tons in Sep 2023 against 3.806 mn tons, showing a decline of 6.9 percent from the last year. Whereas exports witnessed a healthy increase of 19.24 percent from 478,097 tons to 570,101 tons during the same period.

2.2 Inflation

CPI inflation increased by 31.4 percent on YoY basis in September 2023 as compared to 23.2 percent in September 2022 whereas it increased by 27.4 percent in August 2023. During Q1 FY2024, CPI inflation stood at 29.0 percent against 25.1 percent in Q1 FY2023. On MoM basis, it increased by 2.0 percent in September 2023 compared to an increase of 1.7 percent in the previous month.

Major drivers contributing to YoY increase in CPI inflation include Alcoholic Beverages & Tobacco (87.5%), Furnishing & Household equipment maintenance (39.3%), non-perishable food items (38.4%), Transport (31.3%), Housing, Water, Electricity, gas & Fuel (29.7%), Health (25.3%), Clothing & Footwear (20.6%) and Perishable food items (4.4%).

The SPI for the week ended on 19th October 2023, recorded a decrease of 1.75 percent as compared to previous week. Prices of 24 items declined, 13 items remained stable and 14 items increased.

2.3 Fiscal

The net federal revenues witnessed a substantial increase of 54.7 percent surging to Rs 816.6 billion during Jul-Aug FY2024 from Rs 527.8 billion last year. The revenue performance has been largely attributed to a sharp rise in non-tax collection which escalated from Rs 111.1 billion during Jul-Aug FY2023 to Rs 282.8 billion during Jul-Aug FY2024. Higher receipts from petroleum levy, markup (PSEs and others),

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

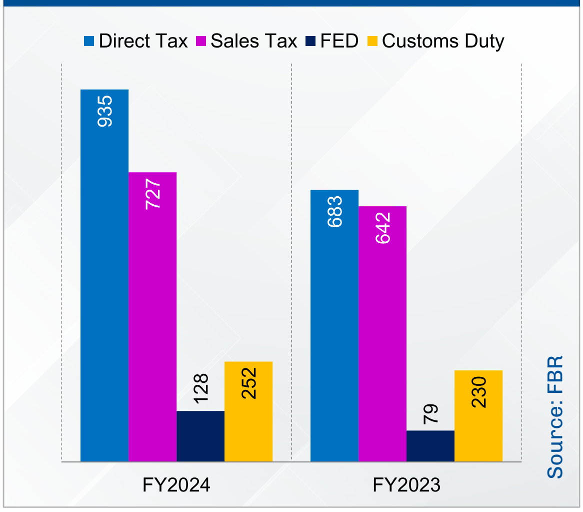
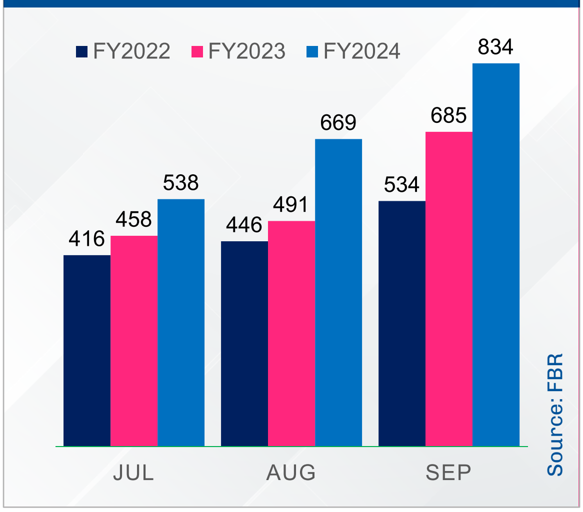


Fig-4(b): Month Wise Tax Collection (Rs Billion)



passport fee, and royalties on oil & gas continued to be the main factors in raising non-tax revenues.

Similarly, FBR tax collection grew by 27.5 percent to reach Rs 1207.5 billion during the first two months of the current fiscal year against Rs 947.3 billion last year. The first quarter of FY2024 concluded with a remarkable performance by FBR, as the total collection not only grew by 24.9 percent but also surpassed the target by Rs 64.0 billion. The provisional net collection amounted to Rs 2041.5 billion during Jul-Sep FY2024 against Rs 1633.9 billion last year. Similarly, in the month of September 2023, tax collection exceeded the target by Rs 40.0 billion to reach Rs 834.1 billion against Rs 684.8 billion in September last year.

Total expenditures grew by 20.1 percent to Rs 1585.7 billion during Jul-Aug FY2024 against Rs 1320.2 billion last year. The growth in expenditures primarily stemmed from a 38.6 percent increase in current spending which stood at Rs 1450.0 billion in Jul-Aug FY2024 against Rs 1046.2 billion last year. Higher markup payments continued to be the major source of increase in current expenditures, as it grew by 63.5 percent during Jul-Aug FY2024. In contrast, the growth in non-markup spending has been restricted to 7.4 percent.

Overall, the fiscal deficit stood at almost the same level of 0.8 percent of GDP in Jul-Aug FY2024 as observed last year. However, the primary balance remained in surplus of Rs 144.8 billion against the deficit of Rs 90.2 billion during the period under review.

2.4 Monetary

During 1st July – 30th September FY2024, money supply (M2) showed negative growth of 0.02 percent (Rs -6.2 billion) compared negative growth of 0.012 growth (Rs 0.33 billion) in last year. Within M2, Net Foreign Assets (NFA) increased by Rs 249.0 billion as compared to a decrease of Rs 561.7 billion in last year. On the other hand, Net Domestic Assets (NDA) of the banking sector decreased by Rs 255.2 billion as compared to an increase of Rs 893.3 billion last year. Private Sector has retired Rs 195.7 billion as compared borrowing of Rs 86.2 billion in last year.

2.5 External Sector

The Current Account posted a deficit of $ 947 million for Jul-Sep FY2024 as against a deficit of $ 2.3 billion last year, largely reflecting an improvement in trade balance. Exports (fob) declined by 5.0 percent and reached $ 7.0 billion ($ 7.4 billion last year). Imports (fob) declined by 23.8 percent reaching $ 12.5 billion ($ 16.3 billion last year). Resultantly, the trade deficit recorded at $ 5.4 billion as against $ 8.9 billion last year.

During the period under review, exports in services decreased by 0.6 percent to $ 1,707 million as against $ 1,717 million same period last year. The imports in services increased by 18.1 percent to $ 2,395 million as compared to $ 2,028 million same period last year. The trade deficit in services stood at $ 688 million as against $311 million last year.

As per PBS, the export commodities that registered positive growth include Fish & Fish Preparation (23.1% in quantity & and 3.7% in value), Fruits (47.0% in quantity & 12.4% in value), Cotton Yarn (56.8% in quantity & 33.5% in value), Towel (16.2% in quantity & 2.9% in value) and Plastic Materials (126.1% in quantity & 25.1% in value). Whereas, main imported commodities were Petroleum products ($ 1515.7 million), Petroleum crude ($ 947.2 million), LNG ($ 898.4 million), Palm Oil ($758.6 million), Plastic materials ($ 598.2 million), Iron & Steel ($ 458.0 million) and Medicinal products ($ 249.2 million).

2.5.1 Foreign Investment

Total foreign investment during Jul-Sep FY2024 recorded an inflow of $ 412.0 million as against $ 319.7 million last year. FDI stood at $ 402.3 million ($ 349.8 million last year) increasing by 15.0 percent. FDI received from China $ 126.3 million (31.4% share), Hong Kong $ 91.3 million (22.7%), Netherland $ 45.3 million (11.3%), UK $ 44.7 million (11.1%), and Switzerland $ 29.4 million (7.3%). Power sector attracted the highest FDI of $ 199.7 million (49.6% of total FDI), Oil & Gas exploration $ 65.0 million (16.1%), and Financial Business $ 44.2 million (11.0%).

Foreign Private Portfolio Investment has registered a net inflow of $ 9.5 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 $ 9.8 million as against an outflow of $ 30.1 million last year.

2.5.2 Worker's Remittances

In Jul-Sep FY2024, workers' remittances decreased by 19.8 percent to $ 6.3 billion ($ 7.9 billion last year). MoM, remittances increased by 5.3 percent in September 2023 ($ 2.2 billion) as compared to August 2023 ($ 2.1 billion) amid structural reforms related to exchange companies and consequently convergence between exchange rates in interbank and open market. Major sources of remittances are Saudi Arabia ($ 1516.0 million, 24.0% share), U.A.E ($ 1023.7 million, 16.2%), U.K ($ 947.4 million, 15.0%), USA ($ 767.4 million, 12.1%), other GCC countries ($ 721.1 million, 11.4%), EU ($ 843.5 million, 13.3%), Australia ($ 131.1 million, 2.1%), and other countries ($ 379.7 million, 6.0%).

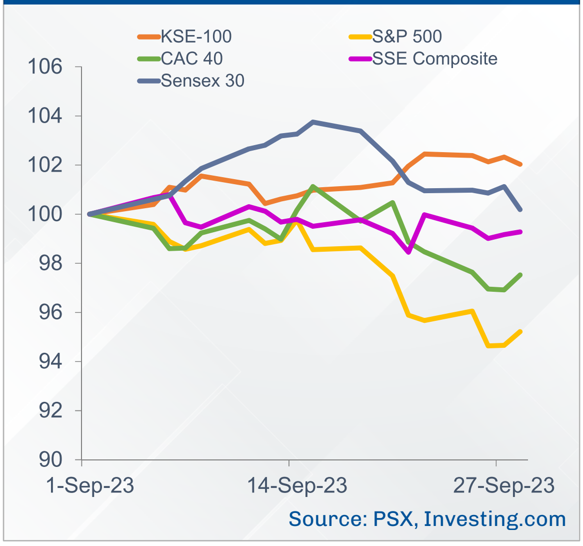
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to $ 12.6 billion on October 27, 2023, with SBP's reserves stood at $ 7.5 billion and Commercial banks' reserves remained at $ 5.1 billion.

2.6 Performance of KSE Index

The performance of Pakistan Stock Exchange (PSX) witnessed an improvement in September 2023. The benchmark of PSX, KSE-100 index gained 1,151 points, while market capitalization increased by Rs 170 billion and settled at Rs 6,886 billion as on 28th September 2023. During September, the KSE-100 index increased by 2.0 percent and Sensex 30 index of India increased by 0.2 percent. Contrarily, S&P 500 of US declined by 4.8 percent, CAC 40 of France declined by 2.5 percent and SSE Composite of China declined by 0.7 percent. The performance of major world indices (standardized at 100) is depicted in the Figure:

Fig-5: Trend of Major World Standardized Indices



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

2.7 Social Sector

- Under the Interest Free Loan Program of National Poverty Graduation Initiative, the Pakistan Poverty Alleviation Fund through its Partner Organizations has disbursed 35,312 loans amounting to Rs 1,588 million during September, 2023. Since inception of the program till date, a total of 2,501,609 interest free loans amounting to Rs 93,911 million have been disbursed.
- Benazir Income Support Program is providing support to 770,000 lactating mothers and infants through 488 Facilitation Centers spread across Pakistan, delivering both Special Nutritious Food and cash stipends.
- Under the Prime Minister Youth Business & Agriculture Loan Scheme, the government has disbursed Rs 33,675 million till August 2023 to 63,432 beneficiaries for business.
- Pakistan is one of the largest labour exporting countries in the region. During September 2023, Bureau of Emigration & Overseas Employment registered 92,660 workers for overseas employment in different countries.

Economic Outlook

3.1 Inflation

The international food price trends, as reported by the FAO, indicate a relatively stable situation in September 2023. While certain food categories, like vegetable oils, dairy and meat prices witnessed decline, while others, including sugar and cereals, recorded increase. However, these fluctuations balanced out, resulting in an overall index value of 121.5 points, nearly identical to August 2023.

On the domestic front, the government has slashed the petrol and diesel prices consecutively in two instances, capitalizing on declining global crude rates and a stronger domestic currency. These developments are expected to mitigate the inflationary pressures in the country. Moreover, the subsequent efforts of the sub-national governments to implement lower fares of local public and freight transportation, in line with the reduced fuel prices, would further relieve stress on consumer prices.

Taking these factors into account, it is anticipated that inflation will be better contained compared to the elevated levels observed in the first quarter of FY2024. The projection of inflation is hovering around 27 to 29 percent for October 2023.

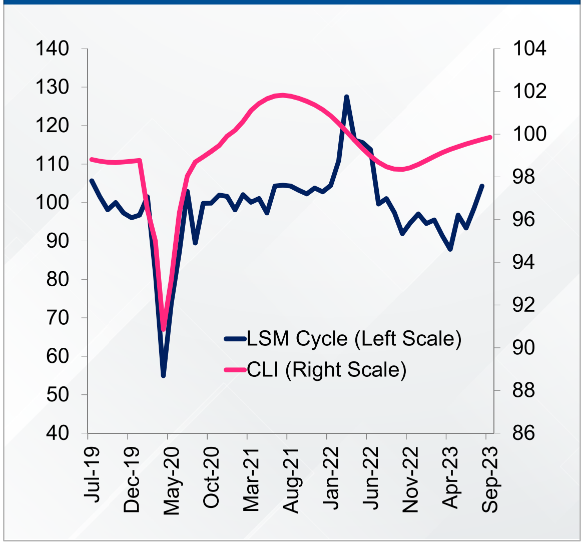
3.2 Agriculture

To improve food security situation in the country, the government is facilitating the farmers by providing inputs at affordable prices and ensuring better price of their produce to bridge the gap between cost of production and output price. For Rabi crops 2023-24, the outlook is positive as the seed availability will remain satisfactory and supply of urea and DAP expected to remain stable (Nov-Dec, 2023). However, the water availability is anticipated to be short by 15 percent for Punjab & Sindh during the season. Provinces have been allocated 31.66 MAF of water but prevailing weather conditions are conducive and the shortage is manageable.

3.3 Industrial activity

The LSM cycle usually follows the cyclical movements in the main trading partners, but since it is focused on the main industrial sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets. The aggregate CLI in the main export markets slightly has improved but still below the potential level. The cyclical LSM pattern for the month of August came out above its stochastic trend. For September, LSM growth may converge to its potential if the overall economic situation continues to improve in coming months.

Fig-6: Relationship between CLI and LSM cycle



Source: PBS, OECD and EAW Calculations

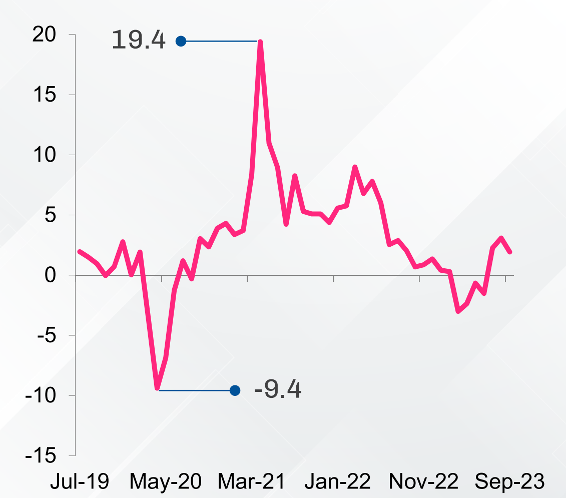
3.4 Overall Economic Activity

The Monthly Economic Indicator (MEI) is developed as a tool to distribute the past annual GDP numbers, reported by the PBS, on a monthly/quarterly basis, and to nowcast GDP growth for the FY in which the National Accounts are not yet available on the same frequency. Figure presents the MEI on a monthly basis since January 2019. It should be noted that some of the data underlying the September 2023 MEI are still provisional and may be revised next month.

The MEI estimated for the month of

September 2023 stood positive on the back of improved high frequency variables such as LSM, exports, cement dispatches etc. MEI is expected to be positive throughout the outgoing fiscal year due to a rebound in domestic economic activities.

Fig-7: Monthly Economic Indicator (MEI)



Source: EA Wing's Calculation

3.5 External

The BoP data for September 2023 reveals that exports of goods and services increased marginally by 0.6% on MoM basis, while imports of goods and services decreased by 5.9%. In response to this, trade deficit of goods and services declined by 15.6% on MoM basis in the month of September. Moreover, recent administrative and regulative action for curbing illegal activities in the FX market has narrowed-down the gap between interbank and open market exchange rates and worker's remittances increased by 5.3% on MoM basis. All these components have been reflected in the current account deficit, which decreased significantly by 95.1% on MoM basis and 97.8% on YoY basis.

For the outlook, it is expected that exports of goods and services for October 2023 will remain around $ 3.0 billion as observed in September and gradually take its increasing momentum in the coming months as LSM shows some turning point and posted growth of 8.4 percent in August on monthly basis. On the other hand, imports are showing some fluctuations on monthly basis and are expected to remain in the range of $ 4.0 - 4.5 billion in October as PKR is continuously appreciating against USD. Taking all these factors into account and with a positive outlook for remittances, the current account will continue to observe it's improved monthly trend.

3.6 Fiscal

The government's commitment to fiscal consolidation efforts is evident through better fiscal accounts during the first quarter of the current fiscal year. The fiscal outlook for FY2024 presents encouraging revenue growth and prudent expenditure management. The substantial increase in net federal revenues, primarily driven by a sharp rise in non-tax collection, indicates a positive trend in revenue performance. Similarly, higher-than-expected tax collection in the first quarter of FY2024 highlights the effective implementation of new tax measures, the moderate revival of economic activities, and efficient tax administration.

Whereas, on the expenditure side, higher markup payments will continue to pose significant challenges for fiscal consolidation efforts. Nonetheless, cautious expenditure management is paying off in terms of restricted growth in non-markup spending. This helped in maintaining the primary balance in surplus indicating better fiscal management, while the fiscal deficit has remained at a similar level of 0.8 percent of GDP in Jul-Aug FY2024 compared to the last year.

The government is highly committed to achieve long-term fiscal sustainability through prudent fiscal management. Measures are focused on rationalizing expenditures through austerity measures, reducing subsidies and grants, no supplementary grants, increasing revenues through various policy and administration measures, widening the tax base, and removal of tax exemption. These measures would be helpful in building fiscal buffers for social safety nets together with meeting the fiscal and primary balance targets set for the current fiscal year.

3.7 Final Remarks

The first quarter of FY2024 demonstrates that the economy is yielding positive results from the development and government stabilization measures. In real sector of the economy, Cotton and Rice production for 2023-24 has posted exceptional growth of 126.6 and 18.0 percent, respectively. Similarly, LSM increased by 2.5 percent on YoY basis in Aug-23 and on MoM basis, it bounced back by 8.4 percent against the decline of 3.7 percent in July. Moreover, the external account has improved considerably and foreign exchange buffers are being built up. At fiscal front, the government's commitment to fiscal consolidation efforts and maintaining fiscal discipline is evident through better fiscal accounts during Jul-Aug, FY2024.

In the coming months, it is expected that overall economic activity will remain positive throughout the outgoing fiscal year due to a rebound in domestic economic activities and improvement in inflationary pressures. Moreover, recent coordinated efforts by the Government organizations to address macroeconomic imbalances, will gear towards achieving stabilization in the coming months and realizing sustainable and inclusive economic growth in the medium to long-term.

ECONOMIC INDICATORS

External Sector		2022-23 Jul-Sep	2023-24 Jul-Sep	% Change
Remittances ($ Billion)		7.9	6.3	▼ 19.8%
Exports FOB ($ billion)		7.4	7.0	▼ 5.0%
Imports FOB ($ billion)		16.4	12.5	▼ 23.8%
Current Account Deficit ($ billion)		2.3	0.9	▼ 58.1%
FDI ($ million)		349.8	402.3	▲ 15.0%
Portfolion Investment ($ million)		-30.1	9.7	▲
Total Foreign Investment ($ million)		319.7	412.0	▲ 28.9%
Forex Reserves ($ Billion)	Total	14.782	12.598	-
	SBP	9.029	7.508	-
	Banks	5.753	5.090	-
		27-Oct-22	27-Oct-23	
Exchange Rate (PKR/US$)		221.50	280.57	-
		27-Oct-22	27-Oct-23	

Source: SBP

Fiscal Sector (Rs. Billion)	2022-23 (Jul-Sep)	2023-24 (Jul-Sep)	% Change
FBR Revenue	1634	2042	▲ 25.0%
Non-Tax Revenue (Federal)	211.0	453.0	▲ 114.7%
PSDP (Including grants to Provinces)	75.0	53.0	▼ 29.3%
Fiscal Deficit	819.0	963.0	▲ 17.6%
Primary Balance	135.0	417.0	▲ 208.9%

Source: FBR & Budget Wing

Monetary Sector	2022-23	2023-24	% Change
Agriculture Credit (Provisional) Jul-Sep	383.7	499.3	▲ 30.1%
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	14-Sep-23	

Source: SBP

Inflation	2022-23	2023-24	% Change
CPI (National) %	23.2	31.4	-
	(Sep)	(Sep)	
	25.1	29.0	-
	(Jul-Sep)	(Jul-Sep)	

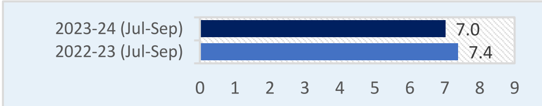
Real Sector	2022-23	2023-24	% Change
Large Scale Manufacturing (LSM) %	-0.2	2.5	-
	(Aug)	(Aug)	
	-1.2	0.5	-
	(Jul-Aug)	(Jul-Aug)	
PSX Index *	43899	50944	▲ 16.0%
	03-Jul-23	27-Oct-23	
Market Capitalization (Rs trillion)	6.69	7.42	▲ 10.9%
	03-Jul-23	27-Oct-23	
Market Capitalization ($ billion)	23.39	26.46	▲ 13.1%
	03-Jul-23	27-Oct-23	
Incorporation of Companies (Jul Sep)	6,569	7,534	▲ 14.7%

* : Formerly Karachi Stock Exchange (KSE)

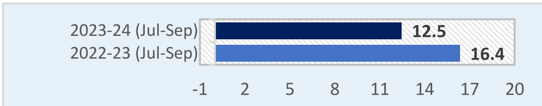
Source: PBS, PSX & SECP

Remittances ($ bn) ▼ 19.8%

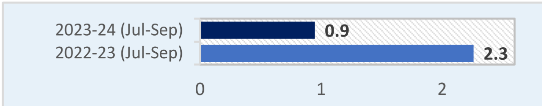
Exports FOB ($ bn) ▼ 5.0%



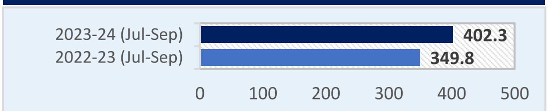
Imports FOB ($ bn) ▼ 23.8%



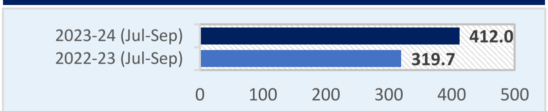
Current Account Deficit ($ bn) ▼ 58.1%



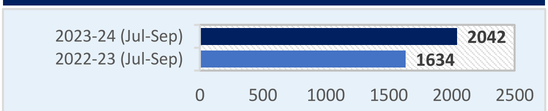
FDI ($ mn) ▲ 15.0%



Total Foreign Investment ($ mn) ▲ 28.9%

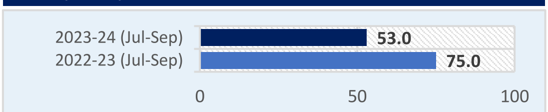


FBR Revenue (Rs.bn) ▲ 25.0%



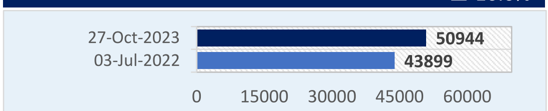
Non-Tax Revenue (Rs.bn) ▲ 114.7%

PSDP (Rs.bn) ▼ 29.3%

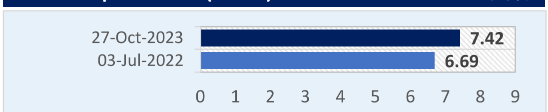


Agriculture Credit (Provisional) ▲ 30.1%

PSX Index ▲ 16.0%



Market Capitalization (Rs. bn) ▲ 10.9%



Market Capitalization ($ bn) ▲ 13.1%